AUDITOR GENERAL
*Alberta*

# Annual Report of the Auditor General of Alberta

2001–2002

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Ms. Janis Tarchuk, MLA
Chair
Standing Committee on Legislative Offices

I am honoured to send my *2001–2002 Annual Report* to the members of the Legislative Assembly, as required by section 19(5) of the *Auditor General Act*.

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

[Original signed by Fred J. Dunn, CA]
Fred J. Dunn, CA
Auditor General

Edmonton, Alberta
September 24, 2002

# Contents

## Introduction



## Ministry Audits and Recommendations

## Supplementary information



## Reference

# Introduction

## 1. Predominant theme of our findings

Government organizations need a systematic approach to manage risk. They need formal processes to explicitly link risks with controls and to ensure effective internal controls.

The government and certain Provincial agencies would likely have avoided weak internal controls if they had used formal risk management. This conclusion is based on the interrelationship of explicit risk analysis, cost-effective internal control, and internal auditing.

Poor risk management exposes Albertans to unnecessary costs. Good risk management improves the government's ability to reach its goals.

### 1.1 Risk management

A risk is anything that affects an organization's ability to achieve its goals. Therefore, risk management means being proactive in reducing the gap between expected and actual results. This term is used increasingly, but it is not new. Managers have always identified risks and opportunities and tried to deal with them. But increasingly, we understand that cost-effective control can only be achieved after good risk analysis. So risk analysis must be a disciplined exercise—not just in the minds of managers. On pages 101, 111 and 192, we recommend to Alberta Treasury Branches, the Alberta Gaming and Liquor Commission, and the Department of Learning that they develop comprehensive approaches to risk management, and we explain the implications of not doing so. These three report sections provide an overview of the purpose of explicit risk management.

Focussing on expenses and revenues, the Financial Management Commission recently recommended that the government develop a comprehensive, cost-effective risk mitigation strategy. This timely advice reinforces the need to decide explicitly which risks to concentrate on.

### 1.2 Internal control

Management is responsible for an effective internal control system in an organization, and the organization's governing body should ensure that the control system does, in fact, operate as intended. The internal control system is designed to provide reasonable assurance that an organization will reliably achieve its objectives. The control system is effective when the governing body and management have reasonable assurance that:

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

## What we found

### 1.2.1 Cross-Government—see page 23

Government departments should improve internal control systems. We found:

- insufficient control over user access to the IMAGIS system.
- significant weaknesses in controls over procurement card disbursements.
- instances where the approval of disbursements did not comply with the *Financial Administration Act*.

### 1.2.2 Ministry of Innovation and Science—see page 169

The Ministry has to resolve deficiencies in the IMAGIS environment, and strengthen the overall IMAGIS control framework. We found:

- weaknesses in control procedures at the service provider as well as elsewhere in the IMAGIS environment.
- weaknesses in the critical areas of security management, system configurations, access controls, segregation of duties, and business continuity that were identified by management's contracted review of the service provider's control environment.

### 1.2.3 Alberta Treasury Branches—see pages 103 and 104

Management should ensure key internal controls are effective. We found:

- control weaknesses throughout ATB. In some cases, management had not established controls, and in others, employees were not following control policies.
- outsourcing agreements that do not require the service provider to assure management that proper controls are in place.

### 1.2.4 University of Alberta—see page 201

The University should improve its internal control systems. We found:

- over-expenditures in research accounts.
- significant deficiencies that could result in unauthorized access to, or modification of, the University's computerized systems.

### 1.2.5 University of Calgary—see pages 205, 206 and 207

The University should improve its internal control systems. We found that:

- a number of gifts received were not independently verified.
- some revenue was overstated and expenses were understated.
- some employees have access to systems that is not required to perform their assigned duties.
- the capital asset system is inefficient.
- there is no clear, published corporate security policy.

- there is no formal methodology to implement changes to computerized systems or to develop new applications. Developers can put changes into production without quality control or validation.

### Implication of poor internal controls

Waiting for errors to signal weaknesses in controls is not an effective way to achieve reliable performance reporting or safeguard assets. The risk of unauthorized transactions must be controlled preventively, taking into account the cost of the controls. Without sound, functioning internal control systems, managers have no assurance on the effectiveness and efficiency of their operations, the relevance and reliability of their internal and external reporting, and their compliance with the law.

## 1.3 Internal audit

Deputy Ministers are accountable for ensuring that their ministries comply with legislation, regulations, and policies. This means they are responsible for their ministries' internal control systems. Typically, an internal audit group assesses and reports on the adequacy of internal controls. Allowing the group to report its audit findings directly to the Deputy Minister preserves objectivity. Internal auditors should have an unrestricted scope that includes examining business strategies; financial internal control systems; compliance with policies, procedures, and legislation; economical and efficient use of resources; and the effectiveness of operations.

### What we found

### Cross-Government—see page 25

Deputy Ministers need internal audit to provide assurance that significant government systems and risks are effectively managed. We found that the increasing complexity of the government's computerized information systems has not been matched by an increased level of independent assessment of control effectiveness.

We believe that an effective internal audit function would have identified earlier the control weaknesses that have been reported on page 23.

### Implications

Deputy Ministers cannot fulfil their responsibilities without independent and objective assurance that systems and risks are being managed effectively. Further, without this assurance, departments may not operate in the most cost-effective, economical, or efficient manner.

### 1.4 Emergency preparedness

A well-planned and -executed response plays an important part in ensuring that casualties and damage are minimized after a disaster. We believe that the Disaster Services Branch has high risk in coordinating and overseeing the quality of emergency preparedness across the Province because:

- responsibility for emergency preparedness is largely devolved to municipalities creating greater potential for variation in plans.
- effective emergency preparedness requires coordination of a large number of stakeholders including Provincial government departments, municipal governments, First Nations, industry and the federal government.
- the risk of diseases such as foot-and-mouth disease and mad cow disease, and threats of domestic terrorism, are increasing.

#### What we found

#### Municipal Affairs—see page 220

The Ministry should improve the quality of its systems to promote and coordinate the emergency plans of Alberta government departments and municipalities. We found that:

- the Government Emergency Operations Centre's capability to meet the Ministry's needs in the event of a disaster is deficient.
- cross-department coordination of emergency preparedness is being adversely affected because of the failure of many Provincial government departments to prepare adequate plans.
- Disaster Services Branch lacks controls to ensure consistency in the review and testing of municipal plans.

#### Implications

The potential impact of deficiencies in the emergency preparedness program could be significant in case of a disaster.

## 2. Overview of the report

### 2.1 Guidance to Readers

What the report does

This report explains:

1. what the Alberta government must do to improve its systems, and
2. the results of our audits of government and ministry financial statements.

How the report is organized

For each ministry, the report has a chapter describing our findings. The report also includes a *Cross-Government* chapter that applies to the whole government. If we have recommendations for a ministry, its chapter has four parts:

- **Summary** highlights what a ministry must do to improve its systems.
- **Overview** briefly describes a ministry and its agencies, boards, and commissions.
- **Scope** explains the extent of our work in a ministry—auditing its financial statements and usually, examining some of its systems.
- **Findings and recommendations** describes problems we found and solutions we recommend. We number the most important recommendations and require a response on them from the government.

If we have no recommendations for a ministry, the chapter is condensed.

Glossary, index, recommendation list, status report

The report also includes a glossary, an index, a list of this year's recommendations, and a status report on all previous numbered recommendations not yet implemented.

## 2.2 Compliance with the law

Caution

We are satisfied that the transactions and activities examined in financial statement audits complied with relevant legislative requirements, apart from the instances of non-compliance described in this report. As auditors, we examine only some transactions and activities, so we caution readers that it would be inappropriate to conclude that all transactions and activities comply with the law.

## 2.3 Recommendation statistics and analysis

49 numbered recommendations

This report contains 80 recommendations. Of these, the 49 recommendations that we consider particularly important, which need a formal government response, are numbered. Of the 49 numbered recommendations, 26 are new. The other 23 maintain focus on previous recommendations that have not yet been fully implemented.

We've used the accountability framework to analyze our recommendations

As in previous years, we have analyzed our recommendations using an accountability framework to stress that accountability is fundamental to improving performance. The analysis shows the government and its managers where they have further to go in planning what needs to be done, doing the work, and reporting on results—see page 19.

The benefit of audit work is in the implementation of recommendations

The status of past numbered recommendations not yet implemented is reported at page 261. Since the benefit of audit work is not in the recommendations, but in their effective implementation, we always follow up until they have been implemented. We now have 28 recommendations made before 1999 that have not been implemented. We have repeated 10 of these as numbered recommendations and asked for an updated government response.

How we determine significance

To decide whether something is significant enough to bring to the attention of Public Accounts Committee members, ministers, other MLAs, the public, and management, we consider how important it is to the ministry and the whole government.

## 3. Acknowledgements

Throughout the report, “we” and “our” mean the 115 full-time staff members of the Office of the Auditor General and our 21 agent firms in 13 Alberta communities.

Cooperation is appreciated

We appreciate the cooperation of those we audit and we recognize it is crucial to our success. Legislators, senior management, and board members of audited organizations continue to make time to meet with us to discuss audit plans and audit results. In carrying out our work, we received the necessary information, reports and explanations.

Thanks

Although most of the work in this report was planned and performed before I became Auditor General on June 1, 2002, I’m delighted to be associated with it. The work completed is professional and I believe it will make a difference by helping government managers to improve their results. I look forward to working with an Office dedicated to independent and cost-effective auditing for the Legislative Assembly and the people of Alberta.

[Original signed by Fred J. Dunn, CA]
Fred J. Dunn, CA
Auditor General

Edmonton, Alberta
September 13, 2002

# Ministry Audits and Recommendations

# Cross-Government

Page 23 **Improve internal controls—Recommendation No. 1**
We recommend that the Department of Finance, working with the other departments and the Alberta Corporate Service Centre, improve internal controls, in particular, controls for:
1. access to the IMAGIS system
2. the use of procurement cards
3. compliance with sections 37 and 38 of the *Financial Administration Act*

Page 25 **Establish internal audit—Recommendation No. 2**
We recommend that the Deputy Minister of Executive Council, working with other Deputy Ministers, establish an internal audit function to provide assurance that significant government systems and risks are managed effectively.

Page 27 **Improve guidance on business plans—Recommendation No. 3**
We recommend that the Ministry of Finance, working with other ministries, develop comprehensive standards for preparing ministry business plans. We further recommend that Deputy Ministers and the Ministry of Finance ensure the standards are followed.

Page 29 **Government competency model—Recommendation No. 4**
We recommend that the Personnel Administration Office, working with Deputy Ministers, improve guidance for the use of the Alberta Public Service Competency Model.

# Agriculture, Food and Rural Development

Page 39 **Emergency programs**
We recommend that the Department of Agriculture, Food and Rural Development develop its generic emergency program delivery system promptly.

Page 41 **Reporting industry performance targets—Recommendation No. 5**
We recommend that the Ministry of Agriculture, Food and Rural Development report progress toward its industry performance targets in its annual report performance measures.

Page 43 **Reinsurance for the Native Pasture Pilot Program**
We recommend that the Agriculture Financial Services Corporation (AFSC):
1. seek legal advice to ensure that it has the legislative authority to purchase the type of reinsurance that it bought for its *Native Pasture Pilot Program*.
2. document the reinsurance arrangements that it has made with other government entities.

# Children's Services

Page 47 **Program support services**
We again recommend that the Department and Authorities enter into service agreements with their service providers.

Page 50 **Funding allocation—Recommendation No. 6**
We recommend that the Ministry of Children's Services allocate funds to Authorities in a way that provides for appropriate incentives and allows the Authorities to plan and manage their business.

Page 51 **First Nation expense recoveries—Recommendation No. 7**
We recommend that the Ministry of Children's Services improve its systems to recover expenses for providing services to children and families ordinarily resident-on-reserve

Page 53 **Contract management systems—Recommendation No. 8**
We recommend that the Ministry of Children's Services strengthen the processes used to award and manage contracts.

Page 54 **ACSC audit services—Recommendation No. 9**
We recommend that the Ministry of Children's Services improve accountability for audit services provided by Alberta Corporate Services Centre.

Page 56 **Policies and practices—Recommendation No. 10**
We recommend that the Office of the Children's Advocate clarify its practices for conflicts between a child's viewpoint and best interest, and then confirm these practices with the Minister of Children's Services.

Page 57 **Accountability**
We recommend that the OCA improve the accountability information it reports to the Minister.

Page 58 **Collecting and analyzing information**
We recommend that the OCA improve its processes to collect and analyze information that supports its recommendations for changes to the child welfare system.

Page 61 **Timing of approval**
We again recommend that the Minister approve Authorities' business plans before the start of the year.

Page 61 **Annual Reports**
We recommend that the Authorities consider the availability of data for performance measurement and reporting when deciding which measures to include in their business plans.

## Community Development

Page 68 **Excluded operations—Recommendation No. 11**
We recommend that the Ministry of Community Development record in its financial statements all revenues, expenses and surpluses generated through the operation of Provincially owned facilities.

## Energy

Page 75 **Royalty reduction programs—Recommendation No. 12**
We again recommend that the Department of Energy disclose its royalty reduction programs in its financial statements (2001—No. 43).

Page 76 **Defining performance measures—Recommendation No. 13**
We again recommend that the Ministry of Energy use performance measures that permit consistent evaluation of the success of the Ministry from one year to the next (2001—No. 42).

Page 78 **Well and production data reported by industry —Recommendation No. 14**
We again recommend that the Alberta Energy and Utilities Board develop an audit strategy for the Production Audit Group that meets the business needs of key stakeholders (2001—No. 44).

## Finance

Page 94 **Corporate government accounting policies—Recommendation No. 15**
We again recommend the Department of Finance change the corporate government accounting policies to improve accountability (2001—No. 45).

Page 101 **Risk management—Recommendation No. 16**
We recommend that Alberta Treasury Branches develop an integrated approach to risk management to effectively manage operational, credit and market risk.

Page 103 **Key internal controls—Recommendation No. 17**
We again recommend that Alberta Treasury Branches management document, evaluate and monitor internal controls to ensure assets are properly protected and financial information is accurate and complete (2001—No. 49).

Page 104 **Outsourcing arrangements**
We recommend that ATB obtain independent assurance that service providers have effective controls.

Page 105 **Business resumption plan—Recommendation No. 18**
We recommend that Alberta Treasury Branches complete and test a business resumption plan to enable the timely resumption of business in the event of a significant business disruption.

## Gaming

Page 111 **Risk management—Recommendation No. 19**
We recommend that the Alberta Gaming and Liquor Commission develop a formal risk management process and provide the Board with a comprehensive risk assessment, including management's actions to manage the risks.

Page 113 **Internal controls—Recommendation No. 20**
We recommend that the Alberta Gaming and Liquor Commission establish a formal process to assess the adequacy of its systems of internal controls and report the results of these assessments to the Board.

## Government Services

Page 118 **Motor Vehicles Registry access standards—Recommendation No. 21**
We again recommend that the Ministry of Government Services implement access standards for the use and disclosure of personal information in the Motor Vehicles Registry (1998—No. 47).

Page 120 **Performance Measures—Recommendation No. 22**
We recommend that the Alberta Corporate Service Centre improve its performance measurement systems.

Page 122 **Audit Services**
We recommend that the Alberta Corporate Service Centre improve its processes to deliver audit services.

Page 123 **Information Technology Systems Operations and Controls**
We recommend that the Alberta Corporate Service Centre improve controls for the Electronic Payment System and the Expense Claim!$^2$ System.

## Health and Wellness

Page 128 **Business Planning—Recommendation No. 23**
We again recommend the Department of Health and Wellness and Authorities implement a joint strategy to ensure authorized business plans are implemented at the start of the year (2001—No. 13).

Page 129 **Canadian Blood Services**
We again recommend the Department of Health and Wellness clarify the extent of its control over, interests in, and potential liabilities for the Canadian Blood Services.

Page 134 **Control of, and accountability for, restricted funding**
We recommend the Department of Health and Wellness improve its corporate control processes for ensuring accountability for restricted funding.

Page 135 **Information technology control environment—Recommendation No. 24**
We recommend that the Department of Health and Wellness assess the effectiveness of the controls over information technology, resolve deficiencies, and strengthen the overall control framework. In particular, the Department should obtain assurance that its service providers are maintaining effective controls.

Page 140 **Alberta Cancer Board—Recommendation No. 25**
We recommend that the Alberta Cancer Board improve systems for managing cancer drug programs.

Page 144 **Chinook Regional Health Authority reservation of opinion—Recommendation No. 26**
We again recommend the Chinook Regional Health Authority continue to work with the Department of Health and Wellness and Alberta Infrastructure to clarify the nature of the Authority's future responsibilities for, and control of, one long-term care facility (2001—Page 133).

## Human Resources and Employment

Page 150 **Ensuring controls protect data**
We again recommend that the Department obtain independent assurance on the control environment of its computer service provider.

Page 151 **Monitoring compliance with the Skills Development Program (SDP)—Recommendation No. 27**
We again recommend that Department of Human Resources and Employment improve the procedures to monitor compliance by training providers with the terms of the Skills Development Program (2001—No. 22).

Page 152 **Planning for business resumption**
We recommend the Department develop and test a business resumption plan.

Page 154 **Recording the Long Term Disability Insurance liabilities**
We recommend the Ministry record the government's share of the accrued benefit liabilities for the two multi-employer Long Term Disability Income Continuance Plans.

## Infrastructure

Page 157 **Contracting processes—Recommendation No. 28**
We recommend that the Ministry of Infrastructure strengthen its contract management processes by:

1. ensuring contracts for consulting services are awarded through a process that is open, fair, and gets good value
2. ensuring that all contracts contain the provisions required to protect the Ministry
3. evaluating consultant and contractor performance
4. establishing a policy for renewing property management contracts without competition

Page 159

**Conflict of interest—Recommendation No. 29**

We recommend that the Ministry of Infrastructure require its employees to disclose annually in writing:

1. that they understand and agree to follow the *Code of Conduct and Ethics.*
2. any potential conflicts of interest they have.

We also recommend that the Ministry ensure that consultant contracts contain a conflict of interest provision.

Page 160

**Long-term capital asset plans—Recommendation No. 30**

We again recommend that the Ministry of Infrastructure implement processes to ensure that capital plans received from ministries, regional health authorities, school jurisdictions and post-secondary educational institutions contain the information it requires to prepare its long-term strategic plans (2001—No. 25).

Page 161

**Critical health and safety risks**

We again recommend that the Ministry obtain sufficient accountability information from post-secondary institutions (PSIs) to allow it to evaluate whether progress is being made in reducing critical health and safety needs relating to facilities.

## Innovation and Science

Page 169

**IMAGIS Control Environment—Recommendation No. 31**

We recommend that the Ministry of Innovation and Science resolve deficiencies in the IMAGIS environment and strengthen the overall IMAGIS control framework.

Page 171

**Co-ordination of Reviews of Control Environments at Service Providers**

We recommend that the Ministry of Innovation and Science coordinate reviews of control environments at service providers.

Page 171

**IMAGIS Management Team—Recommendation No. 32**

We recommend that the Ministry of Innovation and Science ensure that the strategic and contractual oversight responsibilities currently assigned to the IMAGIS Management Team, under Article 6 of the Master Agreement with the service provider, are adequately addressed.

Page 172

**Systems Development—Recommendation No. 33**

We again recommend that the Ministry of Innovation and Science, with the cooperation of other ministries, develop a systems development methodology (2001—No. 27).

Page 174

**iCORE Inc**

We recommend that iCORE improve control of its research grants.

Page 175

**Clarification of Legislation – Alberta Heritage Foundation for Science and Engineering Research—Recommendation No. 34**

We again recommend that the Minister of Innovation and Science seek an amendment to the *Alberta Heritage Foundation for Science and Engineering Research Act* to clarify the meaning of "real value of the Endowment Fund over the long term" (2001—page 174).

## Justice and Attorney General

Page 183

**Special Reserve Fund**

We again recommend that the Public Trustee determine and plan for the level of funding required to meet the legislative purposes of the Special Reserve Fund.

# Learning

Page 190

**Career and Technology Studies**
We again recommend that the Department improve its systems to ensure that school jurisdictions comply with the requirements of the Career and Technology Studies (CTS) program.

Page 191

**Long-term capital planning—Recommendation No. 35**
We again recommend that the Department of Learning improve its systems to ensure that long-term capital planning for school facilities is consistent with plans for the delivery of education (2001—No. 31).

Page 192

**Risk management—Recommendation No. 36**
We again recommend that the Department of Learning establish a risk management process to improve the effectiveness of its control and monitoring activities (2001—page 196).

Page 192

**Charter School accountability—Recommendation No. 37**
We again recommend that the Department of Learning determine what steps are needed to achieve charter school compliance with reporting requirements (2001—No. 32).

Page 193

**Tuition Revenue Compliance**
We recommend that the Department take the necessary steps to ensure that the Department and the public post-secondary institutions comply with the disclosure requirements of the tuition fee regulations.

Page 194

**Post-Secondary and Other Adult Learner Programs Operated by School Jurisdictions**
We recommend that the Department obtain sufficient information to evaluate the role of school jurisdictions in the education of adults.

Page 195

**Capital Assets Policy statement—Recommendation No. 38**
We again recommend the Department of Learning, in consultation with the Department of Infrastructure and the Department of Innovation and Science, provide an updated Capital Assets Policy Statement to the public post-secondary institutions (2001—No. 35).

Page 198

**Alberta School Foundation Fund – Allowance for Assessment Adjustments and Appeals—Recommendation No. 39**
We again recommend that the Ministry of Learning improve the process used to calculate the allowance for assessment adjustments and appeals (2001—No. 33).

Page 201

**Internal control systems—Recommendation No. 40**
We again recommend that the University of Alberta improve its system of internal control (2001—No. 37).

Page 202

**Basis of measurement for budget—Recommendation No. 41**
We again recommend that the University of Alberta corporate level budget be presented solely on a GAAP basis and that it encompass all operating, financing and investing transactions (2000—No. 36).

Page 203

**Net assets—Recommendation No. 42**
We again recommend the University of Alberta calculate the level of net assets required to ensure that programs and facilities continue to be supported (2000—No. 37).

Page 205

**Internal control systems—Recommendation No. 43**
We again recommend that the University of Calgary significantly improve its internal control systems (2001—No. 38).

Page 206 **Corporate Security Policy**
We recommend that the University of Calgary establish a corporate security policy.

Page 207 **Application development methodology—Recommendation No. 44**
We recommend that the University of Calgary implement a formal methodology to design, develop, implement, test, and maintain software applications.

Page 207 **Financial Processes—Recommendation No. 45**
We again recommend that Grant MacEwan College improve its financial processes and controls to increase efficiency and accuracy in financial reporting (2001—No. 39).

Page 208 **Student information system**
We recommend that Grant MacEwan College either fix the weaknesses in the student information system (SIS) or implement controls to mitigate them.

Page 209 **Budgeting for capital needs**
We again recommend that Grant MacEwan College develop a capital budgeting plan that defines long-term capital requirements and identifies strategies to fund them.

Page 210 **Contract management – Mount Royal College**
We again recommend that Mount Royal College improve its contract management to ensure that services to be provided are sufficiently detailed in contracts.

Page 210 **Internal controls – Mount Royal College Foundation**
We recommend that Mount Royal College Foundation strengthen its internal controls.

Page 211 **Budget approval**
We recommend that the Board of Governors approve Red Deer College's annual budget.

Page 212 **Ministerial approval of deficits**
We recommend that Red Deer College comply with the *Colleges Act* and not incur an accumulated deficit without the prior approval of the Minister.

Page 212 **Net assets**
We recommend the Red Deer College calculate the level of net assets required to ensure that programs continue to be supported.

## Municipal Affairs

Page 220 **Emergency preparedness—Recommendation No. 46**
We recommend that the Ministry of Municipal Affairs improve its procedures to promote and coordinate emergency preparedness plans developed by Alberta government departments and municipalities. We further recommend that the Ministry reassess the present and future suitability of the existing *Government Emergency Operations Centre*.

Page 223 **Safety services**
We recommend that the Ministry improve its process to verify that responsibilities to issue permits under the *Safety Codes Act*, that it has delegated to other entities, are being properly discharged.

Page 225

**Managing for results—Recommendation No. 47**

We recommend that the Ministry of Municipal Affairs:

1. effectively implement the Ministry business plan by fully integrating its operational plans with the Ministry business plan and staff performance plans.
2. improve the implementation of the human resource performance planning and assessment process.
3. refer to all relevant entities in the business plan and expand the discussion of risks and environment factors.
4. review the methodology for two performance measures.

# Sustainable Resource Development

Page 245

**Timber production audits—Recommendation No. 48**

We recommend that the Department of Sustainable Resource Development improve:

1. the planning, documentation, and reporting of results for its timber production audit group.
2. the timeliness of its timber production auditing.

# Transportation

Page 252

**Conflict of interest—Recommendation No. 49**

We recommend that the Ministry of Transportation require its employees to disclose annually in writing:

1. that they understand and agree to follow the Code of Conduct and Ethics.
2. any potential conflicts of interest.

We also recommend that the Ministry ensure that consultant contracts contain a conflict of interest provision.

Description of categories:

**Gov**. Governance (the process that extracts the potential benefits of accountability)

**1-2** Set measurable goals, and responsibilities, and plan how to achieve the goals (including arranging contracted work)

**3** Do the work and monitor progress (including managing contracted work)

**4** Report on results

**5** Evaluate results and provide feedback to refine or adjust plans[1]

**CWA** Compliance with authorities

| | | Category | | | | | |
|---|---|---|---|---|---|---|---|
| **Rec. #** | | **Gov.** | **1-2** | **3** | **4** | **5** | **CWA** |
| | **Cross-Government** | | | | | | |
| 1 | Improve internal controls | X | | X | | | X |
| 2 | Establish internal audit | X | | | | | |
| 3 | Improve guidance on business plans | X | | | | | |
| 4 | Government competency model | X | | | | | |
| | **Agriculture, Food and Rural Development** | | | | | | |
| 5 | Reporting industry performance targets | | | | X | | |
| | **Children's Services** | | | | | | |
| 6 | Funding allocation | | | X | | | |
| 7 | First Nation expense recoveries | | | X | | | |
| 8 | Contract management systems | | | X | | | |
| 9 | ACSC audit services | | | X | | | |
| 10 | Policy and practices—Office of the Children's Advocate | X | X | | | | |
| | **Community Development** | | | | | | |
| 11 | Excluded operations | | | | X | | |
| | **Energy** | | | | | | |
| 12 | Royalty reduction programs | | | | X | | |
| 13 | Defining performance measures | | X | | | | |
| 14 | Well and production data reported by industry | | | X | | | |
| | **Finance** | | | | | | |
| 15 | Corporate government accounting policies | | | X | X | | |
| 16 | Risk management—Alberta Treasury Branches | X | | X | | | |
| 17 | Key internal controls—Alberta Treasury Branches | | | X | | | |
| 18 | Business resumption plan—Alberta Treasury Branches | | | X | | | |
| | **Gaming** | | | | | | |
| 19 | Risk management | X | | X | | | |
| 20 | Internal controls | X | | X | | | |
| | **Government Services** | | | | | | |
| 21 | Motor Vehicles Registry access standards | | | X | | | |
| 22 | Performance Measures | | X | | | | |

[1] We have not yet tried to assess the extent and quality of the evaluation of results since we have been gaining experience about reporting on results. Now that the government reports more on results, people should plan how to use that information.

| Rec. # | | Gov. | 1-2 | 3 | 4 | 5 | CWA |
|---|---|---|---|---|---|---|---|
| | | Category | | | | | |
| | **Health and Wellness** | | | | | | |
| 23 | Business Planning | | X | | | | |
| 24 | Information technology control environment | | | X | | | |
| 25 | Alberta Cancer Board | | | X | | | |
| 26 | Chinook Regional Health Authority reservation of opinion | | | X | | | |
| | **Human Resources and Employment** | | | | | | |
| 27 | Monitoring compliance with the *Skills Development Program* (SDP) | | | X | | | |
| | **Infrastructure** | | | | | | |
| 28 | Contracting processes | | X | X | | | |
| 29 | Conflict of interest | | X | | | | |
| 30 | Long-term capital asset plans | | X | | | | |
| | **Innovation and Science** | | | | | | |
| 31 | IMAGIS Control Environment | | | X | | | |
| 32 | IMAGIS Management Team | | | X | | | |
| 33 | Systems Development | | | X | | | |
| 34 | Clarification of Legislation – Alberta Heritage Foundation for Science and Engineering Research | X | | | | | X |
| | **Learning** | | | | | | |
| 35 | Long-term capital planning | | X | | | | |
| 36 | Risk management | X | | X | | | |
| 37 | Charter School accountability | | X | | | | |
| 38 | Capital Assets Policy statement | | X | | | | |
| 39 | Alberta School Foundation Fund—Allowance for Assessment Adjustment and Appeals | | | | X | | |
| 40 | Internal control systems—University of Alberta | | | X | | | |
| 41 | Basis of measurement for budget—University of Alberta | | X | | | | |
| 42 | Net assets—University of Alberta | | X | | | | |
| 43 | Internal control systems—University of Calgary | | | X | | | |
| 44 | Application development methodology—University of Calgary | | | X | | | |
| 45 | Financial Processes—Grant MacEwan College | | | X | | | |
| | **Municipal Affairs** | | | | | | |
| 46 | Emergency preparedness | | | X | | | |
| 47 | Managing for results | | X | X | | | |
| | **Sustainable Resource Development** | | | | | | |
| 48 | Timber production audits | | | X | X | | |
| | **Transportation** | | | | | | |
| 49 | Conflict of interest | | X | | | | |
| | **Total [2]** | 10 | 14 | 29 | 6 | - | 2 |
| | **Previous year total** | 2 | 18 | 25 | 12 | - | - |

[2] Adds up to more than 49 since some recommendations fall into two categories.

# Cross-Government

## Summary: what we found in our audits

1. Government departments should improve internal control systems. Deputy Ministers need internal audit to provide assurance that significant government systems and risks are effectively managed—see page 23.

2. Comprehensive standards for the preparation of ministry business plans are needed, as well as a mechanism for ensuring that the standards are followed—see page 27.

3. The Personnel Administration Office (PAO) should improve guidance for departments on the appropriate use of the government competency model in human resource management processes—see page 29.

4. The government has made progress in implementing several of our prior year recommendations but further work is required—see pages 31 to 33:
   - Service level agreements for shared service arrangements should be improved by further defining costs and performance standards.
   - Draft business case standards need to be approved by Deputy Ministers and implemented by ministries.
   - Ministries should improve results analysis in their annual reports by providing an integrated analysis of financial and non-financial performance.
   - Ministers and Agencies, Boards and Commissions (ABCs) should complete and sign Memorandums of Understanding to clarify the governance framework for ABCs.

## Overview of Cross-Government Systems

Ministers and Deputy Ministers are responsible for effectively managing their ministries. Several ministries are also central agencies with broad government responsibilities. These central agencies develop corporate policies, strategies and guidance for ministries to operate within.

The government recognizes that solving complex problems requires ministries to work together. It has set out a number of cross-ministry initiatives on significant policy and administrative issues and also encourages ministries to work together on other issues.

The focus of our cross-government audits is on the government systems that affect ministries. In this section, we highlight issues that affect several ministries or the whole government.

## Scope: what we did in our audits

1. We audited the common financial control systems of departments.

2. We reviewed the government and ministry 2002–2005 business plans to assess whether prior year recommendations have been implemented.

3. We reviewed the government guidance for human resource management practices and followed up our previous recommendation to improve employee performance management systems.

4. We examined the government's progress in:
   - developing detailed service level agreements for shared service arrangements.
   - developing business case standards.
   - improving quality of results analysis in the ministry annual reports.
   - developing Memorandums of Understanding between Ministers and Agencies, Boards and Commissions.

# Findings and recommendations

## 1. Internal controls

### 1.1 Improve internal controls

**Recommendation No. 1**

**We recommend that the Department of Finance, working with the other departments and the Alberta Corporate Service Centre, improve internal controls, in particular, controls for:**

1. **access to the IMAGIS system**
2. **the use of procurement cards**
3. **compliance with sections 37 and 38 of the *Financial Administration Act***

Background

The IMAGIS system is the primary accounting system for financial transactions in the government. There are many users, the main ones the Alberta Corporate Service Centre (the Centre) and departments. Departments initiate financial transactions and the Centre is responsible for ensuring that it correctly processes these transactions. Departments rely on information from IMAGIS and are responsible for the accuracy of their financial records.

Criteria

Adequate internal controls exist to ensure that payments for supplies and services, and payroll transactions are properly authorized and recorded.

Findings

Weakness in general control environment

The following observations relate to weaknesses in the control systems of the Centre and departments for processing of payments for supplies and services, and payroll. We also identified deficiencies in the IMAGIS general control environment related to access and security. In the Ministry of Innovation and Science section of this report, we recommend improvements to the controls in the general control environment.

Access to the IMAGIS system is not appropriately restricted

Access controls—User access to the IMAGIS system is not appropriately restricted. Some users have broader access to the system than they require to perform their duties. Terminated employees may not be promptly removed from the system. Management does not always perform a regular review of access rights or verify changes to user access rights. In addition, a number of employees have been assigned duties that should be performed by other individuals to maintain adequate controls.

Significant weaknesses in procurement card controls

Procurement cards—Approximately 20% of government employees use a procurement card. We identified the following significant control weaknesses when we examined controls over procurement card disbursements:

- procurement card expenses were not always properly authorized or supported.
- cardholders did not consistently submit procurement card statements and supporting documentation for approval on a timely basis.
- most departments did not produce or review reports on procurement card spending.
- several department procurement card policies did not identify key controls over card usage or restrict their use to purchases allowed under the related Treasury Board Directive.

Adhering to new policy would improve controls

The government recently revised its procurement card policy for departments. This policy is more comprehensive and identifies controls needed to ensure that departments properly use and control procurement cards. When departments follow the new policy, these significant control weaknesses will be eliminated.

The Act requires accounting officer and expenditure officer approvals of disbursements

Compliance with the *Financial Administration Act* (the Act)—Sections 37(4) and 38(5) of the Act require that both an expenditure officer and an accounting officer approve disbursements before a payment is made. In addition, section 38(6)(a) states that accounting officers should only approve disbursements after they are satisfied that an expenditure officer has already authorized the disbursement.

Several instances where approvals did not comply with the Act

Our control testing identified the following instances when the approval of disbursements did not comply with the Act:

- Expenditure officers do not approve payments before they are made in the Electronic Payments System used by most government departments.
- Expenditure officers do not always approve payments in the Expense Claim System before they are made.
- Expenditure officers may not approve procurement cardholder statements before payments are made to the credit card company.
- Accounting officers do not approve payroll disbursements before they are made.

Better controls will help prevent unauthorized transactions

Strong controls at departments and the Centre would, to a certain extent, compensate for weaknesses in the overall IMAGIS control environment. Departments should review their control systems to ensure that adequate controls exist to prevent and detect unauthorized transactions.

#### Implications and Risks

Non-compliance with the *Financial Administration Act* and inadequate controls increase the risk of unauthorized transactions.

### 1.2 Establish internal audit

**Recommendation No. 2**

**We recommend that the Deputy Minister of Executive Council, working with other Deputy Ministers, establish an internal audit function to provide assurance that significant government systems and risks are managed effectively.**

#### Background

Deputy Ministers are responsible for control systems

Each year, Deputy Ministers have to sign a responsibility statement indicating the ministry has internal controls that provide reasonable assurance that transactions are properly authorized in accordance with legislation, and properly recorded. They also assert that systems exist for performance planning and reporting, and safeguarding assets of the Province.

#### Criteria

Deputy Ministers receive objective assurance that significant systems are functioning properly. Significant systems include those that relate to high-risk programs and high priority areas and to systems that are complex or are relied upon by a number of government organizations.

Objective assurance is obtained from an internal audit function. An effective internal audit function:

- has an unrestricted scope that includes the examination of financial internal control systems; compliance with policies, procedures, and legislation; economical and efficient use of resources; and the effectiveness of operations.
- is independent of the area being audited.
- has a clear purpose and authority that is formally defined and approved.
- reports audit findings directly to the responsible deputy minister.
- has competent skilled professional staff as well as access to specialist expertise.

### Findings

Complex environment

The government operates in a complex environment that increases the need for the services of internal audit. There are now 24 ministries and many agencies, boards, and commissions; each entity has a separate control environment. In addition, the Alberta Corporate Service Centre (the Centre) provides services in the areas of finance, human resources, information technology, and administration to all departments. In the past several years, many complex automated information systems have been implemented; several of these support all departments. Departments have also outsourced responsibility for information technology systems. Deputy Ministers require objective assurance that controls are functioning properly in this complex environment.

Weaknesses in internal control systems

This year we identified significant control weaknesses in the general control environment of the IMAGIS system and in controls established by the Centre and departments to process transactions. These weaknesses indicate an increased risk of unauthorized transactions in the financial control systems of the government. An effective internal audit function would have identified these control weaknesses.

Existing internal audit staff focus on auditing compliance

There are currently a limited number of staff in government who carry out some internal auditing. Most of these staff are located in the Centre. Typically, these staff limit their audit procedures to examining compliance with legislation, policies and procedures for specific programs. These procedures form only part of the responsibilities of an internal audit function.

Risk mitigation strategy required

The Financial Management Commission recently recommended that the government develop a comprehensive, cost effective risk mitigation strategy. Internal audit can assess whether current controls are adequate to manage identified risks and, therefore, provide assurance to senior officials on the adequacy and effectiveness of risk management practices.

Other entities would benefit from internal audit services

We have also noted the need for a number of entities of the government to obtain some high-level, objective assurance that their controls are operating effectively. For most entities, it is not feasible to hire full time internal audit staff but there would be significant benefit to being able to contract for internal audit services.

### Implications and Risks

Internal audit required to fulfill Deputy Ministers' responsibilities

Deputy Ministers cannot fulfil their responsibilities without objective assurance that significant systems and risks are being managed effectively. Further, without this assurance there is a risk that departments may not operate in the most cost-effective, economical or efficient manner.

## 2. Business plans

### 2.1 Improve guidance on business plans

**Recommendation No. 3**

**We recommend that the Ministry of Finance, working with other ministries, develop comprehensive standards for preparing ministry business plans. We further recommend that Deputy Ministers and the Ministry of Finance ensure the standards are followed.**

#### Background

Statutory basis for government accountability

The *Government Accountability Act* requires the government and ministries to prepare three-year business plans. These business plans are a critical part of the government's accountability framework as they communicate what the government expects to achieve with the money it spends.

The Ministry of Finance annually provides ministries with instructions for preparing the business plan and budget. The government also prepares a comprehensive environmental scan that is shared with ministries.

Prior recommendations to improve plans

Over the past few years, we made a number of recommendations to improve ministry business plans. In our *1998–1999 Annual Report* (1999—No.1), we also recommended that ministries collaborate with the Department of Finance to articulate best practices in business planning. In 1999–2000, we reported that ministry business planners had started an initiative to develop standards for the 2002–2005 business planning cycle. But this work was not completed.

#### Criteria

Government and ministry business plans comply with the *Government Accountability Act*. The business plans communicate what is to be achieved over the three-year planning period by clearly articulating the goals, strategies, performance measures and costs for each core business. In conducting the audit, we used a detailed set of criteria developed in consultation with government management.

#### Findings

Planning instructions are better

Instructions for preparation of the 2002–2005 ministry business plans provided by Finance improved over the previous year. Instructions now include the required elements for ministry business plans, the linkages that should be made between those elements, and definitions of key business planning terms. The instructions state that the "ministry business plans should be congruent with and support the Government of Alberta Business Plan." They also require that, for each core business, there should be at least one goal statement with associated strategies describing actions to be undertaken to achieve that goal.

In our opinion, the business plan instructions issued by Alberta Finance are not comprehensive. Also, we did not find any mechanism to ensure that all ministry business plans adhere to instructions.

Inconsistencies in the plans

Despite the improved instructions, we observed the following inconsistencies across business plans:

- Two thirds of ministry 2002–2005 business plans disclose some information on factors that could affect implementation of the plan, but there is little consistency in how this information is disclosed. Also, in most cases, the information is not sufficient to show how the plan deals with environmental factors and mitigates risks that could materially affect results.
- For some key strategies under three goals in the government business plan, corresponding ministry business plans did not clearly illustrate how the strategies would be achieved.
- Ministry entities are dealt with in many different ways in plans. Some plans do not identify all organizations employed by the ministry. In other plans, the entities may be identified, but the plan is presented as a collection of separate entity plans, rather than as an integrated, consolidated plan.
- Ministries do not employ a consistent definition for core businesses, strategies, or targets.
- In over 40% of the ministry plans, there is no direct link between goals and core businesses, or goals appear to link to more than one core business.
- In a few plans, the core businesses in the *Expense by Core Business* statement differ from the core businesses stated in the plan.
- Some performance measures do not have targets stated. In other cases, targets do not cover the full three-year planning period.

Additional guidance

In 2002, ministry business planners and Finance staff began developing guidelines on the content of a business plan.

Developing and adhering to standards will improve plans

Developing standards for business plans creates an additional opportunity to significantly improve the quality of plans. Development of, and adherence to, comprehensive standards is required to ensure ministry business plans are of consistent high quality. Unless the standards are completed and followed, the opportunity to significantly improve business plans will not be realized.

Implications and risks

The three-year business plans issued by the government are critical accountability documents. There is a risk that the value of plans will be undermined if they do not meet high standards.

### 2.2 Ministry business planning processes

Over the past few years, we have made several recommendations to improve ministry business planning processes. Ministries are making progress on these recommendations. We will continue to examine business planning in individual ministries through our *Managing for Results* audits. This year, we did a *Managing for Results* audit in the Ministry of Municipal Affairs.

## 3. Human resource management

### 3.1 Government competency model

**Recommendation No. 4**

**We recommend that the Personnel Administration Office, working with Deputy Ministers, improve guidance for the use of the Alberta Public Service Competency Model.**

Background

Competencies are employee skills and behaviours

The current Alberta Public Service Competency Model (the Model) provides overall government direction for employee competency expectations. Competencies are the skills and behaviours that employees should demonstrate to successfully perform their jobs and achieve results. They provide a basis for employee planning, assessment and development decisions.

Some government programs refer to employee competencies

Competency development is the basis for significant government initiatives, such as the Corporate Executive Development Program, and the Management Development Program. PAO also provides employees with the opportunity for an evaluation of their competence level through its assessment services program.

Criteria

The Personnel Administration Office (PAO) gives departments guidance on implementing human resource management systems.

Findings

Inconsistent assessment

The Model is included in PAO's performance management guidance as a support for managing employee performance. Departments are encouraged to define the skills and behaviours that employees should demonstrate but they are not consistently assessing and developing employee competencies as part of the formal performance management and evaluation processes.

Competencies affect human resource management decisions

A variety of government human resource management programs and initiatives refer to employee competencies. Many human resource functions such as recruitment, training and development and succession planning also benefit from the assessment or development of employee skills and behaviours.

Need to improve guidance for departments

Guidance on how departments assess and develop employee competencies should be improved. Departments need guidance that clearly communicates the government direction for the support of existing human resource management systems through the assessment and development of employee competencies.

Implications and risks

Without adequate corporate guidance, there is a risk that departments will not effectively assess and develop employee competencies.

## 3.2 Employee Performance Management Systems

PAO and Deputy Ministers have improved performance management systems

In our *1998–1999 Annual Report*, we recommended (1999—No. 8) that the Personnel Administration Office (PAO) and Deputy Ministers ensure that employee performance management systems clearly support government and department objectives. PAO and Deputy Ministers have implemented this recommendation by:

- enhancing the government's performance management framework,
- measuring the effectiveness of performance management systems, and
- providing support to help departments improve their systems.

Departments have established performance management systems and continue to improve these systems to ensure that they support their business objectives.

# 4. Other Cross-Government issues

## 4.1 Shared services

### 4.1.1 Alberta Corporate Service Centre

Last year we recommended (2001—No. 2) that the Deputy Minister of Executive Council, the Alberta Corporate Service Centre (the Centre) and Ministries take immediate action to develop and sign service level agreements that detail the services to be provided by the Centre, the associated costs, and performance measures.

Customer service agreements exist for 2002-03

The Centre and ministries developed a standard customer service agreement for 2002–2003 (the Agreement). The Agreement includes a product and service listing and agreed service exceptions, service level standards for each service area, and a cost budget. In April 2002, the Centre issued and signed agreements with 24 ministries, the Persons with Development Disabilities Boards, and the Personnel Administration Office.

Progress has been made but the Centre should continue to improve the quality of agreements

Overall, the Centre has made satisfactory progress in developing and signing detailed customer service agreements. The Centre, working with ministries, has enhanced product and service definitions and set performance measures and targets for most services. Clients may also amend service requirements to reflect unique needs. Furthermore, the Centre provides clients with costs, estimated and actual, for each key service and bills actual costs. However, the Centre must continue to improve the quality of these agreements by:

- signing all outstanding service level agreements and cost estimation schedules for 2002–2003. In addition, the Centre and its clients need to have a process to ensure customer service agreements, including all schedules, are developed and signed before the beginning of the year.
- developing and signing customer service agreements with other entities that receive services from the Centre, including those that are a part of a ministry but operate separately.
- developing service level agreements, including standards, for all services the Centre provides.
- associating service level standards with costs.
- developing a process to track and report the achievement of service level standards.

The Centre may not meet the needs of its clients or achieve expected efficiencies without detailed customer service agreements.

#### 4.1.2 Shared service agreements between departments

Departments have developed shared service agreements

Last year we recommended (2001—page 45) that Deputy Ministers review and update shared service agreements for services between departments. Departments have made satisfactory progress in developing shared service agreements. The agreements outline the services to be provided and most include the total costs. Only one third of the agreements include performance standards.

Cost information and performance standards should be improved

Departments should finish implementing the recommendation by defining the costs for each service provided and developing performance standards for each service area in each agreement. Inadequate agreements may result in services that do not meet the needs of service recipients.

### 4.2 Business case standards

Draft business case standards exist but need to be finalized and implemented

Last year, we recommended (2001—No. 1) that the Ministry of Executive Council work with other ministries to develop standards for business cases. During the year, the government has made satisfactory progress in developing business case standards. A cross-government committee has prepared draft business case standards. Deputy Ministers must now approve the standards and decide how to monitor their use. Ministries will then develop policies for the use of business cases within their operations.

To finish implementing this recommendation, the government needs to finalize and implement the draft business case standards. Without standards, there is a risk that decision makers may receive inadequate information.

### 4.3 Results analysis in ministry annual reports

Results analysis has improved

We previously recommended (2000—No. 4) that ministries enhance the results analysis in their annual reports by providing an integrated analysis of financial and non-financial information. We reviewed the draft 2001–2002 ministry annual reports and concluded that ministries have made satisfactory progress in improving results analysis.

More work is required to produce an integrated results analysis

To implement this recommendation, ministries should improve the quality of results analysis in their 2002–2003 annual reports by presenting an integrated analysis of financial results and progress in achieving goals and performance targets for each core business. Without adequate performance information, readers of the ministry annual reports may not be able to assess and evaluate performance.

## 4.4 Governance of Agencies, Boards and Commissions

Last year, the Government Reorganization Secretariat recommended that Ministers enter into a Memorandum of Understanding with each Agency, Board and Commission (ABC) in their ministry to clarify the governance framework that they operate within.

Ministers and ABCs are working on clarifying their governance framework

By August 2002, only 13% of the ABCs and their Ministers had completed and signed a Memorandum. The majority of the ABCs are expected to develop and sign a Memorandum this year. Ministers and ABCs should complete and sign a Memorandum. Without an agreement on the governance framework, ABCs may not operate effectively.

# Aboriginal Affairs and Northern Development

## Summary: what we found in our audits

1. We audited the financial statements of the Ministry for the year ended March 31, 2002. Our auditor's report has a reservation of opinion. The Ministry immediately expenses acquisitions under $15,000, instead of amortizing them over their useful lives. The Ministry is understating its capital assets because it must follow a corporate government accounting policy.

2. We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

3. We have not completed the financial statement audit of the Metis Settlements Transition Commission for the year ended March 31, 2002.

## Overview of the Ministry

Two core businesses

The Ministry's 2001–2004 business plan describes two core businesses:
- to provide leadership in the management of Alberta's relationships with Aboriginal governments, communities and organizations
- to coordinate strategies in close cooperation with other Alberta ministries, as well as strategic partnerships with Aboriginal governments, communities and organizations, private sector organizations and other partners

Department and other entities

The Ministry consists of the Department and the Northern Alberta Development Council. The Metis Settlements Transition Commission and the Metis Settlement Appeal Tribunal report to the Minister, but are not part of the Ministry. The Commission dissolved on March 31, 2002, and the Ministry assumed responsibility for many of its functions.

Ministry spending

In 2001–2002, the Ministry spent $31 million on the following programs:

| | (millions of dollars) |
|---|---|
| Aboriginal relations | 9 |
| Metis Settlements governance | 10 |
| Statutory expenses for Metis Settlements | 10 |
| Northern development | 2 |

Ministry funding

The Ministry receives no revenue from sources external to the government.

For more information about the Ministry, visit its website at www.aand.gov.ab.ca.

# Agriculture, Food and Rural Development

## Summary: what we found in our audits

1. There are two areas where the Ministry can improve its systems:

Mitigating risk for emergency programs

   - The Department intends to improve its control over its emergency programs by developing a generic emergency program delivery system. However, the project to develop the system is not proceeding on a timely basis—see page 39.

Report on 2010 targets for farm cash receipts and value-added shipments

   - The Ministry's *Annual Report* should report progress for its two key industry performance targets. The Ministry has referred to farm cash receipts and value-added shipments for several years, but does not specifically report progress against its targets—see page 41.

2. We have two reservations of opinion on the financial statements of the Ministry and Department—see page 42.

3. We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures—see page 43.

Reinsurance issues at AFSC

4. Management of the Agriculture Financial Services Corporation (AFSC) should seek legal advice to ensure that it has the legislative authority to purchase the type of reinsurance that it bought for its *Pasture Pilot Program*. Management of AFSC should also document the reinsurance arrangements that it has made with other government entities—see page 43.

## Overview of the Ministry

Four core businesses

The Ministry's 2001–2004 business plan describes four core businesses:

- Industry development
- Planning and competitiveness (i.e. supporting agriculture and rural communities through the development of sound policy)
- Risk management and lending
- Sustainable agriculture (quality of soil and water resources, production of safe food, and public confidence in the safety of food products)

Ministry structure

The Ministry consisted of the following entities during 2001–2002:

- Department of Agriculture, Food and Rural Development
- Agriculture Financial Services Corporation
- Agricultural Products Marketing Council
- Alberta Dairy Control Board
- Alberta Grain Commission
- Alberta Opportunity Company
- Farmers' Advocate
- Irrigation Council
- Crop Reinsurance Fund of Alberta

Recent changes to Ministry structure

The Department supports the agencies within the Ministry through grants and (in some cases) operational support. Two of the agencies have wound up operations in the past year. The Alberta Opportunity Company became part of the Agriculture Financial Services Corporation on April 1, 2002. The Alberta Dairy Control Board wound up on August 1, 2002. Its responsibilities have been transferred to Alberta Milk, an industry managed organization. For more detail on the Ministry, visit the website at www.agric.gov.ab.ca.

Ministry spending

In 2001–2002, the Ministry spent $1.23 billion, including $625 million in grants to various individuals, businesses, and government entities. The following programs incur the largest costs in the Ministry:

| | **(millions of dollars)** |
|---|---|
| Farm income support | 499 |
| Insurance | 330 |
| Dairy Board milk price equalization payments | 130 |
| Industry development | 48 |
| Farm fuel distribution allowance | 31 |
| Sustainable agriculture | 31 |

Ministry revenue

The Ministry received $648 million in revenue in 2001–2002. The following represent the largest revenue sources of the Ministry:

| | **(millions of dollars)** |
|---|---|
| Transfers from the Government of Canada | 269 |
| Dairy Board milk price equalization levies | 130 |
| Interest and investment income | 107 |
| Premiums from insured persons | 65 |
| Fees, permits, licences and other income | 64 |

# Scope: what we did in our audits

1. During our Departmental financial statement audit, we examined the risks and controls related to the Department's emergency programs. During our specified audit work on performance measures, we reviewed the Ministry's reporting of key industry performance targets. We followed up our prior year's recommendation that the Department perform annual performance evaluations of the Farm Income Disaster Program. We monitored progress against our 1999–2000 Managing for Results recommendations as well as our 2000–2001 recommendation on the Department's grant management system.

2. We audited the financial statements of the Ministry and the Department for the year ended March 31, 2002.

3. We completed specified auditing procedures on the Ministry's performance measures.

4. We audited the financial statements of the Agriculture Financial Services Corporation, Alberta Dairy Control Board, Alberta Opportunity Company, and Crop Reinsurance Fund. The Agricultural Products Marketing Council, Alberta Grain Commission, Farmers' Advocate, and Irrigation Council do not produce separate financial statements. We also completed specified auditing procedures on the Alberta Opportunity Company's performance measures.

# Findings and recommendations

## 1. Systems findings

### 1.1 Emergency programs

**Recommendation**

**We recommend that the Department of Agriculture, Food and Rural Development develop its generic emergency program delivery system promptly.**

### Background

Established system development controls cannot be used

In the last few years, the Department has delivered a number of emergency programs such as the Farm Income Assistance Program (FIAP). These can be high value programs. For 2001–2002, the Department distributed over $400 million to eligible farmers for FIAP. These emergency programs have tight timelines; in some cases, cheques are sent out within weeks of the announcement of the program. Under these time constraints, the Department cannot design and develop control systems for its emergency programs using its established standards.

Program delivery has significant risk

By their nature, these programs have significant risk. To deliver each program, the Department brings together as many as 100 permanent and temporary staff and builds control systems for each program as the program is developed and delivered. The Department mitigates its program risks through intensive manual supervision and transaction auditing.

A consultant recommended solutions

In June 2001, the Department commissioned an external consultant to conduct a business area analysis. The consultant's report summarized the risks related to what it called the "ad-hoc program delivery" model. Issues ranged from slow, incompatible, and often flawed computer applications to developing and delivering programs "without clearly defined goals, roles and responsibilities, and schedules." The consultant's recommended concept of a *Charter Template* was key to mitigating these risks.

A generic program delivery system waiting to be tailored

The Charter Template would include a checklist of matters to consider in designing and developing a program. In preparation for an emergency program, the Department would develop generic system components such as computer applications and forms. When a program is announced, the generic applications and forms could be quickly tailored to suit the specific program.

### Criteria

Timeliness and control

The Department must be able to meet the tight timelines of its emergency programs, but must also adequately and efficiently control program delivery.

### Findings

Limited progress on Charter Template

Since June 2001, there has been limited progress on the Charter Template project. Heavy demands on manpower and resources to deliver emergency programs have slowed development. The Department has not produced a comprehensive plan to develop the generic program delivery system. Future emergency programs may continue to divert resources from the project.

Implications and risks

The Charter Template would mitigate risk

The implementation of the Charter Template would enhance control of the Department's emergency programs. As emergency programs can cost hundreds of millions of dollars per year, the Department's financial exposure is significant. Conversely, effective emergency programs maximize benefit to those for whom they were designed.

## 1.2 Reporting industry performance targets

**Recommendation No. 5**

**We recommend that the Ministry of Agriculture, Food and Rural Development report progress toward its industry performance targets in its annual report performance measures.**

Background

Long standing industry performance targets

Some years ago, the Ministry developed two targets for the agriculture industry in Alberta:

- $10 billion in farm cash receipts by 2010, and
- $20 billion in value-added agricultural shipments by 2010.

Over the years, Ministry communications frequently refer to these $10– and $20–billion targets. For example, the 2001–2004 and 2002–2005 Ministry business plans specifically discuss these targets.

Criteria

The Ministry should develop quantitative performance measures to reflect progress toward the goals that it sets for itself.

Findings

2001–2002 annual report contains these measures, although not referenced

The Ministry's 2001–2002 annual report presents seven performance measures. Farm cash receipts and value-added agricultural shipments are two of these seven measures, although neither measure indicates that it is the actual performance against the $10– and $20–billion targets. The reported measures quote targets for 2004 of $7.5 and $11 billion, without referencing the long-range targets.

Future annual reports may not report them or may report them as "Indicators"

The Ministry's 2002–2005 business plan highlights the $10– and $20–billion targets as "Key Results" and presents the $10–billion target as an "Indicator." However, the $20–billion target is not an Indicator. The Ministry tells us that Indicators will be reported in future annual reports, but they would not have targets attached to them, nor would they be subject to audit.

Implications and risks

Readers use measures to judge performance

The Ministry's 2002–2005 core business of facilitating industry growth needs the context of actual industry performance. Without these two key measures, readers will not be informed as to how effective the Ministry has been in its core business.

### 1.3 Farm Income Disaster Program (FIDP)

Department implemented our recommendation

In last year's *Annual Report* (page 52), we recommended that the Department perform annual performance evaluations of FIDP to assess the achievement of the program. The Department has successfully implemented this recommendation. It now has a system of data analysis and client surveys that annually assesses the results of FIDP.

### 1.4 Managing for results and grant management systems

For future follow up

We monitored the status of the 1999–2000 recommendations from the managing for results project and the 2000–2001 recommendation regarding grant management systems. Due to the nature of these systems and the timing of its annual business cycle, the Department will not fully implement these recommendations until 2002–2003. We will follow up these recommendations in depth next year.

## 2. Financial statement audits: two reservations of opinion

Some capital assets not capitalized and amortized

Our auditor's reports on the financial statements of the Department and Ministry have a reservation of opinion for capital assets. The Department and Ministry immediately expense acquisitions under $15,000, instead of amortizing them over their useful lives. The Department and Ministry are understating their capital assets because they must follow a corporate government accounting policy.

Discontinued operations not recognized in the Ministry financial statements

In addition, our auditor's report on the financial statements of the Ministry contains a second reservation of opinion. Following corporate government accounting policy, the Ministry's statement of operations does not present the discontinued operations of the Alberta Dairy Control Board separately. As we mentioned earlier, the operations of the Board were transferred to Alberta Milk on August 1, 2002. The Dairy Board milk price equalization levies and payments represent the Board's impact on the Ministry's statement of operations. Canadian generally accepted accounting principles require the results of the Board's operations to be reported separately for the current and prior periods. Separate presentation of the discontinued operations allows readers to see the ongoing cost of operations for the Ministry.

## 3. Specified auditing procedures

We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

## 4. Findings on entities that report to the Ministry

### 4.1 Reinsurance for the Native Pasture Pilot Program

**Recommendation**

**We recommend that the Agriculture Financial Services Corporation (AFSC):**

1. **seek legal advice to ensure that it has the legislative authority to purchase the type of reinsurance that it bought for its *Native Pasture Pilot Program*.**
2. **document the reinsurance arrangements that it has made with other government entities.**

#### Background

AFSC can reinsure its programs

AFSC operates under the authority of the *Agriculture Financial Services Act*. The Act allows AFSC to reinsure its insurance programs through private sector reinsurers. Typically, AFSC will reinsure above-average exposure for a particular program for a particular year. By reinsuring, AFSC limits its financial risk for a particular insurance program.

#### Findings

Reinsurance for AFSC's Native Pasture Pilot Program

In 2001–2002, AFSC introduced its *Native Pasture Pilot Program*. As this was a pilot project, it did not offer coverage to all native pasture areas in the province. AFSC then reinsured the pilot program, although the reinsurance was unusual in two ways. First, the reinsurance took the form of weather derivatives, which are financial instruments that would pay off if rainfall across the province dipped below average levels. Second, AFSC reinsured an area substantially larger than its pilot program area.

The Department had requested extra reinsurance

The Department of Agriculture had requested that AFSC purchase reinsurance in excess of its pilot program area. The Department contributed $4.1 million to the $5 million cost of AFSC's reinsurance contract. Neither interviews nor documentary evidence have told us with certainty why the Department requested this additional reinsurance. The reinsurance eventually paid $11 million, from which AFSC repaid the Department its $4.1 million contribution.

The pasture pilot reinsurance may not be in compliance

AFSC should confirm that it has the legislative authority to enter into this type of reinsurance. Sections 9(2) and 54 (since amended) of the *Agriculture Financial Services Act* state that AFSC's reinsurance must be linked to specific programs administered by AFSC. AFSC did not have clear authority to insure the Department against potential liability. As well, it is not clear that weather derivatives satisfy the Act's concept of reinsurance. Recent legislative changes make it important to determine the limits of AFSC's legislative authority. AFSC now has the authority to act as a middleman for other Alberta government departments and agencies that want to reinsure their programs.

Little documentation between the Department and AFSC

While auditing these reinsurance transactions, we found little that documented the intentions and obligations of AFSC and the Department. The negotiation between the two parties to buy the extra reinsurance appears to have been a high-level, verbal agreement. The parties did not decide at the beginning of the contract how any recoveries would be shared. Further, there was no indication of which party would be responsible if any problems developed with the contract.

#### Implications and risks

Non-compliance and effective management

For this type of reinsurance contract, AFSC may not be in compliance with the *Agriculture Financial Services Act*. Clearly written agreements are critical to managing the risks and rewards of contracts. They clarify such issues as AFSC's legal liability in case of dispute or litigation. From a management point of view, AFSC has incurred a cost without indicating the risk that it intends to cover.

### 4.2 Financial statement audits of entities that report to the Ministry

Unqualified audit opinions

The financial statements of the Agriculture Financial Services Corporation, Alberta Opportunity Company, Alberta Dairy Control Board, and Crop Reinsurance Fund received unqualified auditor's opinions.

### 4.3 Specified auditing procedures

We found no exceptions when we completed specified auditing procedures on the Alberta Opportunity Company's performance measures.

# Children's Services

## Summary: what we found in our audits

1. The Ministry should improve systems and procedures in the following areas to help it effectively deliver services at a reasonable cost:
   - Information systems—The Department and 18 Child and Family Services Authorities still need better information systems to produce accurate and relevant information on costs and results—see page 47.
   - First Nation expense recoveries—The Department and Authorities need to improve their systems to ensure that they recover all costs for children and families who are ordinarily resident on-reserve—see page 51.
   - Contract management systems—The Ministry can improve the awarding and managing of contracts—see page 53.
   - ACSC audit services—The Ministry needs to update its service agreement with the Alberta Corporate Service Centre (ACSC) to better define each party's roles and responsibilities for audit services—see page 54.
   - Children's Advocate Office (OCA)—The OCA needs to clarify its accountabilities and improve information to support its recommendations to improve child welfare systems—see page 56.

2. In our financial statement audits of the Ministry, Department, and Authorities, we have a reservation of opinion on one Authority—see page 62.

3. We found no exceptions when we completed specified auditing procedures on the Department's performance measures.

## Overview of the Ministry

Three core businesses

The Ministry's 2001–2004 business plan describes three core businesses:
- promoting the development and well-being of children, youth and families
- keeping children, youth and families safe and protected
- promoting healthy communities for children, youth and families

Department and 18 Authorities

The Ministry consists of the Department and 18 Authorities. The Authorities encompass the different regions of the Province and deliver most of the Ministry's services. The Department supports the Ministry and the Authorities, and co-ordinates Provincial programs such as *Protection of Children Involved in Prostitution* and the *Fetal Alcohol Initiative*. For more detail on the Ministry, visit its website at www.child.gov.ab.ca.

Ministry spending

In 2001–2002, the Ministry spent $639 million, of which the Authorities spent $540 million. The following programs are the largest costs of the Ministry:

| | **(millions of dollars)** |
|---|---|
| Child welfare | 356 |
| Children with Disabilities | 63 |
| Day care | 60 |
| Program support services | 49 |
| Early intervention | 28 |
| Prevention of family violence | 13 |

Ministry revenue

The Ministry had $134 million in revenue in 2001–2002, $121 million of which came from the following transfers from the Canadian government:

| | **(millions of dollars)** |
|---|---|
| Canada Health and Social Transfer | 97 |
| Child Welfare Special Allowance | 13 |
| Services to On-Reserve Status Indians | 11 |

## Scope: what we did in our audits

1. We followed up our previous recommendations to improve governance systems, information systems, and business plans. We also examined expense recoveries of First Nation costs, contract management systems, ACSC audit services, Authorities' annual reports, and the Children's Advocate Office.

2. We audited the financial statements of the Ministry, Department, and Authorities for the year ended March 31, 2002.

3. We completed specified auditing procedures on the Ministry's performance measures.

# Findings and recommendations

## 1. Systems findings

### 1.1 Department and Authorities need better information systems

In our *2000–2001 Annual Report* (pages 57 to 65), we made recommendations to improve information systems in four areas. We now report the status of these recommendations.

#### 1.1.1 Program support services

**Recommendation**

**We again recommend that the Department and Authorities enter into service agreements with their service providers.**

Background

On pages 57 and 58 in our *2000–2001 Annual Report*, we reported on the progress of two recommendations from our *1999–2000 Annual Report*. The first was that the Department and Authorities examine support services, including shared services, to improve cost-effectiveness. The second was that the Department and Authorities enter into service agreements with their service providers.

Findings

Department has made continued progress in examining support services

We noted that progress was satisfactory on the first recommendation last year. This year, the Ministry again made satisfactory progress. The Department and Authorities quantified and recognized the cost of information technology, communications, financial, and human resource support services in the proper financial statements. In addition, the Ministry hired a consultant to review the services that ACSC provides to the Department and Authorities.

Specific agreements with service providers still needed

However, progress in implementing service level agreements with service providers is not satisfactory. The Ministry did sign a customer service agreement with ACSC that covers the Department and Authorities. Authorities, however, do not have individual detailed customer service agreements with ACSC.

Ministry needs to work with ACSC

We recognize that the Ministry cannot implement this recommendation in isolation; it also requires ACSC to be able to provide detailed information and work towards detailed individual customer services agreements. We have also reported the need for ACSC to develop and sign customer service agreement with organizations like the Authorities—see page 31.

Implications and risks

Without service agreements, the Ministry may not be getting the most cost-effective services.

### 1.1.2 Business practices and accounting policies

Background

On pages 59 and 60 in our *2000–2001 Annual Report*, we reported on the progress of the prior year recommendation that the Department work with the Authorities to clarify business practices and ensure financial statements comply with Canadian GAAP.

We concluded last year that progress was satisfactory, but three issues remained, which are discussed in the following findings.

Findings

Ministry progress has removed many qualifications from financial statements

The Ministry made significant progress in ensuring that transactions are recorded in the appropriate entity. The Department has allocated ACSC costs for financial and human resource services to the Authorities. It also allocated certain information technology costs to the Authorities. This resulted in a removal of last year's qualification for all the Authorities' financial statements.

However, financial statements of the Authorities still don't fully comply with GAAP because:

1. Authorities still use public sector accounting standards in their financial statements instead of the more relevant not-for-profit standards. The Department has informed Alberta Finance that this needs to be resolved.

2. The Department requires Authorities to follow a capitalization policy that has caused qualifications in the auditor's report on the financial statements in past years and could cause future qualifications. This policy did not result in an error that was material in the Authorities' financial statements in the current year.

Overall, the Ministry has made satisfactory progress towards implementing this prior year recommendation.

Implications and risks

Without more accurate financial statements the Authorities risk having inadequate data to manage.

### 1.1.3 Cost and results information

Background

On page 62 in our *2000–2001 Annual Report*, we recommended that the Ministry improve its information systems that report the costs and results of services.

Findings

Ministry has plans to improve its systems over the next few years

The Ministry has taken steps to implement a new costing system through its *Child Welfare Program Accountability* (CWPA) project. The plan calls for it to be implemented in three years.

Ministry has improved management costing information

In addition, the Ministry has refined its *Financial Practice Review Reports*. The reports show comparative information between Authorities such as dollars and percentages of expenditures for specific programs, average cost-per-case, and demographic information. This year, the reports have been improved to include more complete and accurate information. For example, staffing costs have been added. This has aided in the development of better average cost-per-case data.

Further improvements needed

These steps are encouraging. However, the Ministry needs to continue to work on fully understanding what drives its costs and what the outcomes of different service delivery methods are.

Case file documentation is inadequate

We continue to stress the importance of properly documenting reasonable service delivery alternatives considered in a case plan, and results achieved. We were told that casework supervisors and managers at the regions discuss the costs and expected outcomes of alternative services. However, we again found little evidence of these deliberations in the case files. This documentation could take the form, for example, of a memo to file.

Overall, the Ministry has made satisfactory progress towards implementing this recommendation.

### Implications and Risks

By operating with inadequate information on costs and outcomes, the Ministry risks providing inadequate service or services at a high price. Also, poor case file documentation increases the risk of the Ministry being unable to show due diligence in cases of client disputes or to properly manage cases in the event of staff turnover.

## 1.1.4 Funding allocation

**Recommendation No. 6**

**We recommend that the Ministry of Children's Services allocate funds to Authorities in a way that provides for appropriate incentives and allows the Authorities to plan and manage their business.**

### Background

In the prior year, we reported that the Department had taken steps by establishing a Funding Allocation Model Review Committee. We also reported that our audit work indicated that the allocation of funds could likely be improved.

### Findings

Frequent funding allocation changes hinders Authorities' ability to manage

Progress has not been satisfactory in improving the allocation of funds. There have been many suggested changes to the funding allocation, and mid-year changes in Authorities' funding amounts since their inception. Again this year, funds were reallocated among Authorities to help ensure that no Authority incurred bank indebtedness or a deficit. The uncertainty created by changes in funding hampers an Authority's ability to properly manage. The funding reallocation tends to reward poor management and penalize good management.

Funding allocation is not consistent with Cabinet direction

A true population-needs based model has not been implemented, contrary to Cabinet's 1998 directive. The revision of targets and reallocations among Authorities at year-end changes the model to a hybrid utilization and population-needs based model.

### Implications and risks

Frequently changing funding allocations create disincentives for Authorities and make effective management difficult. To implement this recommendation, the Ministry must have an accepted funding allocation that is consistently applied from year to year.

### 1.1.5 Year-end accounting processes

#### Background

On pages 64 and 65 in our *2000–2001 Annual Report*, we reported on the progress of the prior year recommendation that the Department and Authorities improve their year-end accounting processes to produce high quality, accurate and timely financial statements.

We concluded last year that progress was satisfactory, but three issues remained, which are discussed below.

#### Findings

Ministry has addressed the first two issues

The first issue was to ensure year-end accrual amounts, including accounts payable and accrued liabilities, were properly recorded. The Ministry made substantial progress in this area.

The Ministry also adequately resolved the second issue by reconciling inter-authority balances more frequently.

Improvements made in recording transactions in the proper organization

On the third issue, we noted that further improvement is still needed in allocating transactions to the proper organization. The most significant is the $13 million Children's Special Allowance received from the federal government. It is currently recorded as revenue in the Department although the Authorities incur the related expense. However, there was significant progress in this area.

Overall, the Ministry has made satisfactory progress towards implementing this recommendation.

#### Implications and risks

Recording transactions in the wrong entity reduces the usefulness of the financial statements.

## 1.2 First Nation expense recoveries

**Recommendation No. 7**

**We recommend that the Ministry of Children's Services improve its systems to recover expenses for providing services to children and families ordinarily resident-on-reserve.**

### Background

Department funds Authorities' on-reserve costs; then recovers these costs from FNAs or the federal government

The Authorities deliver services to children and families ordinarily resident-on-reserve (resident-on-reserve). The Department reimburses the Authorities for the costs of delivering these services. The Department then invoices the First Nation Agencies (FNAs) or the federal government for the cost of these services. The Ministry has entered into agreements or letters of understanding with each FNA and the federal government.

On page 60 in the 2000–2001 Auditor's Report, we recommended that the Department regularly reconcile recoveries from the federal government and the FNAs to the related payments to the Authorities. This year we examined how the Authorities bill the Department for these services and how the Department recovers the funds from FNAs and the federal government.

### Criteria

To recover costs, information systems should:

1. identify resident-on-reserve costs.
2. ensure that adequate information exists to recover costs.
3. ensure that all conditions for billing third parties are met.
4. reconcile payments made for resident-on-reserve costs to recoveries.

### Findings

Improvements to systems are needed to ensure complete recovery of costs

While the Ministry has made improvements to ensure that costs for resident-on-reserve are recovered, further improvements can be made. We acknowledge that the Ministry is reviewing its cost recovery systems.

Information systems could be improved

The information systems generally allow for the identification of resident-on-reserve costs. However, there are some weaknesses. The Department management have indicated that certain costs may not be recovered, as they are not allocated down to the level of an individual child. Also, the exception reporting in the Handicapped Children Services system could be improved to allow management to better identify costs not recovered.

Not all costs are recovered

The information used to recover costs from FNAs and the federal government is generally the same information used by the Department to reimburse Authorities. However, the following discrepancies exist between what the Department pays and what it collects. These are:

- credits issued to FNAs and the federal government for approximately $1.6 million. This amount is in addition to an undetermined amount of credits that were netted against accounts receivable instead of issuing a credit note.
- differences in amounts being billed for administration costs.

These differences should be investigated for recovery or used to reconcile payments to recoveries.

Improvements needed in reconciliation

In response to our prior year recommendation, the Department made satisfactory progress by reconciling the total costs of resident-on-reserve expenses to recoveries. However, the reconciliation could be more timely and detailed and it should include the discrepancies noted above.

FNA agreements need updating

During our review of the agreements with FNAs, we noted that much of the complication in recovering the costs stems from these agreements. The agreements are not consistent and specific as to what costs are recoverable. The Department recognizes this weakness and is negotiating updates to several agreements.

Reconciliation by agreement

The Ministry is considering improving its systems so that the reconciliation of costs to recoveries will be done on a per-child basis. This would be a significant improvement because it would increase the precision of the reconciliation. In addition, the Ministry should complete the reconciliation for each agreement. This would aid in managing individual agreements, including determining which are effective agreements and negotiating new agreements.

#### Implications and risks

Inadequate processes could prevent the Department from recovering all eligible costs.

### 1.3 Contract management systems

**Recommendation No. 8**

**We recommend that the Ministry of Children's Services strengthen the processes used to award and manage contracts.**

#### Background

We reviewed the contract management system at the Department and two Authorities

A significant percentage of the Department and Authorities' services are provided by outside agencies under contract. For example, the two largest Authorities, Ma'Mowe Capital Region and Calgary Rocky View, incurred approximately $133 million, or 41%, of expenses through contracts for the year ended March 31, 2002. We reviewed whether the

Ministry has an adequate contract management system in the Department and the Ma'Mowe Capital Region and Calgary Rocky View Authorities.

Criteria

An effective contract management system should include:

1. conflict of interest guidelines
2. up-front analysis to ensure the cost-effectiveness of contracting
3. an appropriate and fair contract selection method
4. effective procedures and controls for contract management

Findings

Improvements can be made to contract management system

The Department and the two Authorities have many elements of an effective contract management system. However, improvements still can be made to ensure due diligence in contracting and enable accountability for contract costs and results achieved. These improvements include:

- identifying potential conflicts of interest on contract renewals.
- documenting alternative service delivery methods considered in the decision to contract.
- having policies on when to request competitive tenders rather than extend contracts.
- placing a dispute resolution clause or a requirement for a business continuity plan in the contracts.
- better monitoring, such as doing an assessment of contractor performance and pursuing missing reporting requirements.

The Ministry is going to update their contract management system

The Ministry will soon be using the cross-government *Contract Management Accountability System* (CMAS). CMAS will help in the implementation of this recommendation. However preventative controls, such as the ones noted above, are still needed to effectively manage contracts.

Implications and risks

The Ministry spends a significant amount through contracts. When adequate controls are not in place, there is a risk that the Ministry may enter into contracts that are not cost-effective.

## 1.4 ACSC audit services

**Recommendation No. 9**

**We recommend that the Ministry of Children's Services improve accountability for audit services provided by Alberta Corporate Services Centre.**

### Background

Audit services are an important component of providing cost-effective services

Alberta Corporate Services Centre (ACSC) provides audit services to the Ministry. These services include reviews of the Ministry's controls and procedures. They assist in ensuring that the Ministry's program results are achieved in a cost-effective manner. These services have some of the attributes of an internal audit function. Our Office reviewed case files and interviewed staff at three Regional Service Centres (RSC) of ACSC, as well as Ministry management.

### Criteria

Effective audit services should include:
1. agreement on roles and responsibilities
2. a risk assessment
3. agreement on the yearly audits
4. reporting and follow-up of results
5. a periodic review of the cost-effectiveness of these services
6. independence of ACSC from the systems and people being audited

### Findings

ACSC audit function works, but could be improved

The Ministry has some elements of effective accountability for audit services, but can still make several improvements. Many of the improvements deal with better defining how audits are planned, and how findings are reported and followed-up. This will assist in ensuring that identified risks are dealt with systematically.

Improvement needed in service agreement

A service agreement exists between the Ministry and ACSC for 2002–2003 as mentioned in section 1.1.1. However, it broadly defines audit services and does not outline the specific responsibilities of each party.

A systematic process needs to be implemented

In addition, the Ministry has not finalized a risk assessment or developed a high-level audit plan. ACSC does not present an annual audit program or present and follow up the findings on a regular basis. We did see evidence of discussions of risks, audits to be completed, and findings between ACSC and the Ministry; but it was not on a formalized, consistent basis.

Ministry needs better information to assess cost-effectiveness of ACSC audit services

The Ministry does not have the information to determine the cost-effectiveness of ACSC services, as ACSC currently does not break down costs to the level of audit services. The Ministry should obtain the cost information and perform a critical review of the cost-effectiveness of audit services. We also examined ACSC's processes and methodologies for completing this work—see page 122.

Implications and risks

Without a formalized process in which there is agreement on the projects to carry out and then the reporting and follow-up of the findings, the Ministry cannot ensure that risks are handled systematically nor hold ACSC accountable.

## 1.5 Review of the Children's Advocate Office

Background

Minister requested the examination

The Minister of Children's Services asked us to examine the Office of the Children's Advocate (OCA). We reviewed how OCA carries out its mandate as set out in the *Child Welfare Act* (the Act). The mandate is to represent the rights, interests and viewpoints of children; receive, review and investigate complaints respecting children; and advise the Minister on matters relating to the welfare and interests of children and related services.

Criteria

Our six criteria to determine whether the OCA is achieving reasonable standards of performance in carrying out its mandate are that the OCA must:

1. have a clear role
2. be independent of the child welfare delivery system
3. use good human resource practices
4. respond quickly to the needs of children
5. recommend action based on appropriate analysis and consultations
6. give useful, timely advice to the Minister

### 1.5.1 Policies and practices

**Recommendation No. 10**

Clarify and communicate practices

**We recommend that the Office of the Children's Advocate clarify its practices for conflicts between a child's viewpoint and best interest, and then confirm these practices with the Minister of Children's Services.**

Background

The Act does not define 'interests'

The Act does not discuss how the OCA should proceed when children's rights and interests conflict with the children's wishes. The OCA's definition of interests includes best interests, per section 2 of the Act.

Findings

OCA role is not always clear

The OCA does not have a policy stating its staff should communicate whether they are acting in the best interest of children or presenting their viewpoints.

Children's viewpoints can sometimes conflict with what is in their best interests. For example, children's preferred living arrangements may place them at risk. Members of the OCA advised us that this is one area where significant judgment is involved and therefore it is a particular challenge for them. Some Authorities' staff indicated that the OCA's practices did not make it clear whether the reasonableness of their decisions were being questioned or if they child's viewpoint was being represented.

Policies and practices need to be reviewed

The guidelines and policies for case advocacy should be further developed to provide for more consistent practice. OCA management is responsible to ensure that its staff follows the approved practice. Management of Authorities and the Department are then responsible to ensure that their staff are knowledgeable about and respect policies and practices.

Implications and risks

Risk of improper services and tension exist

Confusion over the OCA's role in case advocacy has been a source of conflict between it and Authority staff. If Authority staff do not understand the OCA's role, it is more difficult to make the best decisions for the child.

### 1.5.2 Accountability

**Recommendation**

**We recommend that the OCA improve the accountability information it reports to the Minister.**

Background

Accountability

The Children's Advocate is accountable to the Minister. A successful accountability relationship should include setting measurable goals, planning what needs to be done to achieve goals, doing the work and monitoring progress, reporting on the results, evaluating results, and providing feedback.

Findings

No business plan submitted

The OCA did not prepare and submit a business plan to the Minister. Therefore, there was limited opportunity for the Minister and the OCA to agree on what needs to be done in a year and how to measure performance. This reduces the accountability of the OCA and is contrary to good practice and government policy.

Annual report – Missing information on accountability

Given the lack of a formal business plan, the 2000–2001 annual report of the OCA is missing key information on results. The annual report should include a comparison of actual results to planned results for the year and an integrated results analysis of the information. This would require measuring and reporting the costs of outputs of the OCA's programs and relating the outputs to the outcomes achieved.

Implications and risks

The OCA is not properly accountable to the Minister.

Subsequent progress

After our examination, the OCA submitted a business plan for the 2002–2003 fiscal year to the Minister.

### 1.5.3 Collecting and analyzing information

**Recommendation**

Improve processes to support recommendations

**We recommend that the OCA improve its processes to collect and analyze information that supports its recommendations for changes to the child welfare system.**

Findings

Annual report can be improved

The primary vehicle the OCA used to communicate its recommendations for systems changes for the year ended March 31, 2001 was its annual report. We reviewed the support for the report and found the process to make recommendations could be improved by:

- providing sufficient evidence supporting a recommendation so that the reader can judge the extent of the problem
- comparing previous findings to current year
- documenting sufficient analysis to support the recommended courses of action
- dedicating a larger portion of the report to explaining why the OCA is recommending a particular course of action
- using information from external sources with appropriate care and due diligence
- implementing a process of meeting with the Department and the Authorities to help ensure that the facts supporting the recommendations are accurate and the conclusions are understood

Implications and risks

Proper processes to collect, verify the accuracy of, and analyze information help ensure that improper recommendations are not made.

Subsequent progress

After our examination, to improve communication, the OCA started preparing quarterly reports for the Minister and regional analysis for the

Authorities.

## 1.6 Governance Systems

### 1.6.1 Governance practices

#### Background

On pages 65 and 66 in our *2000–2001 Annual Report*, we reported on the progress of the prior year recommendation that the Department, in collaboration with the Authorities, improve the systems of governance employed by Authority Boards.

We concluded last year that progress was satisfactory, but four issues remained, which are discussed below.

#### Findings

Authorities either have or are working on succession plans

The first issue was that many Authorities did not have a formal succession plan for senior management. There has been progress. Authorities either have resolved the issue or are doing so.

There still needs to be detailed assessments of information needs

Secondly, most Authorities had not completed a detailed assessment of their information needs and the reliability of the systems to provide accurate and timely information. This remains an issue for several Authorities.

Authorities have procedures to ensure compliance with their Act

Thirdly, many Authorities had not adopted procedures to ensure that they meet their responsibilities under section 9 of the *Child and Family Services Authorities Act.* This issue has been satisfactorily resolved. Authorities use a combination of methods to ensure compliance with section 9. Examples include staff reports, CEO reports, use of guidelines and standards, and quality control reviews of case files.

Authorities have developed orientation packages

Finally, we noted that several Authorities had not developed an orientation package for new members. All Authorities now either have an orientation package in place or are developing one.

Progress is satisfactory

Overall, progress achieved on improving the systems of governance employed by Authority Boards was satisfactory.

#### Implications and Risks

For the most significant remaining issue, (Authorities assessing their information needs), the risk remains that the Board and management will make decisions without the proper information.

### 1.6.2 Risk assessment

On page 67 of our *2000–2001 Annual Report*, we recommended that each Authority ensure that an appropriate risk assessment is carried out and that they establish a risk management system.

Progress is satisfactory

The Department has developed a process for risk management and is developing a Ministry risk assessment with input from the Authorities. The Department is also developing a risk-management training program to be delivered to each of the Authorities. Overall, the Ministry made satisfactory progress in implementing this recommendation.

### 1.6.3 Minutes of in-camera meetings

On page 67 of our *2000–2001 Annual Report*, we recommended that Authorities maintain minutes for in-camera meetings. The Ministry has satisfactorily resolved this recommendation during the year. It developed a policy that explained the reasons for using in-camera sessions, the processes for going in-camera, and the documentation needed for matters discussed in-camera.

## 1.7 Business Plans

### 1.7.1 Improve business plans

#### Background

On page 68 of our *2000–2001 Annual Report*, we recommended that the Ministry and Authorities improve their business plans by:

- improving the links among issues, trends and priority areas for improvement, and the strategies to deal with them
- improving the definitions of their goals, performance measures, and targets
- providing a reasonable number of performance measures
- providing better budget information

#### Findings

Considerable improvements in business plans

The Ministry has significantly improved its business plans. It developed ministry-wide core businesses, goals, and performance measures, which will help improve comparability among Authorities. We noted other improvements, including making better links among issues, trends, and priorities to strategies, using a reasonable numbers of performance measures, and generally including better budget information.

A couple of areas for improvement still exist

However, the Authorities did not provide unique targets for each year of the plan. Also, they did not report budget information by core business.

Overall, progress in implementing the recommendation was satisfactory.

### 1.7.2 Timing of approval

**Recommendation**

**We again recommend that the Minister approve Authorities' business plans before the start of the year.**

Background

On page 69 of our *2000–2001 Annual Report*, we recommended that the Minister approve Authorities business plans before the start of the year.

Findings

6 of 18 business plans still not approved at August 31, 2002

As of August 31, 2002, the Minister had not yet approved six of eighteen business plans. We acknowledge that draft versions of the plans were available, and reviewed by Department staff before the start of the year. However, until all parties approve the business plans, uncertainty over the Authorities' activities exists.

Implications and Risks

The business plan is the tool that will guide the operations of the Authority for the year. If a business plan is not approved on a timely basis it may not be effective in guiding the Authority's activities.

### 1.7.3 Regular review of business plans

On page 70 of our *2000–2001 Annual Report*, we recommended that Authorities review progress in achieving their goals, as set out in the business plan, throughout the year. This recommendation has now been implemented.

## 1.8 Annual Reports

**Recommendation**

**We recommend that the Authorities consider the availability of data for performance measurement and reporting when deciding which measures to include in their business plans.**

Background

We reviewed the Authorities' annual reports for the year ended March 31, 2001.

Findings

Eight Authorities did not report results on a significant number of performance measures

We noted that in eight Authorities, performance measures indicated in the business plan did not have results included in the annual report for a significant number of their performance measures. In developing performance measures, management should ensure that the data and processes required to report results are in place.

We also noted that improvements could be made to the annual reports by disclosing performance measure sources and methodologies.

Implications and Risks

By not adequately considering performance measurement and reporting when determining performance measures, Authorities risk not being able to report on results. This reduces Authorities' accountability.

## 2. Financial statement audits: one reservation of opinion

We audited the financial statements of the Ministry, the Department, and the following 18 Authorities for the year ended March 31, 2002:

1. Sun Country Child and Family Services Authority
2. Southeast Alberta Child and Family Services Authority
3. Windsong Child and Family Services Authority
4. Calgary Rocky View Child and Family Services Authority
5. Hearthstone Child and Family Services Authority
6. Diamond Willow Child and Family Services Authority
7. Ribstone Child and Family Services Authority
8. West Yellowhead Child and Family Services Authority
9. Keystone Child and Family Services Authority
10. Ma'Mowe Capital Region Child and Family Services Authority
11. Sakaw-Askiy Child and Family Services Authority
12. Sakaigun Asky Child and Family Services Authority
13. Child and Family Services Authority—Region 13
14. Region 14 Child and Family Services Authority
15. Neegan Awas'sak Child and Family Services Authority
16. Awasak Child and Family Services Authority
17. Silver Birch Child and Family Services Authority
18. Metis Settlements Child and Family Services Authority

Some surplus amounts recoverable not reported in prior year

Our auditor's report for the Silver Birch Child and Family Services Authority's financial statements at March 31, 2002 has a reservation of opinion. Surplus amounts recoverable from contracted agencies at March 31, 2001 were not recorded in the prior year. The amounts subsequently recovered were recorded as reductions of expense in the current year. If the Authority had recorded the surplus amounts in accordance with Canadian generally accepted accounting principles, expenses for the year ended March 31, 2002 would have been increased by $111,000 (2001—decreased by $111,000) and assets and net assets at March 31, 2001 would have been increased by $111,000. Surplus amounts recoverable from contracted agencies and net assets were properly recorded at March 31, 2002.

### 3. Specified auditing procedures

We found no exceptions when we completed specified auditing procedures on the performance measures included in the Ministry's annual report.

# Community Development

## Summary: what we found in our audits

1. We note the following from our audit of the financial statements of the Ministry and its Provincial agencies:

   1.1 We have three reservations of opinion on the financial statements of the Ministry, two reservations on the Historic Resources Fund, and one reservation on the Department and Alberta Sport, Recreation, Parks and Wildlife Foundation—see page 67.

   1.2 The Ministry should record Ministry revenues, expenses and surpluses generated through the operation of Provincially owned facilities—see page 68.

2. We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

3. Financial statements of six Persons With Developmental Disabilities Boards received unqualified auditor's opinions. Two required reservations of opinion—see page 69.

## Overview of the Ministry

The Ministry's 2001–2004 business plan describes five core businesses:

- Promoting community development
- Protecting human rights and promoting fairness and access
- Ensuring inclusion and participation for Albertans with disabilities
- Preserving, protecting and presenting Alberta's history and culture
- Preserving, protecting and presenting Alberta's provincial parks and protected areas

The Ministry consists of the Department, seven provincial agencies, eight Persons with Developmental Disabilities Boards (PDDs) and one Foundation. For more information on the Ministry visit the website at www.cd.gov.ab.ca.

In 2001–2002, the Ministry spent $558 million, primarily as follows:

| | (millions of dollars) |
|---|---|
| Persons with Developmental Disabilities | 380 |
| Community development | 81 |
| History and culture | 45 |
| Provincial parks | 40 |
| Human rights | 6 |

The Ministry received $37 million from sources external to government in 2001–2002, of which $16 million was from Canada Health and Social Transfers.

## Scope: what we did in our audits

1. We audited the financial statements of the Ministry, Department, and the following Provincial agencies for the year ended March 31, 2002:
   - Alberta Foundation for the Arts
   - Alberta Historical Resources Foundation
   - Alberta Sport, Recreation, Parks and Wildlife Foundation
   - Government House Foundation
   - Historic Resources Fund
   - Human Rights, Citizenship and Multiculturalism Education Fund
   - Wild Rose Foundation

   We deal with these entities together with the Department and Ministry because they are managed in a common financial reporting system.

2. We completed specified auditing procedures on the Ministry's performance measures.

3. We also completed the financial statements audits of the following PDDs:
   - Persons with Developmental Disabilities Provincial Board
   - Persons with Developmental Disabilities Northwest Alberta Community Board
   - Persons with Developmental Disabilities Northeast Alberta Community Board
   - Edmonton Community Board for Persons with Developmental Disabilities
   - Persons with Developmental Disabilities Central Alberta Community Board
   - Persons with Developmental Disabilities Calgary Region Community Board

- Persons with Developmental Disabilities South Alberta Board
- Michener Centre Facility Board
- Persons with Developmental Disabilities Foundation

# Findings and recommendations

## 1. Financial statement audits

### 1.1 Reservations of opinion

Our auditor's reports on the financial statements of the Ministry, Department and some of the Provincial agencies contain reservations of opinion because the Ministry is required to follow corporate government accounting policies established by Alberta Finance. These policies cause the financial statements to depart from Canadian generally accepted accounting principles:

- For the cultural facilities that are operated with the assistance of volunteer societies, the Ministry has not included the revenues, expenses and surpluses. We estimate that the Ministry's revenues, expenses and net assets are understated by $3.8, $2.1 and $3.1 million respectively—see details on page 68.
- For historical facilities that were operated with the assistance of volunteer societies in prior years, the Ministry and Historic Resources Fund have recorded accumulated surpluses that have been returned to the Ministry, totalling $385,000, as deferred contributions rather than net assets. The Ministry and Historic Resources Fund have not recorded surpluses at all if the volunteer societies have not returned the funds. Unreturned surpluses total at least $223,000.
- The Ministry, Department and Historic Resources Fund have not capitalized and amortized all capital assets with useful lives of more than one year. They capitalized only those assets over $15,000. The Ministry and Alberta Sport, Recreation, Parks and Wildlife Foundation have not recorded capital leases as assets and liabilities.
- The Ministry has not disclosed transactions with the regional health authorities as related parties.

The auditor's report on the Ministry financial statements also contains a fourth paragraph reporting that expenses include payments made by the Persons with Developmental Disabilities Boards for services to individuals whose disability did not meet the definition of a developmental disability, as defined in the legislation.

## 1.2 Excluded operations

**Recommendation No. 11**

**We recommend that the Ministry of Community Development record in its financial statements all revenues, expenses and surpluses generated through the operation of Provincially owned facilities.**

### Background and criteria

The Ministry needs to be accountable for the revenues generated from the operation of Provincially owned facilities and for the use of those resources. To be accountable, the Ministry needs to record all revenues and expenses related to the operations of the facilities, and expenditures related to the facilities should be subject to government budgetary processes.

The Ministry does not record revenues, expenses and surpluses for facilities that have been operated with the assistance of volunteer societies because it asserts that it is following the corporate government accounting policy that determines which organizations should be included in the government reporting entity. However, this issue is not about the government reporting entity. We are not recommending that volunteer societies' financial statements be consolidated with the Ministry. We are recommending that all transactions belonging to the Ministry be accounted for.

### Findings

The Ministry has not recorded in its financial statements parking and other revenues, expenses and surpluses related to the operation of the Northern Alberta Jubilee Auditorium and the Southern Alberta Jubilee Auditorium. Revenues of approximately $3.8 million and expenses of approximately $2.1 million per annum have not been recorded since the fiscal year 1998. Some of the operating activities are carried out by agencies on behalf of the Ministry. Certain parking revenues are collected by the Ministry of Infrastructure and turned over to these agencies. In addition, capital improvements of $1.3 million have not been recorded in the Ministry's financial statements.

These are public funds that have not been subject to government's budgetary process. The expenditures were not approved by the Legislative Assembly.

### Implications and risks

Some public funds relating to the operations of the Northern Alberta Jubilee Auditorium and the Southern Alberta Jubilee Auditorium are being spent without the approval of the Legislative Assembly. Further, there is inadequate accountability to the Legislative Assembly and the public for the full scope of the Ministry's activities because some of its transactions are not recorded in the Ministry's financial statements.

### 2. Specified auditing procedures

We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

### 3. Persons With Developmental Disabilities

Some qualified opinions required on PDDs

We are pleased to note that matters that caused qualifications to prior year financial statements were resolved. This year, seven of nine Persons With Developmental Disabilities (PDD) entities received an unqualified auditor's opinion on their financial statements. The statements of the PDD South Alberta Board had a reservation of opinion for non-disclosure of transactions with certain health authorities. The Michener Centre Facility Board had a reservation of opinion because certain revenues were excluded from the statement of operations. All PDD financials statements disclose certain payments that did not comply with the *Persons with Developmental Disabilities Community Governance Act.* This fact was also reported in our auditor's opinion.

# Economic Development

## Summary: what we found in our audits

1. We audited the financial statements of the Ministry for the year ended March 31, 2002. Our auditor's report for the Ministry's financial statements at March 31, 2002 has an unqualified opinion.

2. We found no exceptions when we completed the specified auditing procedures on the Ministry's performance measures.

## Overview of the Ministry

Three core businesses

The Ministry's 2001–2004 business plan describes three core businesses:
- provide strategic leadership for Alberta's economic development
- promote increased trade of Alberta goods and services, and attract investment to Alberta
- stimulate the growth of Alberta's tourism industry

The Ministry works closely with the Alberta Economic Development Authority, the Strategic Tourism Marketing Council and the Travel Alberta Secretariat to coordinate private sector input. For more detail on the Ministry, visit its website at www.alberta-canada.com.

Ministry spending

In 2001–2002, the Ministry spent $51 million. The following programs are the largest costs of the Ministry:

| | **(millions of dollars)** |
|---|---|
| Market development and investment attraction | 25 |
| Tourism marketing and development | 19 |

Ministry revenue

The Ministry had revenue of $557,000 in 2001–2002, $214,000 of which came from the federal government.

# Energy

## Summary: what we found in our audits

1. We have the following results from our financial statement audits:

Reservation of opinion

1.1 We have two reservations of opinion on the financial statements of the Ministry. We also have one reservation of opinion on the financial statements of the Department—see page 75.

Better disclosure needed

1.2 The Ministry does not disclose the costing of programs that reduce royalties so readers cannot assess the success of the programs—see page 75.

Better performance reporting needed

2. We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures. However, the Ministry needs to define and use performance measures that evaluate the success of the Ministry over time—see page 76.

3. We have the following findings on entities that report to the Ministry:

3.1 Financial statement audits
- We issued an unqualified audit report on the financial statements of the Alberta Petroleum and Marketing Commission (the Commission).
- We have a reservation of opinion on the financial statements of the Alberta Energy and Utilities Board (the Board)—see page 78.

Verification of well and production data

3.2 Systems audits
The Board needs to develop an audit strategy that meets the needs of various stakeholders with respect to the accuracy of well and production data reported by industry—see page 78.

## Overview of the Ministry

Four core businesses

The Ministry's 2001–2004 business plan identifies four core businesses:
- secure Albertans' share and benefits from energy and mineral resource development

- ensure the competitiveness of Alberta's energy and mineral resources
- develop and communicate energy and mineral resource policies
- ensure Alberta consumers have a choice of reliable and affordable energy

The Department, the Board and Commission

The Ministry consists of the Department of Energy, the Board and the Commission.

Revenues - $6.6 billion

The Ministry collected $6.6 billion in revenue in 2001–2002, from the following sources:

| | **(in millions)** |
|---|---|
| Non-renewable resource revenue | 6,228 |
| Freehold mineral rights tax | 319 |
| Industry levies and licenses | 66 |
| Other revenue | 17 |

Expenses - $149 million

The Ministry spent $149 million in 2001–2002.

For more detail on the Ministry, visit its website at www.energy.gov.ab.ca.

## Scope: what we did in our audits

Financial statement audits

1. We audited the financial statements of the Ministry and Department for the year ended March 31, 2002. We also followed up recommendations made last year.

Specified Procedures

2. We completed specified auditing procedures on the performance measures in the Ministry's annual report.

Additional work

3. We performed the following work on entities that report to the Ministry:

   3.1 We audited the financial statements of the Alberta Petroleum and Marketing Commission for the year ended December 31, 2001. We also audited the financial statements of the Board for the year ended March 31, 2002.

   3.2 We followed up on last year's recommendation that the Board develop an audit strategy that meets the needs of various stakeholders with respect to well and production data reported by industry. We also examined the Board's systems to monitor pipelines in the Province.

# Findings and recommendations

## 1. Financial statement audits

### 1.1 Two reservations of opinion

The following two reservations of opinion arise because the Ministry follows the corporate accounting policies set by Alberta Finance.

Some capital assets not capitalized and amortized

Our auditor's reports on the financial statements of the Department and Ministry have a reservation of opinion for capital assets. The Department and Ministry immediately expense acquisitions under $15,000, instead of amortizing them over their useful lives. The Department and Ministry are understating their capital assets because they must follow a corporate government accounting policy.

A capital lease is treated as an operating lease

Our auditor's report on the financial statements of the Ministry also has a reservation of opinion because the Board treats a capital lease as an operating lease, in accordance with corporate government accounting policies. The effect of recording the capital lease as an operating lease is to understate net assets by $436,000 and overstate expenses by $107,000.

### 1.2 Royalty reduction programs

**Recommendation No. 12**

**We again recommend that the Department of Energy disclose its royalty reduction programs in its financial statements (2001—No. 43).**

#### Background

Conventional oil and natural gas royalty revenues are reported net of royalty reduction programs.

The Government's response to our recommendation last year was that it was under review, in connection with a similar recommendation made to Alberta Finance. The Government response also stated "Pending the review, consideration may be given to including this information within the Results Analysis of the Ministry's annual report."

#### Criteria

Costs for royalty reduction programs should be separately disclosed in the financial statements of the Ministry.

Revenues presented net of royalty reduction programs

Findings

The Department provides four oil and one gas royalty reduction programs. These programs reduce Crown royalties to encourage industry to produce from wells that otherwise may not be economically productive. For the year ended March 31, 2002, the royalties received under these programs were reduced by $159 million (2001: $314 million).

A waiver of royalties, in the amount of $91 million, further reduced natural gas royalty revenue for the year ended March 31, 2002. The waiver arose from an agreement to compensate natural gas producers related to the Surmont bitumen fields.

The financial statements do not disclose the amount that these programs, and the waiver, reduced conventional oil and natural gas revenues.

Implications and risks

Without complete information, readers cannot compare the actual costs (reduced revenue) to the additional Crown royalties generated from these programs.

### 1.3 Grant recognition policies

The Department implemented our recommendation made last year (2001—No. 42) that the Department account for Rural Gas Co-op grants in accordance with Canadian generally accepted accounting principles.

## 2. Specified auditing procedures

### 2.1 Defining performance measures

**Recommendation No. 13**

Performance reporting

**We again recommend that the Ministry of Energy use performance measures that permit consistent evaluation of the success of the Ministry from one year to the next (2001—No. 42).**

Background

Although the core businesses of the Department and the Board have been relatively stable for many years, the number of performance measures has increased, and changed frequently.

Criteria

For measures to be useful, they should not change significantly from year to year. The reporting of outcome-oriented performance measures is also important to enable readers to assess the extent to which the Ministry is achieving its goals.

Findings

The number of Department measures continue to change

The 2001–2002 annual report of the Ministry of Energy includes 4 performance measures for the Department (2001: 12 performance measures). Two of these measures are the same as reported in the prior year. The Ministry 2002–2005 Business Plan identifies 10 performance measures to be included the 2002–2003 Annual Report of the Ministry of Energy. These include the 4 measures reported in the 2001–2002 Annual Report of the Ministry of Energy.

The Board—many measures that change frequently

The number of Board performance measures also continues to increase and change from year to year. The Ministry 2001–2002 annual report includes 13 performance measures for the Board (2001: 7 performance measures). Six of these measures are the same as last year. The Ministry 2002–2005 Business Plan identifies 15 performance measures to be included in the 2002–2003 Ministry of Energy annual report. Only 7 of these measures will be the same as those reported in 2002.

The Board—measures are mainly output-oriented

Many of the Board measures also continue to be output-oriented measures. In other words, they measure the actions that the Board has taken to achieve various outcomes. The measurement of outputs is important for management who must know whether the plans and actions of the organization are efficient. However, the outcome of these plans and actions, the ultimate intended result of management's actions, should be the key measures reported for external purposes.

The Board's strategy to implement recommendation

The Board has developed a strategy to implement the recommendation. The Board will present only six measures in its 2003–2006 business plan. These six measures will be the same as those in the 2002–2005 business plan. Output measures will be treated as supplementary measures and be available on the Board's website.

Implication and risks

Changing measures every few years makes it difficult for readers to understand the progress of the Ministry.

### 2.2 Coordination of year-end process for performance reporting

Recommendation implemented

The Ministry implemented our recommendation from last year (2001—page 236) that the Ministry improve coordination between the Department, Board and our Office with respect to the year-end process for performance reporting.

## 3. Findings on entities that report to the Ministry

### 3.1 Financial statement audits

We issued an unqualified auditor's report on the financial statements of the Commission.

Reservation of opinion

Our auditor's report on the financial statements of the Board has a reservation of opinion because the Board treats a capital lease as an operating lease. The effect of this accounting practice is to understate net assets by $436,000 and overstate expenses by $107,000.

### 3.2 Systems audits

#### 3.2.1 Well and production data reported by industry

**Recommendation No. 14**

Verification of production data reported by industry

**We again recommend that the Alberta Energy and Utilities Board develop an audit strategy for the Production Audit Group that meets the business needs of key stakeholders (2001—No. 44).**

Background

One of the Board's major activities is to ensure that production data is accurate and complete. Last year we recommended that the Board undertake a risk analysis to determine expectations and requirements for its Production Audit Group. We also recommended that the results of the risk analysis should form the basis for a documented audit strategy.

Stakeholders use the data for different purposes

The Production Audit Group audits the validity of the well and production data reported by industry. This data supports key decisions of a number of users. The Board uses it to develop and monitor energy conservation policy. The Department uses the information to calculate royalties and to develop energy policy. Industry analyzes this data to make business decisions.

Criteria

Assurance about the accuracy of royalties is required

Audits provide a desired level of assurance to stakeholders on the completeness and accuracy of well and production data reported by industry.

Findings

First part of recommendation implemented

The Board implemented the first part of the recommendation we made last year. The Production Audit Group held discussions with the Department of Energy to identify the Department's needs regarding production data. The Board also completed an assessment of the risks that the Group needs to address in their audit activities of well and production data. The assessment also included identifying the controls to reduce the risks identified.

The Petroleum Registry of Alberta is also a key initiative of the Board, the Department of Energy and industry to provide assurance on the validity and completeness of well and production data. The Registry is to be implemented in October 2002. The Board needs to consider the assurance provided by the Registry when prioritizing the risks and needs of stakeholders, and in developing audit strategies for the Production Audit Group.

Actions still required

However, the Board must still:
- prioritize the specific risks and needs of the various stakeholders with respect to their reliance on the work of the Group.
- define the strategies to address the significant risks identified. The strategies would identify the mix of audit approaches that would satisfy the business needs and risks of users of the well and production data.
- develop and approve an annual audit plan that states the risks, strategies, audit selection criteria and identifies the required audit resources.
- report, periodically, on the effectiveness of the Group's work in meeting the needs of the various stakeholders.

#### Implication and risks

The Ministry needs assurance on well and production data to ensure the completeness and accuracy of Crown royalty revenues, and to develop energy policies.

### 3.2.2 Monitoring of pipelines in Alberta

#### Background

The board regulates pipelines in Alberta

The Board is responsible for regulating the safe, responsible and efficient development of Alberta's energy resources and the pipeline and transmission lines that move the resources to market. Pipelines transport oil, natural gas and other commodities over great distances to residential, commercial and industrial consumers in Alberta. As of the end of 2000, there were approximately 294,000 km of energy-related pipelines under the Board's jurisdiction. This included over 172,000 kilometres of natural gas pipeline.

Scope of our review

We examined the following key management and operational systems and processes established by the Board for pipeline monitoring:
- safety audits and inspections

- pipeline accident investigations
- reviewing industry records and data
- other activities that monitor industry compliance

### Criteria

Our review assessed the Board's systems against the following criteria:

1. Roles and responsibilities, including those of industry, are clearly defined and the Board coordinates its activities with other regulators.
2. Management has established policies and procedures to effectively direct safety audits and pipeline inspections.
3. Management has a system to determine whether it has adequate and appropriate resources to fulfill its pipeline surveillance and enforcement responsibilities.
4. The Board's information systems enable management to identify risk areas for inspection purposes. The systems also ensure that recommendations arising from safety and inspection audits are followed up on a timely basis, and that corrective measures taken are documented.

### Findings

Systems met the criteria used in our examination

We concluded that, in all significant respects, the Board's systems and processes conform to the criteria.

# Environment

## Summary: what we found in our audits

1. We have two reservations of opinion and an information paragraph in our auditor's report on the financial statements of the Ministry—see page 82.

2. We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

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## Overview of the Ministry

Two core businesses

The Ministry's 2001–2004 business plan describes two core businesses:
- Environmental Management
- Environmental Hazard Management

Department, EAB, and DAO's

The Ministry of Environment is composed of the Department of Environment and the Environmental Appeal Board. In addition, the Ministry is responsible for three delegated administrative organizations: the Beverage Container Management Board, the Alberta Used Oil Management Association, and the Tire Recycling Management Association of Alberta.

Ministry spending

In 2001–2002, the Ministry spent $124 million. The following programs incur the largest costs for the Ministry:

| | **(millions of dollars)** |
|---|---|
| Water Management | 34 |
| Environmental Sciences | 18 |
| Regulatory Approvals | 14 |
| Environmental Enforcement and Monitoring | 9 |
| Climate Change | 7 |
| Business Sustaining Services | 6 |

Ministry revenue

The Ministry received $3 million in 2000–2001 from sources external to the government:

| | **(millions of dollars)** |
|---|---|
| Fees, Permits and Licenses | 2 |
| Other Revenue | 1 |

## Scope: what we did in our audits

1. We audited the financial statements of the Ministry of Environment for the year ended March 31, 2002.

2. We completed specified auditing procedures on the Ministry's performance measures.

3. In 2002–2003, we will report the status of the integrated resource management and regulatory approvals recommendations that we made in our *2000–2001 Annual Report*. These recommendations were reported on pages 86 and 90 of last year's *Annual Report*.

## Findings and recommendations

### 1. Financial statement audit: two reservations of opinion

We audited the financial statements of the Ministry for the year ended March 31, 2002.

Liabilities not disclosed

Our auditor's report on the financial statements of the Ministry contains a reservation of opinion on site restoration costs. Management has identified sites that are owned by the government and for which the Ministry is responsible for site restoration. The cost to restore these sites is estimated to be $14.7 million. Following corporate government accounting policy for these identified sites, no liability has been recorded. As a result, liabilities are understated and net assets overstated by $14.7 million. In addition, there are a number of other sites not owned by the government for which the Ministry may be responsible for site restoration. The financial statements do not disclose the Ministry's liability for the restoration of the sites not owned by the government.

Capital assets under $15,000 are expensed

Our auditor's report also contained a reservation of opinion on capital assets. The Ministry immediately expenses acquisitions under $15,000, instead of amortizing them over their useful lives. The Ministry is understating its capital assets because it must follow a corporate government accounting policy.

Swan Hills reporting uncertainty

In addition to the reservations of opinion, our auditor's report contained an information paragraph relating to the Swan Hills waste treatment plant. We reported that the Ministry did not recognize the provisions for cell monitoring and remediation and for future removal and site restoration. Due to government restructuring in March 2001, the responsibility for these provisions and expenses is now shared. In the current year, these provisions are recognized in the financial statements of the Ministry of Sustainable Resource Development. The expenses related to these provisions are recognized in both the Ministries of Environment and Sustainable Resource Development. In our opinion, it is uncertain in which ministry's financial statements these provisions and associated expenses should be recognized. The government intends to resolve this uncertainty in the coming year.

# Executive Council

## Summary: what we found in our audits

1. The Ministry of Learning and the Ministry of Health and Wellness should complete alternate funding plans for academic health centres and obtain reports annually on their financial and operating results against agreed plans—see page 86.

2. We have one reservation of opinion on the financial statements of the Ministry—see page 88.

3. We found no exceptions when we applied specified auditing procedures to the Ministry's performance measures.

## Overview of the Ministry

Coordinates the implementation and communication of government priorities

The Ministry coordinates the implementation and communication of the government's priorities. The 2001–2004 ministry business plan identifies the following core businesses:

- providing support to the Premier, Executive Council and the Lieutenant Governor
- helping government ministries communicate with Albertans
- providing Albertans with two-way access to government
- publishing and selling Alberta's laws and other materials

The Ministry also provides support to ministries on policy coordination, business planning, and protocol matters.

Office of the Premier and Public Affairs Bureau

The core businesses and support activities of the Ministry are delivered through the Office of the Premier/General Administration and the Public Affairs Bureau.

In 2001–2002, the Ministry spent $15 million. The expenses of the Public Affairs Bureau were $10 million. Revenues of the Ministry, mainly from the Queen's Printer Bookstores, were $2.8 million.

Further information on the Ministry can be obtained from www.gov.ab.ca and www.gov.ab.ca/pab.

## Scope: what we did in our audits

Three parts to our audit

1. We followed up on our previous recommendations to improve the governance and accountability of Academic Health Centres.

2. We audited the financial statements of the Ministry for the year ended March 31, 2002.

3. We applied specified auditing procedures to the performance measures in the Ministry's 2001–2002 annual report.

## Findings and recommendations

### 1. Council of Academic Health Centres of Alberta—governance and accountability

#### Background

Last year (2001—No. 9) we recommended that Executive Council assign responsibility for implementation of our prior recommendations (1999—Nos. 18 and 19, and 2000—No. 39) 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

Academic health is a partnership

Academic health centres are partnerships of medical faculties, health authorities, and academic physicians. They educate health professionals, conduct health sciences research, and provide specialized clinical services. The Council of Academic Health Centres of Alberta (the Council) consists of the two vice-presidents (academic) and the two deans of medicine at the Universities of Alberta and Calgary and the CEOs of the Capital Health Authority, the Calgary Health Region, and the Alberta Cancer Board. The Ministries of Health and Wellness, Innovation and Science, and Learning provide most of the funding. These ministries, together with the members of the Council, represent the major stakeholders in academic health.

Academic health faces serious risks

In our 1999 *Annual Report*, we stressed the serious risks faced by the academic health centres:

- lack of understanding among stakeholders of the scope of academic health and lack of transparency of funding
- lack of information on the financial status of the centres
- inequities in physician remuneration
- dependence on external funding that generates administrative infrastructure costs

We estimated the total 1997–1998 cost of academic health at $350 million. Accountability for the use of these funds was seriously lacking.

### Findings

Our recommendations are being implemented

Executive Council, and through it, the ministries, universities, and health authorities, are implementing our recommendations. The three stakeholder ministries formed an Issues Resolution Group consisting of representatives of the three departments and the Council. This Group set up a Financial Analysis Team, which has updated our estimate of the costs of academic health.

Academic health costs now more than $500 million

The Team has prepared a report showing the 2000–2001 sources, types, and amounts of funds for academic health. The total was $410 million, excluding overhead costs and clinical fees of academic physicians. Adding these items, which were included in our estimate, would likely bring the total cost for 2000–2001 to over $500 million, compared to $350 million for 1997–1998. The report also indicates to whom the organization receiving the funds is accountable for the use of those funds.

New funding mechanisms are being developed

The ministries also established committees to develop and evaluate proposals for alternate funding plans for academic health centres and alternative payment plans for academic physicians.

A pilot alternate funding plan is underway

A pilot alternate funding plan is underway for the Department of Medicine at the University of Alberta. This plan includes a three-year (2003–2005) budget for the department; a services agreement between the Capital Health Authority and participating physicians; a grant agreement between the Faculty and the Ministry of Learning and the Ministry of Health and Wellness; an accountability framework including expected outcomes, performance measures and targets; and an alternative payment plan.

An alternative payment plan will pay for physicians' clinical services

The alternative payment plan is governed by an agreement between the Ministry of Health and Wellness, the Alberta Medical Association, and participating physicians. The plan pays for clinical services with a lump sum instead of fee-for-service billing. The plan deals with our concerns over the clarity in, and accountability for, physician remuneration and can mitigate risks in recruiting and retaining academic physicians.

The ministries, universities, and health authorities are also negotiating alternate funding plans, which include alternative payment plans, for the Edmonton and Calgary departments of paediatrics.

Recommendations not yet fully implemented

Executive Council has assigned responsibility for implementing our recommendations. The first recommendation has been implemented. To implement our second recommendation fully, the faculties of medicine, in conjunction with the ministries and health authorities should:

- complete the development and implementation of alternate funding plans, including alternative payment plans, to cover all faculty members and all sources of funds
- prepare the report on academic health funding annually, which the Team told us they intend to do, and ensure it reconciles to the faculties' and health authorities' financial statements
- entrench the accountabilities and performance measures in a functioning governance structure with appropriate reporting of financial and operational results against agreed plans

Progress is satisfactory

We are satisfied with the government's progress, which is a substantial improvement over last year.

## 2. Financial statements audit

Capital assets are not recorded in the financial statements

Our auditor's report on the financial statements of the Ministry has a reservation of opinion. The Ministry immediately expenses acquisitions under $15,000, instead of amortizing them over their useful lives. The Ministry is understating its capital assets because it must follow a corporate government accounting policy.

## 3. Specified auditing procedures

We found no exceptions when we applied specified auditing procedures to the Ministry's performance measures.

# Finance

The Ministry of Finance is responsible for its own operations, as well as preparing the government's consolidated financial statements and performance measures. So sections 1, 2 and 3 of this chapter have separate subsections for the government and the Ministry. A discussion on accounting policies that have government-wide implications is included below under Systems-Government.

## Summary: what we found in our audits

### 1. Systems

#### 1.1 Government

Improvement needed in accounting policies

There needs to be an improvement in corporate government accounting policies—see page 94.

### 2. Financial statements

#### 2.1 Government

We issued an unqualified opinion on the Government of Alberta's consolidated financial statements.

#### 2.2 Ministry

Reservation of audit opinion on Alberta Finance financial statements

We have a reservation of opinion on the financial statements of both the Ministry of Finance and the Department of Finance because of the treatment of capital assets—see page 100.

### 3. Specified auditing procedures

#### 3.1 Government

We found no exceptions when we applied specified auditing procedures to the government of Alberta's core measures and supplemental information included in the Measuring Up section of the Government of Alberta's Annual Report. The government has improved the results analysis in Measuring Up but further improvements can be made—see page 100.

### 3.2 Ministry

We found no exceptions when we completed specified auditing procedures on the Ministry's key performance measures.

## 4. Ministry – entities

We have the following findings on entities that report to the Ministry:

### 4.1 Alberta Treasury Branches

ATB should improve its systems to ensure the integrity of its operations and reporting

Alberta Treasury Branches (ATB), a Provincial agency, should improve its systems and procedures to ensure the integrity of its operations and reporting. Management should develop an integrated approach to risk management, ensure key internal controls are effective, manage the risks of outsourcing business functions, and develop a business resumption plan—see page 101.

### 4.2 Other entities

No reservations of opinion on entities that report to the Ministry

We issued auditor's opinions without reservations for all of the financial statement and compliance audits we completed during the year for entities listed in section 4 of Scope. Also, there were no exceptions noted in the Alberta Treasury Branches and Alberta Pensions Administration Corporation quarterly interim financial statements review engagements. The public accounting firm that audited the financial statements of the Alberta Insurance Council and Gainers Inc. issued unqualified auditor's opinions on both.

# Overview

## 1. Government

Responsibility for government's consolidated financial statements

The Provincial Controller prepares the government's consolidated financial statements. However, individual ministries are responsible for collecting revenues and controlling and making disbursements.

Government's spending and revenue

In 2001–2002, the government of Alberta received $22,030 million in revenue and spent $21,290 million. The following is a summary of costs and revenue for the government:

| | (millions of dollars) |
|---|---|
| Revenue | |
| Income and other taxes | $ 8,980 |
| Non-renewable resource revenue | 6,230 |
| Transfers from Government of Canada | 2,260 |
| Others | 4,560 |
| | 22,030 |
| Expenses | |
| Health | 6,790 |
| Education | 6,100 |
| Others | 8,400 |
| | 21,290 |
| Net results of operations | $ 740 |

For more information on the government and its programs, see the website at www.gov.ab.ca.

## 2. Ministry

Five core businesses

The Ministry's 2001–2004 business plan describes five core businesses:

- Manage financial assets and liabilities prudently
- Facilitate sound fiscal planning and decision-making
- Foster an effective accountability framework
- Foster access to comprehensive and competitive financial products and services, and pension plans
- Administer the regulatory framework to reduce the risk of financial loss to pension plan members, depositors and policyholders

Department and entities

The Ministry consists of the Department and the entities listed in section 4 of Scope.

Ministry spending

In 2001–2002, the Ministry spent $1,170 million. The largest expense was $1,100 million for debt servicing costs.

Ministry revenue

The Ministry's main revenues from sources external to the government were:

| | (in millions of dollars) |
|---|---|
| Investment income | 570 |
| Alberta Treasury Branches income | 160 |

For more information on the Ministry and its programs, see the website at www.finance.gov.ab.ca.

## Scope: what we did in our audits

### 1. Systems

#### 1.1 Government

We followed up on our previous recommendations to improve government accounting policies.

#### 1.2 Ministry

We worked with other legislative auditors, including the federal Auditor General's Office, on the issue arising from the discovery by the Canada Customs and Revenue Agency (CCRA) that the federal government had made overpayments to the Province arising from tax refunds—see page 98.

Also, we followed up on our previous recommendations to improve strategies for financial reporting and accountability for foregone revenue.

### 2. Financial statements audits

#### 2.1 Government

We audited the government's consolidated financial statements for the year ended March 31, 2002.

#### 2.2 Ministry

We audited the financial statements of the Ministry and the Department for the year ended March 31, 2002.

### 3. Specified auditing procedures

#### 3.1 Government

We applied specified auditing procedures to the government's core measures and supplemental information reported in Measuring Up. Further, we followed up on our previous recommendation to improve the results analysis in Measuring Up.

#### 3.2 Ministry

We completed specified auditing procedures on the Ministry's key performance measures.

## 4. Ministry – entities

We performed the following work on entities that report to the Ministry:

### 4.1 Alberta Treasury Branches

We examined ATB's risk management framework, and followed up on our previous recommendation to strengthen key internal controls. We also reviewed how ATB manages its relationships with private sector service providers and the status of management's business resumption planning. In addition, we followed up on our recommendation to enhance the effectiveness of the Internal Audit Department. Further work was done to follow up our recommendation to improve the reliability of the general loan loss allowance methodology.

We audited the financial statements of ATB for the year ended March 31, 2002. We also completed quarterly review engagements for each of ATB's interim financial statements. In addition, we audited:

- ATB's Management Pension Plan for the year ended December 31, 2001
- ATB Investment Services Inc., a subsidiary of ATB, for the year ended March 31, 2002
- ATB Investment Services Inc.'s compliance with applicable sections of National Instrument 81-102 as required by the Alberta Securities Commission
- the Annual Administration Fee Schedules as at March 31, 2002 for ATB's Small Business Loans as required by the Federal Government

### 4.2 Other entities

Alberta Pensions Administration Corporation. We audited the financial statements of the Corporation for the year ended December 31, 2001. We also completed quarterly review engagements for each of the Corporation's interim financial statements.

We also audited the following entities that are consolidated with the Ministry:
For the year ended March 31, 2002:

- N.A. Properties (1994) Ltd.
- Provincial Judges and Masters in Chambers Reserve Fund
- Supplementary Retirement Plan Reserve Fund

For the year ended December 31, 2001:

- Alberta Municipal Financing Corporation
- The Alberta Government Telephones Commission

- Credit Union Deposit Guarantee Corporation
- S C Financial Ltd.

In addition, we reviewed the financial statements, letters to management and the audit files for two Crown-controlled corporations, which are consolidated with the Ministry. A public accounting firm audited these entities. They are:

- Alberta Insurance Council for the year ended December 31, 2001
- Gainers Inc. for the year ended September 30, 2001

We also audited the financial statements of the following entities which are not consolidated with the Ministry:
For the year ended March 31, 2002:

- Consolidated Cash Investment Trust Fund
- Provincial Judges and Masters in Chambers (Registered) Pension Plan

For the year ended December 31, 2001:

- Local Authorities Pension Plan
- Management Employees Pension Plan
- Public Service Management (Closed Membership) Pension Plan
- Public Service Pension Plan
- Special Forces Pension Plan
- Supplementary Retirement Plan for Public Service Managers

# Findings and recommendations

## 1. Systems findings

### 1.1 Government

#### 1.1.1 Corporate government accounting policies

**Recommendation No. 15**

**We again recommend the Department of Finance change the corporate government accounting policies to improve accountability (2001—No. 45).**

Background

In our *2000–2001 Annual Report* (2001—No.45), we again recommended that the Department of Finance change the corporate government accounting policies so that they are all in accordance with Canadian generally accepted accounting principles (GAAP).

Still some corporate government accounting policies which are non-GAAP and others which are inappropriate

The Department of Finance establishes corporate government accounting policies and reporting practices which ministries are required to follow. In our opinion, not all of the corporate government accounting policies are in accordance with GAAP. There are still unresolved issues, such as, understated capital assets and unrecorded liabilities, as discussed later in this report. In addition to reservations of opinion in auditor's reports arising from inappropriate corporate government accounting policies, there are reservations of opinion on other matters. We continue to work with the Department of Finance and ministries to solve these issues.

### Findings

Majority of ministries have reservations of opinion

As in previous years, for 2001–2002 we included reservations of opinion in our auditor's reports on 21 of the 24 financial statements of ministries. The majority of reservations of opinion resulted from ministries' compliance with corporate government accounting policies and reporting practices, which we believe are inappropriate. Unqualified auditor's opinions will be not possible unless the following six issues are resolved:

1. Reporting entity—for several years, we have reported that certain entities have been inappropriately excluded from the reporting entity. Financial statements should include all assets, liabilities, revenues and expenses in entities that ministries control.

   Four ministries with reservations of opinion for reporting entity

   For 2001–2002, there were reservations of opinion on this matter in our auditor's reports on the financial statements of the Ministries of Health and Wellness, Learning, Municipal Affairs and Seniors. This matter is discussed in greater detail in the respective sections of those ministries in this Report.

   Working on resolving the issue

   Since our last Report on the reporting entity issue, the CICA Public Sector Accounting Board (PSAB) has initiated a project to assist in defining the reporting entity and another project to identify appropriate accounting policies to consolidate the entities. Notwithstanding these initiatives, a working group comprising Finance, Learning, and our Office continues to explore the practical matters to be solved to achieve a mutually agreeable solution.

Capital assets costing less than $15,000 with useful lives more than a year have not been recorded in majority of

2. Assets—as in previous years, there were reservations of opinion in the auditor's reports on the financial statements of a majority of the ministries because departments applied a corporate government minimum threshold amount for capital assets. Assets purchased for less than $15,000, with useful lives of more than one year, were

financial statements

expensed in the year of acquisition rather than being capitalized and amortized over the useful lives of the assets. As a result, a significant amount of resources available to a department in future years was recorded as if it had been consumed in the current year. This incorrect accounting results in misstated annual expenses and net operating results. Also, capital assets are understated. We estimate that at March 31, 2002 the capital assets of the ministries were understated by at least $90 million.

Other assets misstated in financial statements

In addition, there were other reservations of opinion in our auditor's reports concerning other assets. These reservations of opinion are discussed in further detail in the respective sections of this report on the Ministries of Energy, Health and Wellness, and Sustainable Resource Development:

- In the financial statements of the Ministry of Energy, a capital lease is being incorrectly expensed, rather than capitalized as an asset and amortized over its useful life. Consequently, a corresponding liability had not been recorded for the lease obligation.
- Inventories were not recorded in the financial statements of the Ministry of Health and Wellness and the Ministry of Sustainable Resource Development.

Liabilities misstated in financial statements

3. Liabilities—there were reservations of opinion in the auditor's report on the financial statements of:

   - the Ministry of Justice because liabilities for personal injury claims costs under the *Motor Vehicle Accident Claims Act* were not recorded.
   - the Ministry of Solicitor General because liabilities for recurring payments from the *Victims of Crime Fund* were not recorded.
   - the Ministries of Environment, Infrastructure and Transportation because liabilities for site restoration costs were not recorded.

Financial statements do not include certain revenue and expenses

4. Ministries revenue and expenses—there was a reservation of opinion in the Ministry of Innovation and Science auditor's report because expenses for the current year were incorrectly recorded in the previous year. In the Ministry of Community Development, a reservation of opinion was included in the auditor's report because the Ministry's revenue and expenses from operations of cultural facilities, including parking lots, were not included in the financial statements.

Lack of disclosure of results from discontinued operations

5. Discontinued operations—there was a reservation of opinion in the auditor's report on the Ministry of Agriculture, Food and Rural Development financial statements because of a lack of disclosure of the results from discontinued operations on the financial statements.

Related party transactions not adequately disclosed

6. Related party transactions—in the Ministries of Community Development, Health and Wellness, and Learning, a reservation of opinion is included in the auditor's reports because transactions with related parties were not adequately disclosed.

### 1.1.2 Other reservations of opinion and other comments in auditor's reports

The following three issues have to be resolved:

Other reservations of opinion

1. The Ministry of Human Resources and Employment auditor's report included a reservation of opinion because liabilities related to accrued benefits arising from long term disability plans were not recorded in that ministry's financial statements. Assets, representing work-in-progress, were understated in the financial statements of the Ministry of Health and Wellness because of a change in accounting treatment for capitalizing We//net costs. Further, in the Ministry of Learning there was a reservation of opinion because of an overstatement of provisions for property tax adjustments and appeals.

Non-compliance with legislation

2. Legislative non-compliance—in addition to including reservations of opinion in auditor's reports, we report all instances of non-compliance with legislation. In the auditor's reports for the Ministry of Community Development and the Ministry of Government Services, we reported that certain expenses reflected in the financial statements were either not in compliance with the applicable governing legislation, or legislative authority was not in place.

Expenses recorded in two financial statements

3. Other matter—in the auditor's reports on the financial statements of the Ministry of Environment and the Ministry of Sustainable Resource Development, we included an additional paragraph explaining that certain expenses related to reclamation activities are included in the financial statements of both of those ministries.

Focus is on improved accountability, and completeness and accuracy of financial statements

### Implications and risks

The purposes of these auditor's reservations of opinion are firstly, to alert readers that the related financial statements are not in compliance with Canadian GAAP and are not complete and accurate, and secondly, to maintain a focus on the need for improved accountability. There is a risk that omissions or misstatements in financial statements will mislead readers of the statements, including Members of the Legislative Assembly. When possible, we correct the omissions or misstatements by providing the necessary information within the wording of our auditor's report on the financial statements. However, we are concerned that there continues to be a significant number of reservations of opinion, which arise from ministries following corporate government accounting policies.

Support from Alberta Financial Management Commission

In July 2002, the Alberta Financial Management Commission issued its report to the Minister of Finance. The Commission's recommendations on the government reporting entity and on asset capitalization threshold appear to support the views of this Office. We expect that such support will add impetus to the Ministry to resolve these issues.

## 1.2 Ministry

### 1.2.1 CCRA – Tax Refunds

#### Background

In January 2002, the CCRA announced that it had identified a problem in tax accounting resulting in overpayments to some provinces under the Tax Collection Agreements. Since 1972, the federal government had paid the provinces' portion of capital gains refunds to entities that administer mutual funds. The CCRA estimated that the total potentially owing by the provinces affected was about $3.4 billion. The amount the CCRA attributed to Alberta was about $4.5 million.

The federal Department of Finance asked the Auditor General of Canada to determine whether the amounts estimated by the CCRA were accurate and whether other CCRA accounting practices have resulted in material errors in the amounts paid to the provinces.

We met with representatives of the federal Auditor General's Office and other provincial legislative auditors to obtain background on the nature of the error and to discuss the proposed plan to examine this matter.

The group also discussed other related issues. One of the issues discussed was whether provinces should consider obtaining independent assurance on the controls of the CCRA.

In June 2002, the federal Auditor General issued her report. She verified that the amount that the CCRA attributed to the Province of Alberta is $4.5 million. She also found no other CCRA accounting practices that have resulted in material errors in the amounts paid to Alberta. The results of the examination were discussed with the provincial legislative auditors, including our Office.

We agree with the assessment made by the federal Auditor General.

In early September 2002, the federal government announced that it would not request recovery from Alberta of the overpayment of $4.5 million.

### 1.2.2 Strategies to improve financial reporting

On page 249 of our *2000–2001 Annual Report* (2001—No. 46), we had again recommended that the Department of Finance promote the benefits of quality financial reporting throughout the fiscal year.

Some progress is being made

In a new initiative for the 2001–2002 fiscal year, the Department suggested to ministries that they consider the feasibility and value of preparing interim financial statements as at December 31, 2001. By preparing interim financial statements, management can identify and correct problems before the year-end concerning amounts recorded and disclosures in the financial statements.

We will continue to assess progress on interim reporting

We are encouraged that a number of ministries had prepared interim financial statements as at December 31, 2001. We expect that as the benefits of interim financial reporting become evident, this practice will be applied in other, more complex, ministries in the future. We will continue to assess the progress made.

### 1.2.3 Accountability for foregone revenue

On page 254 of our *2000–2001 Annual Report* (2001—No. 48), we had again recommended that the Department of Finance identify for the Legislative Assembly the expected and actual results from the social and economic development programs within the tax collection system.

We will continue to assess progress

The Department of Finance has agreed to review our recommendation and consider alternatives for possible implementation in Budget 2003. We will continue to assess the progress made by the Department.

## 2. Financial statement audits

### 2.1 Government

Government's consolidated financial statements

For the government's consolidated financial statements for the year ended March 31, 2002, we issued an unqualified auditor's opinion. These financial statements consolidate the following entities of the government:

- Offices of the Legislative Assembly—6
- Departments—24
- Regulated funds—13
- Provincial agencies—47
- Commercial enterprises—5
- Commercial Crown-controlled corporation—1
- Non-commercial Crown-controlled corporation—1

The government's consolidated financial statements are prepared on a disclosed basis of accounting. The disclosed basis of accounting focuses on net assets (in several other provinces, on net debt), which is the model commonly used for summary financial reporting by governments in Canada, as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. However, for several years we have expressed the opinion that Canadian GAAP are the set of standards to be used to assess whether financial reports are presented fairly. We have applied GAAP standards in preparing the auditor's reports on the ministries' financial statements—see recommendation on Corporate Government Accounting Policies on page 94. The debate on accounting standards to be applied for summary financial reporting by governments has continued and evolved for many years. Consequently, at this time, we continue to issue our opinion, without reservation, on the government's consolidated financial statements.

### 2.2 Ministry

Auditor's report reservations of opinion on the Ministry and Department financial statements

Our auditor's reports on the financial statements of the Department and Ministry have a reservation of opinion for capital assets. The Department and Ministry immediately expense acquisitions under $15,000, instead of amortizing them over their useful lives. The Department and Ministry are understating their capital assets because they must follow a corporate government accounting policy.

## 3. Specified auditing procedures

### 3.1 Government

#### 3.1.1 Government's core measures and supplemental information

We found no exceptions when we completed specified auditing procedures on core measures and supplemental information included in the Government of Alberta's Annual Report—Measuring Up.

#### 3.1.2 Results analysis

Last year, we recommended (2001—No.47) that the Department of Finance enhance the results analysis in Measuring Up by discussing how external factors impact performance results. Disclosure of this information helps the reader evaluate reported performance and is useful in explaining the reasons for variances.

Results analysis in Measuring Up is better

This year, the government has made satisfactory progress in implementing this recommendation. Measuring Up includes more discussion of the impact of external factors on performance. There was improved disclosure for many of the core measures and twenty of the core measures now include some disclosure of factors affecting performance. In addition, the introduction to the report includes a high-level discussion illustrating how the actions of government and all Albertans affect core measure results.

The Ministry should continue to improve the quality of results analysis in Measuring Up by enhancing the disclosure of factors that affect performance results for all core measures.

### 3.2 Ministry's key performance measures

We found no exceptions when we completed specified auditing procedures on the Ministry's key performance measures.

## 4. Findings on entities that report to the Ministry

### 4.1 Systems audits at ATB

Updates from last year and new recommendations

In our *2000–2001 Annual Report* (2001—page 258 to 260), we made recommendations to ATB to strengthen internal controls, to improve the effectiveness of the Internal Audit department and to increase the reliability of the general loan loss allowance methodology. We now report on the status of these recommendations and we include three new recommendations concerning risk management, outsourcing arrangements and business resumption planning.

#### 4.1.1 Risk management

**Recommendation No. 16**

**We recommend that Alberta Treasury Branches develop an integrated approach to risk management to effectively manage operational, credit and market risk.**

### Background

Risk management contributes to success

Many organizations manage risks on an ad-hoc basis in response to a crisis or threat. However, organizations that embrace a philosophy and discipline to view and manage risks more broadly are better equipped to shape their future. Enterprise risk management contributes to an organization's success by encouraging management to take a proactive approach to reducing the likelihood of loss through errors, fraud or failure to deliver high quality service.

### Criteria

An integrated approach to risk management includes:

1. preparing a documented plan
2. identifying and prioritizing risks
3. analyzing and evaluating risks
4. developing a strategy to manage risks
5. monitoring the strategy
6. reporting activities to the Board
7. assessing the existing risk culture

### Findings

ATB needs to develop a risk management plan

Currently, business risks are managed at ATB within several separate departments. Although a senior risk management position has been established, ATB does not have a documented plan for its enterprise risk management function. ATB is still in the initial stages of prioritizing the significant risks faced by the organization.

Risk culture needs to be assessed

Another equally important component to enterprise risk management includes understanding the tolerance, or appetite, for risk. This level of tolerance defines an organization's risk culture. It is critical to recognize that risk management requires a strong, consistent risk culture to support the function. ATB has not assessed the existing risk culture to determine whether everyone shares the desired values. Since ATB has undergone significant changes over the last few years, including changes in senior management, organizational structure and methods of operations, varying opinions concerning risk tolerance may exist.

### Implications and risks

Risks may not be managed

ATB could incur significant financial losses if appropriate strategies are not in place to manage the risks.

### 4.1.2 Key internal controls

**Recommendation No. 17**

**We again recommend that Alberta Treasury Branches management document, evaluate and monitor internal controls to ensure assets are properly protected and financial information is accurate and complete (2001—No. 49).**

Background

Further work needed to ensure controls are effective

Management has a responsibility to ensure adequate controls are in place and functioning properly both at the branch and corporate head office levels. ATB has continued to make progress in documenting and monitoring key suspense accounts, main branch processes, and critical computer systems and software programs.

Criteria

1. Key controls should be established, evaluated and monitored.
2. Management should ensure controls are functioning.
3. Processes should be well documented, including key controls.

Findings

Weaknesses exist at ATB

Although progress has been made, we repeat this recommendation because of the extent of work that remains. We observed several instances during the year indicating further significant control weaknesses exist. In some cases, management had not established controls, and in others, employees were not following control policies.

Control weaknesses within head office

Within head office, several systems did not have sufficient controls, and errors occurred. ATB made contract payments to vendors for services that had not been rendered; approximately 300 ATB customers did not receive their T5 slips for interest income they had earned; and expense claims were paid without proper support.

Branches are not always following policy

During our visits to two ATB branches, we observed instances where internal control policies were not being consistently followed. In each case, our observations were supported by Internal Audit's findings during their branch visits. We noted control weaknesses relating to safeguarding cash, opening new accounts, reactivating inactive accounts, handling returned mail and restricting access to the banking system.

Management should maintain documentation of controls

Management made significant progress in documenting the steps involved in key branch processes. They also reviewed the processes to ensure adequate control policies were in place. However, procedures are not in place to ensure the documentation is maintained and updated as ATB's products and processes change. Control breakdowns resulting in losses have occurred over the last few years because the control policies have not kept pace with the changing products and processes.

Management should evaluate and monitor controls within computer systems

In addition to the manual controls at the branches and head office, there are the processing controls within the computer systems. Over the last few years, several errors, such as duplicate processing, have also occurred at ATB due to control weaknesses within the systems. ATB management has taken steps to identify high and low priority software programs, and to document various aspects of the software, including some of the controls embedded in the programs. ATB should complete an evaluation of these controls to confirm they are sufficient.

Implications and risks

Risk of financial losses

To reduce the risk of future losses due to control breakdowns, management should continue identifying, evaluating and monitoring controls supporting the main processes and systems throughout ATB.

### 4.1.3 Outsourcing arrangements

**Recommendation**

**We recommend that ATB obtain independent assurance that service providers have effective controls.**

Background

ATB has outsourced several main business functions

Outsourcing arrangements occur when ATB contracts out a business function to a private sector service provider. Currently, ATB has several outsourcing arrangements that include the management of several significant computer systems and the performance of certain processes that are integral to ATB's operations.

Criteria

Management should obtain independent assurance that service providers have effective control environments.

Findings

Management does not have assurance of controls at the service providers

ATB's most significant outsourcing agreements do not currently require the service providers to provide management with assurance that proper controls are in place. To some degree, through Internal Audit and usually only for a point in time, ATB management has obtained a high-level understanding of the controls and weaknesses within the general control environments at these locations. However, this is not sufficient. Given the significance of these systems, ATB management should obtain a greater level of assurance that proper controls are in place and functioning effectively throughout the year at these service organizations.

Significant weaknesses exist at one service provider location

At year-end, ATB's Internal Audit department reviewed specific processes at one of the service provider's locations where computer systems are being managed. Several weaknesses were identified, the most significant of which related to the change management processes. When changes were made to the computer programs during the year, there was often no evidence that authorizations to make the changes were obtained, that changes were properly tested, or that contingency plans existed to reverse any unsuccessful changes. Since service organizations play a vital part in the operations of ATB, management should have a process to ensure service providers are following all policies, procedures and controls that ATB considers necessary.

Management should follow up known weaknesses

In addition, it is critical that management follow up on known control deficiencies within service providers' operations in a timely manner. At the time of our audit, several weaknesses identified last year still had not been corrected.

#### Implications and risks

Significant risk to the integrity of the banking system

Weaknesses in internal controls at the service providers pose a significant risk to the integrity of the banking computer system and the operations of ATB.

### 4.1.4 Business resumption plan

**Recommendation No. 18**

**We recommend that Alberta Treasury Branches complete and test a business resumption plan to enable the timely resumption of business in the event of a significant business disruption.**

#### Background

Loss of data or systems could result in financial losses

The loss of critical data or computing facilities could result in significant financial losses to ATB. A comprehensive business resumption plan (BRP) provides for a controlled response to emergency situations by describing the policies and procedures to be followed in the event of a business disruption.

### Criteria

Management should complete a BRP

A BRP should include:

1. a prioritized list of business processes and systems
2. timelines required to recover each business process
3. procedures to recover systems and processes
4. a list of all personnel responsible for each business process
5. testing schedule of the business resumption procedures to test effectiveness and to revise the procedures for any missed items

### Findings

Team has been formed to develop and test ATB'S BRP

While management has developed some business resumption policies and procedures, ATB does not have a comprehensive BRP that has been properly tested. Management has formed a team to prepare and test ATB's BRP. Efforts to date have identified which systems and processes must be resumed first and who needs to be notified and when. Also, the team has performed some very preliminary testing to restore the main banking system.

### Implications and risks

Risk of not resuming business quickly

ATB is at risk of being unable to recover business operations within a reasonable timeframe in the event of a significant systems failure or business disruption.

## 4.1.5 Internal Audit Department responsibilities

Internal Audit has focused more on testing controls

Last year, we recommended (2001—No. 50) that internal controls be subject to periodic independent review by the Internal Audit Department to confirm their existence and to verify their effectiveness. The Internal Audit Department has implemented our recommendation. The Department has made significant improvements in testing key controls at the branches and corporate head office. Internal Audit should continue to ensure that processes within the organization are periodically reviewed based on an assessment of high-risk areas.

## 4.1.6 General Loan Loss Allowance Methodology

Management continues to improve the general loan loss allowance methodology

Last year, we recommended on page 260 that ATB management provide further support for the subjective components of their general loan loss allowance methodology and that further testing be conducted to assess the reliability of the methodology. Management is making satisfactory progress to improve and test the methodology.

### 4.2 Other entities financial statements audits: no reservations of opinion

No reservations of opinion

We issued auditor's opinions without reservations for all of the audits we completed as listed in section 4 of Scope. Also, there were no exceptions noted in the Alberta Treasury Branches and Alberta Pensions Administration Corporation quarterly interim financial statements review engagements. The public accounting firm that audited the financial statements of the Alberta Insurance Council and Gainers Inc. issued unqualified auditor's opinions on both.

# Gaming

## Summary: what we found in our audits

1. The AGLC should provide better information to its board on risk management and internal controls—see pages 111 and 113.

2. Our auditor's reports on the financial statements of the Ministry, Department, Alberta Gaming and Liquor Commission (AGLC), and Alberta Lottery Fund were unqualified.

3. We found no exceptions in performing specified audit procedures on the performance measures of the Ministry.

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## Overview of the Ministry

Ministry core businesses

The Ministry's 2001–2004 business plan describes four core businesses:
- administer the Alberta Lottery Fund with full public disclosure, and continue to support communities and charitable organizations
- license, regulate and monitor liquor and gaming activities, as well as certain aspects of tobacco sales
- implement and account for specific lottery-fund programs administered by Gaming
- develop and communicate Provincial gaming and liquor policy

Ministry entities

The Ministry consists of the Department, the Alberta Gaming and Liquor Commission (AGLC), and the Alberta Lottery Fund. The AGLC conducts and regulates gaming and liquor activities in the Province, generating all revenues of the Ministry and incurring the majority of its operational expenses. All net gaming revenues are deposited into the Alberta Lottery Fund.

Ministry revenue and spending

In 2001–2002, the Ministry had total revenues of $1.63 billion and expenses of $1.12 billion. The majority of revenues ($1.61 billion) came from the net gaming and liquor income of the AGLC.

| | 2001 (millions of dollars) |
|---|---|
| Expenses are: | |
| Lottery funded programs | $ 113.8 |
| AGLC operations | 83.1 |
| Gaming research | 1.6 |
| Ministry support services | 1.5 |
| | 200.0 |
| Transfer of Lottery Fund to other ministries | 921.0 |
| | $ 1,121.0 |

For more detail on the Ministry, visit the website at www.gaming.gov.ab.ca.

## Scope: what we did in our audits

1. We examined board governance at the AGLC. We also followed up our previous recommendations on compensation paid to gaming operators.

2. We audited the financial statements of the Ministry, Department, AGLC, and Alberta Lottery Fund for the year ended March 31, 2002. We also audited:
   - the financial statements of the Alberta Gaming Research Institute for the period November 26, 1999 to March 31, 2000 and for the year ended March 31, 2001.
   - the AGLC–Schedules of Sales Volumes of Liquor Containers.

3. We completed specified audit procedures on the performance measures of the Ministry.

# Findings and recommendations

## 1. Systems findings: Alberta Gaming and Liquor Commission (AGLC)

### 1.1 Risk management

**Recommendation No. 19**

**We recommend that the Alberta Gaming and Liquor Commission develop a formal risk management process and provide the Board with a comprehensive risk assessment, including management's actions to manage the risks.**

#### Background

The AGLC faces many risks

Risk is inherent in many aspects of the AGLC's operations, including information systems security, licensing, regulation, and revenue collection. Dealing with these risks requires a strong, formal risk management process.

#### Criteria

Governance requires risk information

Leading corporate and public sector governance practice is clear—strong governance requires a formal risk management process that allows the Board to understand the major risks facing the organization and how they are being mitigated.

Basic steps in risk management

We expect management to:

- do a periodic, enterprise-wide risk assessment, linking risks to goals and objectives
- measure and quantify risks
- identify and assess plans to mitigate these risks
- determine risk tolerances
- develop action plans to deal with unacceptably high risks
- obtain specialized expertise, if necessary, to advise the organization on specific areas of risk

#### Findings

Comprehensive risk information is not presented to the Board

AGLC management deals with a variety of risks on a day-to-day basis and discusses risks in its executive team meetings. The Board also reviews aspects of risk brought to its attention when Board approvals or decisions are required. However, the Board does not get a comprehensive view of significant risks and management's strategies to deal with them.

### Illustration

The following is an illustration of one approach that can be taken:

Risks should be identified for each goal

- Link risks to goals and objectives. The AGLC should identify key risks for each of its strategic goals. For example, one of the AGLC's goals is to ensure its computer network meets required levels of functionality, performance, integrity, security and operational efficiency. Risks that may prevent this include interruption of the systems due to disaster and unauthorized access to the systems resulting in data corruption.

Risks should be measured

- Measure risks in a meaningful way. A risk is anything that affects an organization's ability to achieve its goals. Risk can be measured by estimating the likelihood of an event occurring and the impact it may have if it occurs.

Plans to deal with risks should be assessed

- Assess the risk management plans in place. With this information, the AGLC can evaluate its risk exposure after considering the strategies or actions it has in place to deal with the risks. Action plans should be developed to address unacceptable risks.

An overall risk assessment report could take the following form:

| Goal | Risk | Risk before control | | Strategies and controls to manage risk | Risk exposure after control | |
|---|---|---|---|---|---|---|
| | | Probability | Impact | | Probability | Impact |
| Ensure the gaming network meets required levels of performance, security, etc. | 1. Unauthorized access to the systems resulting in data corruption | **Moderate** | **High** | • Passwords required<br>• Firewalls in place, etc. | **Low** | **High** |

where:

| | |
|---|---|
| High Risk | Critical importance to the success of the AGLC in meeting its financial and non-financial goals. |
| Moderate Risk | Important but not critical to the success of the AGLC in meeting its financial and non-financial goals. |
| Low Risk | Does not have a material bearing on the success of the AGLC in meeting its financial and non-financial goals. |

The Board should be included in risk discussions

During the risk assessment process, the Board should be involved in discussions of the main risks identified, as well as management action plans to mitigate these risks. The Board should also determine whether the whole Board is responsible for monitoring risk management, or whether this is delegated to a Board committee such as the Audit Committee.

A formal risk management process is needed

Management should monitor and update the enterprise-wide risk assessment periodically, including changes in risks and controls. Approaches could include:

- establishing a risk officer to manage and coordinate these activities
- setting up a risk management committee of senior management to review

and assess risk and report through the chief executive officer (CEO) to the Board, or
- creating an internal audit function to perform periodic risk and control assessments and report on findings.

Implications and risks

Risk management supports governance and accountability

Without good information on risk, the Board is less able to participate in the strategic planning process and less able to practice sound corporate governance.

## 1.2 Internal controls

**Recommendation No. 20**

**We recommend that the Alberta Gaming and Liquor Commission establish a formal process to assess the adequacy of its systems of internal controls and report the results of these assessments to the Board.**

Background

As stated in section 3.1 Risk Management, internal control systems are used to mitigate risk. As a result, the Board's receipt of objective assurance on the adequacy of such systems is needed to ensure that it fulfills its responsibilities.

The Audit Committee needs information on internal controls

Under the *Gaming and Liquor Act*, the CEO is responsible for ensuring the policies of the Board are implemented and for advising and informing the Board on the operation and affairs of the AGLC. The Audit Committee of the Board is responsible for reviewing the AGLC's financial reporting process, internal control systems and financial risk management, audit process, and processes for monitoring compliance with laws, regulations and its own code of conduct.

Criteria

Management should assess and report on internal controls

The Audit Committee needs sufficient information from management to know whether the AGLC's internal controls are adequate to deal with risks, produce reliable financial information, and ensure compliance with the law. We expect that:
- the organization should have an internal control assessment function to examine internal controls throughout the business, focusing on areas where risk is higher and controls are more important.
- since an internal control assessment function is reporting on management's performance in designing and operating internal controls, findings should be discussed with management and reported directly to the Audit Committee.

An internal control assessment function is needed

### Findings

The Audit Committee does not currently receive sufficient information to assess the effectiveness of the AGLC's internal control systems. To provide assurance on the adequacy of internal controls, management should consider the following approach:

- establish responsibility for internal control assessment
- define the control environment, including all business functions, systems, and processes that comprise the AGLC's scope of operations
- identify significant objectives, business processes, and related risks
- review and assess the adequacy of internal controls
- provide assurance to the Audit Committee over the adequacy of internal controls across the AGLC

An objective internal audit function can take different forms

The process of assessing and reporting on the adequacy of internal controls is typically done by an internal audit function. Because this process measures management's performance in developing and implementing controls, it is appropriate to support the objectivity of internal audit by allowing internal audit to communicate directly with the Audit Committee. In the absence of an internal audit function, management needs alternative processes.

### Implications and risks

Internal control assessment is necessary for governance

In absence of objective information on the adequacy of the internal control systems, the Audit Committee will not be able to meet its governance responsibilities.

## 1.3 Gaming Compensation

We recommended gaming compensation be reviewed

Last year we recommended that the AGLC determine whether compensation rates paid to VLT and casino facility operators represent an appropriate commercial return for services provided.

A model has been developed to collect costs and assess compensation

In 2001–2002, the AGLC engaged a consultant to review compensation rates paid to casino facility operators. The review, done in consultation with the AGLC and the operators, examined the capital structures and operating costs of casinos of various sizes and in various locations. The review developed reporting models for large, medium, and small casinos to assist the AGLC in gathering actual cost information on a standardized basis. The AGLC is now in the process of collecting actual cost information and will assess the reasonableness of the current compensation rates during 2002–2003. The AGLC also plans to develop a reporting model for VLT operators, collect actual costs, and assess the rates paid to these operators. We consider progress to be satisfactory.

### 1.4 Electronic Racing Terminals

We recommended contracts be reviewed

Last year we recommended that the AGLC improve its management of electronic racing terminal contracts. The AGLC accepted our recommendation in principle and has reviewed these contracts. As a result of the review, AGLC chose to continue the current compensation arrangement until December 31, 2003. As a result, we do not plan any further follow up.

## 2. Financial statement audits

We had no reservations of opinion on the financial statements of the Ministry, Department, AGLC, Alberta Lottery Fund, or the Alberta Gaming Research Institute.

## 3. Specified auditing procedures on performance measures

We found no exceptions in performing specified audit procedures on the performance measures of the Ministry.

# Government Services

## Summary: what we found in our audits

1. The Ministry needs to develop and implement standards for access to information in the Motor Vehicles Registry—see page 118.

2. Our auditor's report on the Ministry financial statements included a reservation of opinion and identified non-compliance with legislation—see page 120.

3. We found no exceptions when we applied specified auditing procedures to the Ministry's performance measures.

4. The Alberta Corporate Service Centre (the Centre) needs to improve its performance measurement systems, the audit methodology used to deliver audit services, and controls over two information technology systems—see page 122.

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## Overview of the Ministry

Five core businesses

The Ministry's 2001–2004 business plan identifies five core businesses:

- promoting consumer and business education, regulation and enforcement to support a fair and effective marketplace in Alberta
- providing licensing and registry services
- leading the Service Alberta initiative
- coordinating the government's regulatory review process and enhancing Albertans' access to information
- through the Centre, delivering economical and efficient support services to government departments

For more details on the Ministry, visit its website at www.gov.ab.ca/gs/.

Expenses

In 2001–2002, the Ministry spent \$191 million, including \$140 million spent by the Centre to deliver services to government departments.

Revenues

The Ministry received \$407 million in revenues. Revenues from fees and licences were approximately \$266 million. The Centre also received \$141 million from government departments for the delivery of services.

## Scope: what we did in our audits

1. We followed up the Ministry's progress in implementing our previous recommendations to improve monitoring of compliance with the *Charitable Fund-Raising Act* and to adopt fair information practices for the use, disclosure and protection of information in the Motor Vehicles Registry.

2. We audited the financial statements of the Ministry for the year ended March 31, 2002.

3. We applied specified auditing procedures to the Ministry's key performance measures.

4. We reviewed the Centre's performance measurement systems as part of our work on the Ministry's key performance measures. We also examined the audit services provided by the Centre and the controls surrounding two information technology systems.

## Findings and recommendations

### 1. Systems findings

#### 1.1 Motor Vehicles Registry access standards

**Recommendation No. 21**

**We again recommend that the Ministry of Government Services implement access standards for the use and disclosure of personal information in the Motor Vehicles Registry (1998—No. 47).**

Background

In 1997-1998 we recommended adopting fair information practices for personal information in the Registry

In 1997–1998, our Office and the Office of the Information and Privacy Commissioner issued a joint report with 21 recommendations relating to protection of privacy and security of registry systems. Our main recommendation was that the Ministry adopt fair information practices that are equivalent to standards in the *Freedom of Information and Protection of Privacy Act* for the use, disclosure and protection of personal information in the Motor Vehicles Registry (1998—No. 47). The Ministry accepted the recommendations and has implemented all but five of them. These five recommendations relate to access to information in the Motor Vehicles Registry (the Registry).

### Criteria

The use, disclosure, and protection of personal information in the Motor Vehicles Registry is in accordance with fair information practices.

### Findings

Steps have been taken to develop standards and improve controls

The Ministry has taken steps to implement the five outstanding recommendations. The Ministry is working on developing access standards that balance the protection of personal information and the need for stakeholders to access the information. The Ministry has improved controls over access to information in the Registry. All users have agreements with the Ministry to obtain this information and the Ministry ensures that users comply with the agreements.

Access standards still do not exist

Despite these steps, over four years have passed since we issued our report and access standards still do not exist. Standards are required to identify which organizations should receive access to the information in the Registry. Standards that are in accordance with fair information practices would allow the disclosure of personal information in the Registry if, for example:

- the disclosure is consistent with original purpose for which the information was collected
- legislative authority exists for the disclosure
- informed consent is obtained

The use of some information is inconsistent with fair information practices

The Ministry continues to allow access to the personal information in the Motor Vehicles Registry to many businesses and organizations from the private and public sectors. In some cases, the use of the information is not consistent with the purpose for which the information was collected and is not in accordance with fair information practices.

Standards are needed to protect personal information

The Ministry is responsible for safeguarding its assets and protecting information in its custody. The Ministry should develop and implement access standards to protect the personal information of Albertans. This will require the Ministry to revise access agreements and policies to ensure that the standards are followed.

### Implications and risks

The disclosure of personal information in the Motor Vehicles Registry without standards increases the risk that the information may be misused.

### 1.2 Monitoring compliance with the *Charitable Fund-Raising Act*

Background

The Ministry has implemented our prior year recommendation

Last year, we recommended (2001—No.12) that the Ministry improve its monitoring of compliance with the *Charitable Fund-Raising Act* (the Act). The Ministry has implemented the recommendation by inspecting the financial reports and fundraising documents of 10% of the registered charities in Alberta for compliance with the Act. It also developed a risk assessment model to focus future inspections and provided information to charities on the requirements of the Act.

## 2. Ministry financial statements

Capital assets are not recorded in the financial statements

Our auditor's report on the financial statements of the Ministry has a reservation of opinion. The Ministry immediately expenses acquisitions under $15,000, instead of amortizing them over their useful lives. The Ministry is understating its capital assets because it must follow a corporate government accounting policy.

Spending without legislative authority

We also found an instance of non-compliance with legislation. The Ministry used part of a Treasury Board approved increase in its dedicated revenues to incur expenses in the normal course of business of the Centre. However, as these revenues were from other ministries, we believe that the Treasury Board's approval of them was invalid. Therefore, the Ministry spent $9,290,000 without the authority of the *Appropriation Act,* 2001.

## 3. Specified Auditing Procedures

We found no exceptions when we applied specified auditing procedures to the Ministry's performance measures.

## 4. Alberta Corporate Service Centre

### 4.1 Performance Measures

**Recommendation No. 22**

**We recommend that the Alberta Corporate Service Centre improve its performance measurement systems.**

Background

Business plan performance measures

The 2001–2004 business plan of the Ministry includes several key performance measures for the operations of the Centre, including:

- percentage of customers satisfied with the level and quality of services
- projected gross operating savings achieved

- percentage of performance targets in service agreements that are met
- percentage of business processes reviewed and re-engineered

This is the first year that the Centre is required to report the results for these measures in the Ministry annual report.

### Criteria

1. Performance measures and targets are clearly defined and linked to the core businesses and goals of an organization.
2. Performance results are reported in relation to the business plan.
3. Adequate control systems exist to ensure that performance information is accurate and verifiable.

### Findings

10% gross operating savings could not be measured but total dollar savings were identified

The Centre was expected to achieve 10% gross operating savings for the year. However, it did not identify a baseline from which to gauge the 10% savings, nor did it clearly define the term "savings". As a result, the Centre was unable to determine and report results in relation to the business plan target. Instead, the Centre reported a total dollar value of achieved savings of $8.5 million as a key performance measure result. This result relates to the re-deployment of 153.9 full time equivalent staff to ministry program areas on the establishment of the Centre.

Additional savings of $7.22 million were reported but could not be verified

The report also notes "management is confident that a further benefit of $7.22 million was achieved by pursuing a shared services model. This was accomplished through bulk purchasing volume discounts, process improvements, e-business solutions, and general contract and staffing efficiencies through consolidation". We were unable to verify the further benefit of $7.22 million of savings. Supporting information for estimates was lacking and some savings calculations, such as savings from bulk purchasing, were based on projected rather than actual savings.

Business process re-engineering measure was revised

The business plan did not clearly define the business process re-engineering measure and target. Because the plan did not clearly indicate what re-engineering meant, management redefined the measure and included other more minor types of business process redesign such as standardization and streamlining. They also redefined the measure to focus on the number of processes on which the Centre made recommendations to departments for re-engineering, rather than on the number of processes that were actually re-engineered during the year. These changes had a significant effect on the performance measure results.

Unable to report results for other measures

The Centre was unable to report results for several other business plan measures. A customer satisfaction survey was conducted in June 2002 but results were not compiled in time to report them. The Centre's 2001–2002 operating agreements did not include performance targets; therefore, there were no results reported against targets.

The Centre needs to clarify its performance measures and targets to ensure that results are appropriately measured and reported against the business plan. The Centre should also develop systems to monitor and report performance measure results.

#### Implications and risks

Without adequate performance information, there is a risk that the Centre will not meet its goals.

### 4.2 Audit Services

**Recommendation**

**We recommend that the Alberta Corporate Service Centre improve its processes to deliver audit services.**

#### Background

The Centre provides audit services to ministries

As part of the Centre's customer service agreements with ministries, it provides audit services. In performing these services, the Centre is responsible for carrying out audits as requested by the ministries. Most of these audits focus on compliance with legislation, policies and procedures. The Centre is responsible for planning, executing and reporting the results of each audit.

#### Criteria

A complete and appropriate audit methodology is employed to deliver audit services, including:

1. development of individual project plans
2. creation of working paper files that support the conclusions of the audit
3. reporting on audit results

#### Findings

Audit methodology could be improved

We reviewed the audit methodology used by the Centre to deliver audit services to ministries and identified a need to improve the practices in the following three areas:

Plans were not complete

1. Development of individual project plans—Audit plans were prepared in all but one of the files we reviewed. However, audit plans and programs did not always include detailed time budgets or a process to follow-up previous audit findings. In addition, no formal entry meeting takes place between the auditors and management to discuss the audit plan.

Working paper files were not consistent with reports

2. Creation of a working paper file—Audit files were not always complete and the file structure and contents were inconsistent. In addition, working papers were sometimes inconsistent with the audit report. Files did not indicate audit work was adequately supervised and reviewed by qualified supervisory staff.

Reports were not always verified by management

3. Reporting on audit results—Formal reports are prepared and sent to management and they do respond to some of the findings. However, there is no requirement for management to respond to the audit results. A formal meeting to discuss the results of the audit does not occur.

Ministries rely on the Centre's audit services to provide assurance on identified risk areas. Therefore, the Centre should ensure that its audits are properly planned, executed, and documented.

Implications and risks

Poor audit processes will impair the Centre's ability to provide cost-effective audit services to clients.

## 4.3 Information Technology Systems Operations and Controls

**Recommendation**

**We recommend that the Alberta Corporate Service Centre improve controls for the Electronic Payment System and the Expense Claim!$^2$ System.**

Background

We identified problems with the systems last year

In our *2000–2001 Annual Report* (page 172), we recommended that the Ministry of Innovation and Science establish a systems development methodology to be used as a source of reference when any systems development projects are initiated throughout government. In arriving at this conclusion, we examined the processes followed in the development of the Electronic Payment System (EPS) and the Expense Claim (ExClaim) systems. As a result of the concerns originally identified, ExClaim underwent significant modification and was re-redesigned as ExClaim!$^2$.

### Criteria

Systems are operating as intended and adequate internal controls exist to ensure that payments are properly authorized and recorded.

### Findings

There continue to be concerns

Our review of EPS and Exclaim![2] systems operations and controls identified concerns in the following three areas:

Exclaim![2] is not operating as intended and no formal policies and procedures exist for both systems

1. Systems Operations—The ExClaim![2] system again demonstrated the need for a systems development methodology. Numerous system bugs are affecting system performance, and the roles and responsibilities of the user groups are not clearly defined. For both systems, there are no formal policies and procedures for users to follow, and the Centre has not reviewed the adequacy of resources to plan and manage the operations of the systems.

Controls to ensure only authorized changes are made to the system are not adequate

2. Change Management Procedures—Management does not ensure that unauthorized changes have not been made to application programs, libraries and data files of the systems. In EPS, there are a number of programmers sharing one common user ID and password to access the production servers, and the system only logs the most current changes made to application programs, libraries and data files in the production servers. Therefore, an adequate trail is not maintained and accountability is compromised.

User access rights are not be reviewed and approval of payments may not comply with legislation

3. Application and Management Controls—Departments and the Centre do not perform regular reviews of user IDs and user access privileges to ensure that all users in the systems are current and authorized, and that their access rights are compatible with their responsibilities. Department expenditure and accounting officers do not always approve payments from the systems before they are made; this process does not comply with the requirements of the *Financial Administration Act*. Further, users of ExClaim![2] are not required to submit actual receipts and sign or initial receipts to prevent re-use.

### Implications and risks

These control weaknesses increase the risk of unauthorized transactions and unapproved modifications being made to the systems.

# Health and Wellness

## Summary: what we found in our audits

1. Systems audit findings

   1.1 Follow-up on past recommendations

   Opportunities exist for improved control

   - Business plans are not yet working as effective instruments of accountability and long-term planning—see page 128.
   - The Department still needs to clarify the extent of its control over, interests in, and potential liabilities relating to the Canadian Blood Services—see page 129.

   1.2 New findings

   - The Department should improve control of, and accountability for, restricted funding—see page 134.
   - The Department should improve control of information systems—see page 135.

2. Financial statement audits

   Unresolved accounting issues

   Our auditor’s opinion on the financial statements of the Ministry and the Department contained significant reservations of opinion. The critical issue continues to be the non consolidation of Authorities in Ministry results—see page 137.

3. Specified auditing procedures

   We found no exceptions when we completed specified auditing procedures on the Ministry’s performance measures.

4. Findings on other entities that report to the Ministry

   - The Alberta Cancer Board should improve systems for managing drug programs—see page 140.

   All but one Authority received an unqualified audit opinion on its financial statements

   - Our auditor’s opinion on the financial statements of both Provincial health boards and 11 of the 12 regional health authorities we audited contained no reservations of opinion. We had a reservation of opinion on the financial statements of the Chinook Regional Health Authority—see page 143.
   - Our auditor’s opinion on the financial statements of the Alberta Alcohol and Drug Abuse Commission was qualified because the Commission understated capital assets—see page 145.

- The financial statements of five regional health authorities that we do not audit received unqualified auditor's opinions from their appointed auditor—see page 145.

## Overview of the Ministry

The Ministry's business plan lists two core businesses:
- Lead and support a system for the delivery of quality health services.
- encourage and support healthy living

Complex system to manage

The Ministry consists of the Department of Health and Wellness, 17 regional health authorities, two provincial health boards and the Alberta Alcohol and Drug Abuse Commission. We refer to regional health authorities and provincial health boards collectively, as Authorities.

The Ministry is one of the government's biggest expenses. Health spending increased from 23.8% of total government expenses in 1992–1993 to 30.6% in 2001–2002 and to 35.7% as budgeted for 2002–2003.

Total consolidated Ministry program expenses were $6.3 billion for the year ending March 31, 2002. The main components were:

| | **(millions of dollars)** |
|---|---|
| Health Authorities | 3,437 |
| Province-wide Medical Services by Health Authorities | 394 |
| One-time Financial Assistance to Health Authorities | 198 |
| Supplemental Capital Equipment for Health Authorities | 49 |
| Physician Services | 1,227 |
| Allied Health Services | 63 |
| Blue Cross Benefit Program | 364 |
| Human Tissue and Blood Services | 104 |
| Protection, Promotion, and Prevention | 155 |
| All other | 336 |

Main external sources of revenue were $1.2 billion in transfers from the Government of Canada and $730 million in premiums and fees.

See the annual report and financial statements of the Ministry and the Department for more information and details of operations and financial results (www.health.gov.ab.ca).

## Scope: what we did in our audits

1. We followed-up our previous recommendations and examined two new areas: controls on restricted funding and information technology.

2. We audited the financial statements for the year ended March 31, 2002 for the Ministry and the Department.

3. We applied specified auditing procedures to the Ministry's performance measures.

4. We performed the following work on other entities that report to the Ministry:

   4.1 We followed up previous recommendations on surgical service contracting at two regional health authorities. We examined management of the drug programs of the Alberta Cancer Board and followed up on the operations review of the Mistahia Regional Health Authority reported two years ago.

   4.2 We audited the financial statements for the year ended March 31, 2002 for the following entities:
   - Chinook Regional Health Authority
   - Headwaters Health Authority
   - Calgary Health Region
   - Regional Health Authority 5
   - East Central Regional Health Authority 7
   - Westview Regional Health Authority
   - Capital Health Authority
   - Lakeland Regional Health Authority
   - Mistahia Regional Health Authority
   - Peace Regional Health Authority
   - Keeweetinok Lakes Regional Health Authority #15
   - Northern Lights Regional Health Authority
   - Alberta Mental Health Board
   - Alberta Cancer Board
   - Alberta Alcohol and Drug Abuse Commission

   4.3 We reviewed the results of audits of five regional health authorities that we don't audit.

# Findings and recommendations

## 1. Systems findings

### 1.1 Follow up of past recommendations

#### 1.1.1 Business Planning

**Recommendation No. 23**

**We again recommend the Department of Health and Wellness and Authorities implement a joint strategy to ensure authorized business plans are implemented at the start of the year (2001—No. 13).**

Background

We made this recommendation in the past three *Annual Reports*.

Criteria

Sound business plans should be in place at the beginning of each operating year to provide a basis of accountability throughout the year. This requires a strategy for ensuring viable operations and overcoming continual funding changes, unbalanced budgets, and late or incomplete submissions to the Minister. Business plans should also be consistent with requirements and guidance given to health authorities.

Findings

Approved plans missing during most of 2001–2002

Approved business plans of Authorities were not in place until the 2001–2002 fiscal year was almost over. While the Ministry provided one-time additional funding ($192 million), 15 Authorities incurred operating deficits for 2001–2002 accumulating to $35 million.

Process recently accelerated

The business planning process has recently accelerated but still experienced some submission delays. Business plans (starting 2002–2003) were approved in June 2002. This was late but earlier than in prior years. And, the Department recently improved the information requirements for future business plans. Authorities are now expected to provide more information regarding risks, planning assumptions, and strategies for managing within budget.

Most Authorities plan operating deficits and shrinking net assets

In business plans for 2002–2005, no Authority forecasts an operating surplus for fiscal year 2002–2003. Four Authorities had a break-even budget approved (annual revenues exactly equal to expenses). Most Authorities plan operating deficits (annual expenses in excess of revenues) accumulating to about $94 million for the year ending March 31, 2003. Authorities are expected to absorb operating deficits with accumulated net assets (accumulated surpluses). If not, an Authority must give the Minister a detailed plan for balancing budgets by the end of 2003–2004.

Competing demand on accumulated net assets

Allowing Authorities to incur deficits created competing, if not conflicting, guidance to health authorities regarding the use of accumulated net assets. This is explained as follows:

Since Authorities are to self-fund capital equipment, guidance exists for them to set aside a portion (reserves) of net assets for replacing equipment. With net assets (accumulated surpluses) forecasted to shrink to about $67 million by March 2003, the risk increases of health authorities not replenishing assets. If business plans do not provide for asset replacement, then services may be unfavourably impacted.

#### Implications and risks

The principles and requirements for business planning are sound. The challenge is making business plans work. The risk remains of business plans being incomplete, focussed only on the next 12 months and not working as instruments for long-term planning and managing of structural risks.

### 1.1.2 Canadian Blood Services

#### Recommendation

**We again recommend the Department of Health and Wellness clarify the extent of its control over, interests in, and potential liabilities for the Canadian Blood Services.**

#### Background

In our *2000–2001 Annual Report* we made the above recommendation to the Department.

In 1997, the federal, provincial and territorial governments (except Quebec) signed a Memorandum of Understanding (MOU) for roles and responsibilities in a renewed blood system. The Canadian Blood Service (CBS) was incorporated on February 16, 1998 as a not-for-profit corporation under the *Canada Corporations Act* to deliver safe and secure blood service.

#### Criteria

Undertakings should be in writing

There should be a clear understanding of the extent of Alberta's control of and interest in the CBS in conjunction with other provinces.

Significant amounts invested

Findings

The Department provides significant funding to the CBS—approximately $104 million during 2001–2002. A clear understanding of the relationships between the provinces and the CBS is important to mitigate risks since the Ministers of Health remain responsible for the overall integrity of the blood system.

Opportune time to safeguard Alberta's interests in CBS

Under the MOU, negotiations are required if one province withdraws from the agreement. Parties have not yet defined how net assets would be divided. We understand the Department notified the other provinces and territories of its desire to re-open the MOU and clarify its interest in assets and liabilities of CBS. However, an agreement has not yet been reached.

Implications and risks

Without clarity on this matter, the Department is unable to estimate and limit exposure to liabilities and to determine its financial interest in CBS.

### 1.1.3 Progress on other systems audit recommendations

Progress on past recommendations

Table 1 shows the status of all the rest of our outstanding system audit recommendations. It is organized by year and recommendation number in each year. We are pleased to note satisfactory progress. We will continue monitoring and conduct additional examination as required.

**Table 1**

| Year & Rec. # | Recommendation | Findings |
|---|---|---|
| 1998 #28 | Department provide guidance to Authorities for establishing an appropriate and equitable building and equipment base and work with authorities to improve systems for planning and funding capital assets. (see also following related recommendation) | Capital planning is now an annual business planning requirement for health authorities. Information is now provided to the Department about capital requirements.<br>The Department provided guidance to health authorities for creating equipment replacement reserves. |

## Table 1

| Year & Rec. # | Recommendation | Findings |
|---|---|---|
| 1999 #38 | Department assess the impact of new requirements for **managing equipment** and determining whether they have sufficiently diminished the risk of Authorities not meeting equipment needs. | Since 1999, Authorities got additional money for equipment. Authority assets increased and the average estimated remaining useful life of equipment increased, thus diminishing risk of not meeting needs.<br><br>Circumstances are changing. Risks are signalled by variable reserve practices of Authorities, operating deficits that shrink accumulated net assets (surpluses), and reduced average useful remaining life of equipment.<br><br>The Department indicates it will again assess impacts. By September 2002, it is to determine the extent of investment in equipment with detailed analysis and risk identification. |
| 1999 #40 | Department should improve control over **health registration** to reduce vulnerability of the health system to potential loss of revenue. | Department policy was updated March 2002. Once approved, the Department indicates it will develop an implementation plan. |
| 2000 #20 | Department develop a process for reporting the full and comparable **cost of delivering health services for the population of each region** as a means of supporting business planning decisions and the accountability of Authorities. | Costs for inpatient and ambulatory care costs are developed. The Department is considering how to advance this since all health authorities do not participate in the costing partnership. Meetings were held to explore options. |
| 2000 #21 | Again, Department should examine regional differences in the utilization and cost of health services with a view to improving the system for allocating funds to Authorities. | Department is conducting a study of regional differences in the cost of delivering acute inpatient services to identify factors impacting service delivery costs compared to Provincial averages. We are informed that adjustments to funding system will be considered as part of policy decisions. |

**Table 1**

| Year & Rec. # | Recommendation | Findings |
|---|---|---|
| 2001 #14 | Again, Department in cooperation with stakeholders, improve the **performance measurement and reporting** of the quality of health services. | Responsibilities of the Branch were revised and four new initiatives started to advance performance reporting. These are for Province-wide services, measurement of certain disease conditions, and an updated interim public reporting on selected performance measures (such as wait lists, hip replacements, MRI services). And, a major new report is expected in September 2002 to report on 14 health and health system indicator areas, including quality of health services.<br>To March 2002, significant changes were not yet made to business planning and reporting requirements. The Department made some minor modifications to add, delete or revise certain measures and targets.<br>The Department also recently began looking at risks in data accuracy and considering ways of improving the reliability of data used to measure and report performance. |
| 2001 Pg. 116 | The Department, in collaboration with the Capital and Calgary Authorities, strengthen **accountability for Province-wide services** by<br>• Ensuring information is reported that compares expected results with actual and explains significant variances.<br>• Establish relevant and reliable measurement of outcomes. | The Department informs us that the next PWS annual report is, wherever possible, to report actual volumes compared to funded volumes. Capital and Calgary were also requested to complete a template to report outcomes with reporting to begin in the fall of 2002. |
| 2001 #17 | Again, Department implement strategies that would promote cost-effectiveness as part of the **system for paying physicians** for their services. | There are several ongoing actions. These include fee rate changes, alternative physician payment plans, and evaluation of innovation fund projects. The Medical Services Project that was to address physician accountability for use of public money, physician resource allocation, and relations with Authorities did not continue. Management told us it was superseded by recent health reform activity. |

## Table 1

| Year & Rec. # | Recommendation | Findings |
|---|---|---|
| 2001 Pg. 127 | Department, in collaboration with Authorities, assess the benefits and risks for the approach to **information management** in the health system and clarify the accountability of the chief information officer for health. | The Deputy approved a new governance framework for information management and technology. Roles and responsibilities are to be clarified. |

### 1.1.4 Recommendations that have been implemented

Recommendations implemented

Table 2 reports each system audit recommendation that has been substantially implemented in the past year. It is organized by year and recommendation number in each year.

## Table 2

| Year & Rec. # | Recommendation | Findings |
|---|---|---|
| 1997 #19 | Department carry through with a new plan for managing drug costs based on informed assessment of risks and alternative methods for promoting cost-effective use of drugs. | The Department followed through on plans. This includes revising the drug evaluation process, testing a new Pharmaceutical Information Network, introducing a prescription checkpoint program for new drugs, and other initiatives. And, new strategies have recently been proposed for approval. |
| 1999 #39 | Department further develop systems for **planning health facilities** and obtain better information to support decisions. | As part of 2001–2002 business planning and reporting requirements, Authorities were to submit long-term capital plans. The Department provides feedback to Authorities if plans are not submitted or not sufficient. A property information system was completed March 2002 and cross-functional teams put in place to help manage infrastructure. |
| 1999 #42 | Department establish priorities for **clinical best practice** guidelines and a process for assessing the benefits and costs to CPGs. | Changes in financial reporting have been made. An evaluation framework has now been developed and implementation began in conjunction with the Alberta Medical Association. |
| 2000 #19 | Again, the Department take a lead role in working with Authorities in reporting the **costs of key service outputs** | The Department formed a working group in 2002 to address this matter. All Authorities are to report publicly in their 2003–2004 financial statements and annual report the defined and agreed to minimum cost and output information on a consistent basis. We will review results in two years. |

**Table 2**

| Year & Rec. # | Recommendation | Findings |
|---|---|---|
| 2001 #15 | Department clarify expectations of **funding equipment** and assesses the merits and risks in providing equipment funding in two different ways. | Funding for equipment is now issued with a restriction that it cannot be spent for other purposes. |
| 2001 #16 | Again, Department complete a risk assessment of **physician billings** with reference to Section 18 of the *Alberta Health Care Insurance Act* and further develop an examination process for meeting the expectations of the Act. | Risk assessment completed and implementation plan developed. This includes monitoring code utilization, expanded patient verification, and examination of patient records in doctor offices. |
| 2001 #18 | Department assess its reliance on **contracted services** and improve the control over contracting activity of the Department. | Updated contracting policies and the Alberta Infrastructure Contract Management System were implemented. The Department is responsible for ensuring compliance with new requirements. |
| 2001 Pg. 124 | Department improve the process for approving **surgical service contracts** issued by Authorities. | Improvements were made to the Department's processes. The Department needs to continue working with Authorities to improve reporting on the performance of surgical services. |

## 1.2 New systems audit findings

### 1.2.1 Control of, and accountability for, restricted funding

**Recommendation**

**We recommend the Department of Health and Wellness improve its corporate control processes for ensuring accountability for restricted funding.**

#### Background

Individual sections of the Department are to monitor restricted grants

The Department issues conditional grants. Individual program areas within the Department monitor compliance with grant restrictions. Placing restrictions on funding requires grant recipients to use the money for the purposes identified by the Minister. Funds not spent in accordance with the Department's request, may be required to be repaid, in accordance with the *Health and Wellness Grants Regulation*.

#### Criteria

The Department's corporate accounting system should support the reporting of conditional grants at a corporate level. This will enhance accountability for conditional funding.

Findings

The Department cannot readily tell if funding restrictions are met

Conditional grants issued are not identifiable for follow-up within the Department's corporate accounting system. The corporate accounting system does not track the total amount of restricted funding provided by the Department to ensure it is appropriately recorded at the end of the year.

Implications and risks

The Department cannot readily determine total restricted funds issued, if the funds were utilized as intended, and where restrictions were not met, what action was taken. There is a risk that amounts repayable, if any, to the Department may not be appropriately recorded as accounts receivable at year-end.

### 1.2.2 Information technology control environment

**Recommendation No. 24**

**We recommend that the Department of Health and Wellness assess the effectiveness of the controls over information technology, resolve deficiencies, and strengthen the overall control framework. In particular, the Department should obtain assurance that its service providers are maintaining effective controls.**

Background

Department contracts for computer operations

The Department's information technology (IT) environment consists of its own IT Branch and outsourcing arrangements with two separate IT service providers.

When the Department uses service organizations, controls are, in part, removed from the direct control of management. The Department's control environment, however, includes all IT processing, application maintenance and application development environments, even though these activities have been outsourced. While the Department has delegated responsibility for ensuring that controls are maintained, it does not relinquish its accountability. Management asserts responsibility for such control in the Ministry's annual report.

We examined the Department's IT general control environment as part of annual attest audit procedures. We paid particular attention to the way in which outsourced activities were managed.

Criteria

To discharge its responsibility, the Department should ensure it has adequate control over IT operations.

### Findings

Our review of the IT control environment at the Department identified a need to strengthen the control framework.

Assurance of control at service providers is missing

The Department has not yet obtained assurance that information technology service organizations are maintaining effective controls to protect the confidentiality and integrity of data. This is needed to be able to assert that the assets and property of the Province have been adequately safeguarded. The Department has informed us that in December 2002 it plans to initiate a review of the service providers' control environments.

Control at risk

Control deficiencies noted in the IT environment were:

- A comprehensive risk assessment has not been performed.
- Financial information is not adequately secured due to the access required by the service provider's staff to allow them to carry out certain functions; furthermore, since a common user access ID and password is shared among service provider employees, an adequate audit trail is not maintained.
- The Department does not actively monitor service providers for compliance with, and enforce, security policies.
- There is a lack of adequate segregation of duties, and absence of an adequate audit trail in the systems development area.
- Disaster recovery plans do not reflect current responsibilities, or changes in the IT environment in the past year; the service providers and the Department may not be prepared to deal with disruptions effectively.
- Access security logs under the control of a service provider are not reviewed regularly.
- The Department does not conduct regular reviews of users accessing its systems.

### Implications and risks

Management should review the control environment even when outsourced

If management does not assess the control environments at the service providers, it will make assessments on incomplete information. Key deficiencies might not be identified for correction. Weak general controls could render application and business process controls ineffective, allowing unauthorized access to data.

## 2. Financial statement audits

### 2.1 Financial reporting

Background

We previously recommended that the Department improve the reporting of financial results in the Ministry and Department financial statements (2001—recommendation No 19). Expenditure information was grouped so it was difficult to understand how resources were consumed or allocated.

Findings

Improvements to financial statements

Significant improvements were made to Schedule 5 of the Department financial statements. The schedule now clarifies what proportion of health services relates to practitioner services, provincial programs, global health authority funding, health authority program funding, and province wide services.

While the new disclosure does not show the total of health authority funding, and approximately $146 million is reported under other line items, the disclosure better clarifies that funding is on a program, not an entity, basis.

The Department also indicates additional financial improvements will be made in conjunction with realignment of the budget to link expenses to core business. We consider our recommendation substantially implemented.

### 2.2 Reservations of opinion on Ministry and Department financial statements

What we audited

For the fiscal year ended March 31, 2002, we audited the financial statements of the Ministry and the Department, and received all necessary information.

Repeating an adverse opinion on financial statements

We again issued an adverse auditor's opinion on the Ministry financial statements. They do not present fairly the financial position of the Ministry and the results of operations and the changes in financial positions for the year then ended in accordance with Canadian generally accepted accounting principles. The details are as follows:

#### 2.2.1 Authorities not consolidated

Figures change significantly with Authorities included

To provide a complete picture of the publicly funded health system, Authorities should be consolidated in the Ministry's financial statements as part of the reporting entity. If they were, numbers in the Ministry's financial statements would change significantly. See Table 3 below:

**Table 3**

| Financial Statement Component | As Currently Reported | Adjustment Required | Total |
|---|---|---|---|
| | | (millions of dollars) | |
| Total assets | 179 | 4,037 | 4,216 |
| Total liabilities | 504 | 3,254 | 3,758 |
| Net (liabilities) assets | (325) | 783 | 458 |
| Revenue | 2,036 | 664 | 2,700 |
| Expense | 6,325 | 631 | 6,456 |
| Excess of expense over revenue | 4,290 | (33) | 4,257 |

There were other qualifications made to Ministry and Department financial statements as follows:

### 2.2.2 Capital assets not recorded

Assets should be treated as assets

The Department and Ministry immediately expense acquisitions under $15,000, instead of amortizing them over their useful lives. The Department and Ministry are understating their capital assets because they must follow a corporate government accounting policy.

### 2.2.3 Vaccine inventory expensed

Vaccine inventory was not recorded. Vaccine inventory on hand at year-end was recorded as if it had already been consumed. As a result, assets are understated and net liabilities are overstated by approximately $8 million, which represents the unconsumed cost of vaccine inventory. Also, expenses are overstated by approximately $5 million.

### 2.2.4 GAAP not followed in policy

Reporting should meet GAAP standards

Effective April 1, 2001 the Ministry and Department changed their accounting policy for capitalizing We//net system development. Accordingly, the work-in-progress balance at March 31, 2002 was reported in accordance with the new accounting policy. However, the comparative amounts were not restated to reflect the change in accounting policy. As a result, the financial statements do not report assets on a comparative basis. Assets, representing work-in-progress, amounting to approximately $10 million were not reported in the 2001 comparative amounts in the financial statements.

### 2.2.5 Related parties not disclosed

Government accounting policy does not recognize Authorities as related parties. So financial statements don't disclose transactions with them. But under Canadian generally accepted accounting principles, Authorities are related parties of the Ministry and Department. A description of the relationship and extent of related party transactions should be in the notes to the financial statements.

## 3. Specified auditing procedures

We found no exceptions when completing specified auditing procedures on the Ministry's performance measures.

## 4. Findings on other entities that report to the Minister

### 4.1 Systems findings

### 4.1.1 Follow-up on surgical service contracting

We followed up the actions taken by the Calgary Health Region and Capital Health Authority in response to recommendations for improved surgical service contracting. Satisfactory progress has been made as indicated in the following table.

**Table 4**

| Year & Rec. # | Recommendation | Comments |
|---|---|---|
| 2001 #20 | Calgary and Capital regional health authorities enhance their conflict-of-interest processes by:<br>• extending private interest disclosure requirements to senior management who are in a position to influence contract decisions,<br>• using an independent third-party review, as part of a formalized appeal mechanism, when employees operate private practices of clinics that contract with their employers.<br><br>We believe this recommendation should apply to all regional health authorities. | Revised bylaws and/or policies support disclosure of potential conflicts of interest.<br><br>Capital and Calgary support third-party review. We identified the Ethics Commissioner because his Office has the expertise and knowledge of Authority operations. However, the Commissioner's mandate does not extend to health authorities.<br><br>The Department indicates support for an amendment to the *Conflicts of Interest Act* to provide the Ethics Commissioner with requisite authority to:<br>• Confirm that health authority contracting processes and procedures adequately address conflict of interest,<br>• Provide advice and assistance, and |

**Table 4**

| **Year & Rec. #** | **Recommendation** | **Comments** |
|---|---|---|
| | | • Act in an appellate function with respect to decisions made regarding conflict of interest.<br>We encourage consultation between the Department and the Ethics Commissioner and discussion with Alberta Justice about necessary legislative amendments. |
| 2001 Pg. 135 | Calgary and Capital regional health authorities establish a comprehensive set of outcome-based performance measures for surgical facility services and incorporate these standards of performance into ongoing monitoring of contracted facilities. | Capital and Calgary are working with the Department to jointly develop specific comparable outcome indicators. Measures considered include admission rates following surgery, and mortality and critical incidents rate. The two regions are also developing a patient satisfaction survey for treatment in a non-hospital surgical facility. |
| 2001 Pg. 136 | Calgary and Capital regional health authorities revise documented policies and procedures to include process changes resulting form the *Health Care Protection Act* and the assessment criteria and guidelines issued by the Department of Health and Wellness. | Policies were redrafted. Some are in final form, and others in draft. Both health authorities are required to adhere to the Department's requirements as described in 'Requirements for Proposals' and to Ministry Assessment Criteria. Once policies and procedures are finalized, the recommendation will be implemented. |

### 4.1.2 Alberta Cancer Board

**Recommendation No. 25**

**We recommend that the Alberta Cancer Board improve systems for managing cancer drug programs.**

#### Background

The Alberta Cancer Board (ACB) asked the Auditor General to review its cancer drug benefit programs. It was concerned about increasing drug expenditures and the ability to fund them.

ACB is mandated to provide cancer drugs

Section 16 of the *Cancer Programs Act* governs the Alberta Cancer Board (ACB) drug program. It states: "The Board may, subject to the regulations, provide drugs specified by the Minister for the treatment of cancer patients." The *Cancer Programs Regulation* (Part 2, Section 5) establishes that the Board may provide cancer drugs specified by the Minister in the Schedule. The ACB drug formulary for outpatient services is made up of about 80 drugs.

Drugs are provided without charge

ACB provides drugs to patients without charge or co-payment whether treated as an inpatient or outpatient. They are fully paid for with public funds.

95% of drug expenditures is for treating outpatients

ACB drug expenditures increased from $11.3 million in 1997–1998 to about $32.7 million for 2001–2002. There are two components to these expenditures. Drugs used for treating inpatients comprise about 5% of amounts spent. Drugs provided for outpatients account for about 95% of drug expenditures.

80% is originated by ACB physicians

According to information provided, ACB physicians originate 80% of all cancer drug expenditures while non-ACB physicians originate 20%. Control by ACB is expected, given that by regulation a prescription written by a physician outside of ACB must be reviewed by an eligible member of ACB medical staff within 30 days.

### Criteria

We expected ACB to have systems in place that would support cost-effective management of drug expenditures, meet requirements of the Act, and provide information for managing resources devoted to cancer drug programs.

### Findings

Better management required

The ACB requires improved systems for better managing the relationship between funding of cancer drugs, utilization, costs and results. We found that ACB needed to:

- Use the business planning process to reach a clear understanding with the Department of Health and Wellness regarding accountabilities for the current and future cost of drug utilization by ACB.
- Incorporate appropriate strategies and targets into the Board's business plan for managing drug expenditures.
- Have the drug utilization review system of the Board include information on factors driving utilization, costs and outcomes.
- Ensure that a procedure is in place that satisfies the *Cancer Programs Regulation* that requires an eligible medical staff member of the Board to review within 30 days an initial prescription written by a non-Board physician.
- Improve financial information and develop a system for determining treatment costs, including drug costs, and evaluating costs in relation to results achieved through best practices and corresponding patient outcomes.

### Implications and risks

ACB was not in the best position to achieve cost-effectiveness in the management of cancer drug programs. Decision-makers could be better informed in making policy and budget decisions.

ACB taking action

ACB began implementing our recommendations in cooperation with the Department of Health and Wellness.

## 4.1.3 Internal Controls at Authorities

### Background

Annual attest audits of financial statements are not designed to assess all systems. However, auditors of Authorities communicate any weaknesses they find in auditing the financial statements.

### Findings

Opportunities for improving control

As in prior years, various observations and recommendations for improved control were made to Authorities:

- Chinook Regional Health Authority, again, should strengthen controls over human resources management systems and continue to review controls over pharmacy transactions.
- Headwaters Health Authority and Regional Health Authority 5 should strengthen the accountability framework for funding provided to, and services delivered by, particular voluntary health service providers in their region.
- Calgary Health Region should develop compensating controls when budget amounts are not available for management to perform variance analysis and should introduce certain additional controls to enhance revenue, purchase and payment systems as well as improve its IT systems and functions.
- Westview Regional Health Authority should review fee structure for miscellaneous charges, implement an integrated accounts receivable system, use capital asset sub-ledger and do periodic counts of such assets.
- Capital Health Authority should review non-routine accruals and prepare an analysis of interest on deferred research contribution accounts.
- Lakeland, again, should review its current IT strategy to ensure resources are directed toward IT initiatives that will achieve the long-term goals of the organization.
- Alberta Mental Health Board should review its purchase authorization policy and procedures, ensure that established procedures are complied with, and improve security procedures over its computer systems.

- Crossroads Regional Health Authority #9 should change access to the payroll system for better supervisory control and develop a procedure for ensuring management's periodic review of all changes made to employees' computer access rights.
- Northwest Regional Health Authority should have expense reports and petty cash reimbursements submitted on a timely basis, change the use of dates in the accounts payable system to avoid the risk of over/under accrual of liabilities and expenses at year-end, and conduct reviews of capital projects to ensure completed projects and deferred capital contributions are appropriately accounted for.

Implications and risks

Reported items noted during the course of auditing financial statements serve as a reminder for all Authorities to be vigilant over their internal controls.

### 4.1.4 Mistahia Regional Health Authority – follow up

In December 1999, the Board of the Mistahia Regional Health Authority (MRHA) asked the Auditor General to review the operations of the Authority. There was concern about capacity to deliver services within budget. In May 2000 a report containing 19 recommendations was submitted to MRHA.

In April 2002, MRHA reported to us that 8 of 19 recommendations have been implemented. Eleven are reported as not yet implemented but with good progress made. At the time of preparing this Report, we had not completed a review to validate reported progress.

## 4.2 Financial statement audits

### 4.2.1 Unqualified auditor's opinions on 11 of 12 Authorities and two boards

All but one Authority received an unqualified audit opinion on its financial statements

With the exception of Chinook Regional Health Authority, all Authority financial statements received unqualified auditor's opinions. The financial position, results of operations, and changes in financial position were presented fairly in accordance with Canadian generally accepted accounting principles.

Our auditor's opinion on the financial statements of Chinook Regional Health Authority was again qualified because of lack of evidence to support treating a certain facility as an asset. This matter is not resolved. It is taking time for the Department to get agreement on the Authority's control of the $27 million, 210-bed long-term care facility.

### 4.2.2 Chinook Regional Health Authority reservation of opinion

**Recommendation No. 26**

**We again recommend the Chinook Regional Health Authority continue to work with the Department of Health and Wellness and Alberta Infrastructure to clarify the nature of the Authority's future responsibilities for, and control of, one long-term care facility (2001—Page 133).**

#### Background

We reported this recommendation in the past two *Annual Reports*. Parties have been negotiating lease agreements for some time but have not reached agreed terms.

Project approved and funding provided

In 1996, the Department and Alberta Infrastructure approved the building of a long-term care facility (the Facility) by the Chinook Regional Health Authority (the Authority). The Authority recorded the Facility as an asset in its financial statements based on the fact that it received $27 million from Alberta Infrastructure to build the Facility.

#### Findings

No evidence of control of the facility

The Authority asserts that it holds the risks and benefits of the Facility based on the Department's and Alberta Infrastructure's plans to lease the facility to the Authority and based on its legislative authority. However, the Authority and Alberta Infrastructure have not entered into a suitable relationship necessary for the Authority to control the Facility. Also, Alberta Infrastructure maintains ownership of the land on which the facility was built. Therefore, we have qualified our auditor's report.

Facility and health services linked

The Authority applied for a grant of $27 million to build the Facility. During 2000–2001, the Authority completed construction. A voluntary health service provider began providing services in the facility. This is subject to an operating agreement negotiated by the Authority and the voluntary provider.

#### Implications and risks

Unclear accountability for the Facility

It is unclear who is accountable for the Facility: the Authority, Alberta Infrastructure, or the voluntary service provider. The risk is that decisions for the Facility will not be made in a timely manner. Section 5 of the *Regional Health Authorities Act* outlines the Authority's responsibility for the integration of health services and facilities in the region. The Authority will need to obtain the agreement of the Department, Alberta Infrastructure, and the voluntary service provider for changes for the Facility.

### 4.2.3 Alberta Alcohol and Drug Abuse Commission reservation of opinion

Our auditor's report on the financial statements of the Commission was qualified because the Commission under reported capital assets by $1 million.

## 4.3 Audits of five Authorities we don't audit

The financial statements of five regional health authorities that we do not audit received unqualified auditor's opinions from their appointed auditor.

# Human Resources and Employment

## Summary: what we found in our audits

Systems and procedures need improvement

1. The Department should improve systems and procedures to ensure the integrity of operations and effective service delivery. Management should obtain assurance that third party service providers have effective controls, restrict access to client information, improve the systems supporting the *Skills Development Program* and develop a business resumption plan—see page 151.

Two reservations of opinion

2. We have two reservations of opinion on the financial statements of the Ministry—see page 153.

3. We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

4. We have the following findings on entities that report to the Ministry:

    4.1 We issued unqualified auditor's reports on the audits listed in section 4.1 of Scope—see page 149.

    4.2 The private sector accounting firm that audited the financial statements of the Workers' Compensation Board (WCB) for the year ended December 31, 2001 issued an unqualified auditor's opinion. Matters arising during the course of the audit are brought to our attention by the accounting firm. All such matters were adequately resolved.

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## Overview of the Ministry

The Ministry delivers programs and services through the Department of Human Resources and Employment, the Minister's Employability Council, the Occupational Health and Safety Council, the Alberta Labour Relations Board, the WCB, the Appeals Commission of the WCB and the Personnel Administration Office (PAO).

Four core businesses

The Ministry's 2001–2004 business plan describes four core businesses:
- providing the information Albertans need about careers, workplaces, the labour market and department services
- assisting Albertans to prepare for, obtain and maintain employment
- promoting positive workplace environments and the establishment of professional and workplace standards
- providing individual and income supports

In addition, PAO works with departments to develop government-wide human resource strategies and policies.

For more information on the Ministry and its programs, see the website at www.gov.ab.ca/hre.

Ministry spent $1.1 billion

During 2001–2002, the Ministry spent $1.1 billion on the following programs:

| | **(millions of dollars)** |
|---|---|
| Income support to individuals and families | 729 |
| Training and employment support | 263 |
| Workplace services | 20 |
| Personnel Administration Office | 7 |

Ministry revenue was $460 million

The Ministry received $460 million in 2001–2002, $442 million of which came from the following transfers from the Government of Canada:

| | **(millions of dollars)** |
|---|---|
| Canada Health and Social transfer | 285 |
| Labour Market Development Agreement Benefits | 122 |
| Services to On-reserve Status Indians | 13 |
| Rehabilitation of Disabled Persons | 22 |

## Scope: what we did in our audits

Four parts to our audit

1. We followed up our previous recommendations that the Department obtain independent assurance on third party service providers' control environments, safeguard client information, and improve the procedures to monitor compliance by training providers with the terms of the *Skills Development Program*. We also reviewed the Department's business resumption plan.

2. We audited the financial statements of the Ministry for the year ended March 31, 2002.

3. We completed specified auditing procedures on the Ministry's performance measures.

4. We also performed the following additional work:

   4.1 We audited the following claims and financial statements:
   - The Canada-Alberta Agreement on Labour Market Development Claim for the year ended March 31, 2002
   - The Annual Statement of Expenditures for the Canada-Alberta Agreement on Employability Assistance for People with Disabilities Claim for the year ended March 31, 2001
   - The financial statements of the Joint Standards Directorate for the stub period ended September 13, 2001
   - The financial statements of the following Trust Funds under the administration of the Ministry:
     - Long Term Disability Income Continuance Plan–Bargaining Unit and Long Term Disability Income Continuance Plan–Management, Opted Out and Excluded for the year ended March 31, 2002
     - Government of Alberta Dental Plan Trust for the year ended December 31, 2001
     - Government Employees Extended Medical Benefits Plan Trust for the year ended December 31, 2001

   4.2 A private sector accounting firm completed the audit of the financial statements of the Workers' Compensation Board under the direction of the Auditor General for the year ended December 31, 2001. We reviewed the audit plan and the audit files, and we met with management and the audit committee, together with the private sector audit firm, to report matters arising from the audit.

# Findings and recommendations

## 1. Systems findings

### 1.1 Ensuring controls protect data

**Recommendation**

**We again recommend that the Department obtain independent assurance on the control environment of its computer service provider.**

Background

Management of computer systems has been outsourced

The Department has entered into an outsourcing agreement with a private sector service provider to manage the Department's main financial and non-financial computer systems.

Criteria

Management should obtain assurance that service providers have effective control environments.

Findings

Management has not obtained assurance on controls

While the Department accepted this recommendation last year, management has not obtained assurance that the service provider's control environment is operating effectively.

Implications and risks

Threat to the integrity and confidentiality of data

Any weaknesses in the service provider's control environment pose a risk to the Department's systems and data. Without independent evidence of the effectiveness of the service provider's control environment, the Department cannot be sure the integrity and confidentiality of its data is protected.

### 1.2 Safeguarding client information

Background

Last year we recommended (2001—No. 21) that the Department review the access that training providers have to client information on the *Career Assistance Information System* (CAIS) and limit training providers' access to only the information required to fulfill their responsibilities. We also recommended that management monitor enquiries to sensitive client information to assess whether enquires are appropriate. Management should also maintain adequate documentation of the procedures performed to ensure that all client information is returned to the Department and deleted from training providers' systems upon contract completion.

Findings

The new system should restrict access

The Department is replacing CAIS in March 2003 with a new system that should correct the access concerns. We will follow up once the new system has been implemented.

Steps have been taken to protect client information when contracts end

The Department has also taken steps to protect client information when training contracts end. Procedures have been developed to provide greater assurance that all client information is returned to the Department and deleted from training providers' systems. In addition, the Department's internal audit group is testing for compliance with the new contract completion policies.

Implications and risks

Risk of breach of FOIP

Unauthorized access to client records could result in breaches of the *Freedom of Information and Protection of Privacy Act*.

### 1.3 Monitoring compliance with the *Skills Development Program* (SDP)

**Recommendation No. 27**

**We again recommend that Department of Human Resources and Employment improve the procedures to monitor compliance by training providers with the terms of the *Skills Development Program* (2001—No. 22).**

Background

Department spent $132 million on SDP

During the 2001–2002 year, the Department spent $132 million on the SDP, $30 million of which was reimbursed by the Government of Canada under a cost-sharing agreement. The SDP provides basic education, upgrading, short-term skills training and apprenticeship instruction to eligible candidates. Under the SDP, the Department pays a tuition fee per student to approved training providers and a living allowance directly to students, based on course attendance. Training providers can be either public providers, such as post-secondary colleges, or private providers.

The training providers play a significant role in the delivery of the SDP. They are required to place students in appropriate courses, monitor student attendance and assess progress to ensure training needs are being met.

Criteria

The Department should have a plan, based on a risk assessment of the training providers, to review training providers' compliance with the terms of the SDP.

Findings

Insufficient monitoring of training providers

We are repeating this recommendation as the Department does not have adequate assurance that the 302 training providers currently delivering the SDP are meeting the terms of the program. The Department does not have a plan that specifies which training providers will be reviewed and when. Such a plan should be supported by a risk assessment that establishes which training providers are more likely to be non-compliant with the program's requirements. During the year, the Department conducted reviews of eleven training providers. Since the selection of the eleven training providers was not based on a risk assessment, the Department does not know whether further reviews should have been conducted to properly monitor the training providers' performance for the year.

Planning to increase monitoring

The Department intends to monitor training providers' compliance with the SDP requirements on a more regular basis. We understand the Department is planning to sign contracts with private sector consultants by the Spring of 2003 to perform the reviews. The reviews will focus on high-risk areas of the SDP, such as training providers' monitoring and reporting of student attendance to the Department. The Department also plans to base the frequency and extent of the reviews on a risk assessment of the individual training providers.

Implications and risks

Lack of monitoring risks non-compliance with terms of SDP

Without effective monitoring, there is a risk that training providers are not complying with the terms of the SDP. The Department does not have assurance that students are receiving adequate instruction and training and that training providers are spending the funding appropriately.

## 1.4 Planning for business resumption

**Recommendation**

**We recommend the Department develop and test a business resumption plan.**

Background

Systems support provision of food and shelter

At the end of our audits over the last two years we have made recommendations to management that the Department establish a comprehensive business resumption plan (BRP). A BRP provides for a controlled response to emergency situations to minimize the effects of any service disruptions. The Department's systems are used to provide critical services such as support for food and shelter to people in need.

### Criteria

The Department should develop a business resumption plan that includes:

- a prioritized list of business processes and systems
- timelines required to recover each business process
- procedures to recover systems and processes
- a list of all personnel responsible for each business process
- a testing schedule of the business resumption procedures to test effectiveness and to revise the procedures for any missed items

### Findings

Management is taking steps to develop a BRP

The Department does not have a BRP. Management identified the development and implementation of a BRP for HRE as a key corporate initiative for 2001–2002. We understand that HRE is working with the Ministry of Innovation and Science, the Alberta Corporate Service Centre and the Ministry of Finance on this key initiative.

A significant amount of work remains

The Department has requested all departmental managers to include the development of BRPs in their operational plans. The first drafts of these individual BRPs are to be completed by March 31, 2003. However, it will still take time to compile a comprehensive BRP from these individual plans. Management will have to prioritize the systems and processes, coordinate recovery procedures, specify timelines, and determine who needs to be notified and when in an emergency. Once the BRP is compiled, management will have to test it.

### Implications and risks

Risk of not resuming operations

The Department risks being unable to recover business operations in the event of a significant systems failure or business disruption within a reasonable time. As a result, Albertans in severe financial need may find that assistance is delayed.

## 2. Financial statement audits

Some capital assets were not capitalized and amortized, and LTDI liabilities were not recorded

Our auditor's report on the financial statements of the Ministry contains two reservations of opinion. The Ministry immediately expenses acquisitions under $15,000, instead of amortizing them over their useful lives. The Ministry is understating its capital assets because it must follow a corporate government accounting policy. The second reservation was because the Ministry did not record the government's share of the liabilities for the two Long Term Disability Income Continuance Plans.

### 2.1 Recording the Long Term Disability Insurance liabilities

**Recommendation**

**We recommend the Ministry record the government's share of the accrued benefit liabilities for the two multi-employer Long Term Disability Income Continuance Plans.**

Background and findings

LTDI liabilities should be recorded

The Ministry administers two multi-employer Long Term Disability Income (LTDI) Continuance Plans on behalf of the Province. The Department has not, however, recorded the liabilities related to the accrued LTDI benefits. This practice does not comply with generally accepted accounting principles or corporate government accounting policies. The Ministry intends to record the liabilities and related expenses once they have been incorporated into the Ministry's budget.

Implications and risks

No accountability for LTDI

Accountability for the LTDI liabilities has not been reflected in the Ministry's financial statements. As at March 31, 2002, the liabilities amounted to $2.89 million with related expenses of $1.97 million.

## 3. Specified auditing procedures

We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

## 4. Findings on entities that report to the Ministry

### 4.1 Unqualified auditor's reports

We issued unqualified auditor's reports on the audits listed in section 4.1 of Scope.

### 4.2 Workers' Compensation Board financial statements

The private sector accounting firm that audited the financial statements of the Workers' Compensation Board for the year ended December 31, 2001 issued an unqualified auditor's opinion on them.

# Infrastructure

## Summary: what we found in our audits

1. The Ministry should improve systems and procedures in the following areas:

Ministry needs better contract management systems

1.1 Contract management systems—The Ministry should justify sole sourcing consulting contracts and formally evaluate contractors' and consultants' performance. Also, the Ministry should require its employees and consultants to disclose in writing any potential conflicts of interest—see page 157.

Ministry needs better capital plans

1.2 Long-term capital asset plans—The Ministry needs to ensure that the capital plans it receives from ministries and client organizations contain the information it requires to prepare its long-term strategic plans—see page 160.

Ministry needs better accountability information

1.3 Health and safety risks—The Ministry needs to obtain sufficient accountability information from post-secondary institutions to evaluate the progress made in addressing critical health and safety needs—see page 161.

2. We have a reservation of opinion on the Ministry's financial statements—see page 164.

3. We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

## Overview of the Ministry

Four core businesses

The Ministry's 2001–2004 business plan describes four core businesses:
- support the provision of health care, learning, community service facilities and seniors' lodges
- ensure efficient planning, design, construction, rehabilitation, operation, maintenance and land management of government-owned and supported infrastructure
- manage central services

- represent Alberta's interests in internal and external trade agreements impacting procurement

The Ministry consists of the Department of Infrastructure. For more detail on the Ministry visit the website at www.infras.gov.ab.ca.

Ministry spending

In 2001–2002, the Ministry spent $2,084 million primarily on the following programs:

| | **(millions of dollars)** |
|---|---|
| Constructing and upgrading school facilities | 713 |
| Constructing and upgrading health care facilities | 468 |
| Constructing and upgrading post-secondary facilities | 329 |
| Management of properties | 270 |
| Energy rebates | 201 |
| Swan Hills Treatment Plant | 29 |

Ministry revenue

The Ministry's revenue from sources external to the government in 2001–2002 was $58 million, of which $21 million was earned from operating the Swan Hills Treatment Plant.

## Scope: what we did in our audits

Three parts to our audit

1. We followed up on our previous recommendations on business case analyses, deferred maintenance, long-term capital asset plans and health and safety risks at PSI facilities. We also examined the Ministry's systems for contract management.

2. We audited the Ministry's financial statements for the year ended March 31, 2002.

3. We completed specified auditing procedures on the Ministry's performance measures.

# Findings and recommendations

## 1. Systems findings

### 1.1 Contract management systems

#### 1.1.1 Contracting processes

**Recommendation No. 28**

Contract management

**We recommend that the Ministry of Infrastructure strengthen its contract management processes by:**

1. **ensuring contracts for consulting services are awarded through a process that is open, fair, and gets good value**
2. **ensuring that all contracts contain the provisions required to protect the Ministry**
3. **evaluating consultant and contractor performance**
4. **establishing a policy for renewing property management contracts without competition**

Background

The Ministry enters into many contracts each year for the construction and maintenance of government facilities. It also uses consultants to provide advice on the selection of contractors and to supervise their work during construction. The Ministry needs contract management systems that ensure its contractor and consultant selection processes are open, fair and cost-effective.

Criteria

A contract management system should ensure:

1. An appropriate contractor selection method is chosen.
2. Competition is open, fair, and gets good value.
3. The decision to sole source is justified.
4. The contract contains a sound framework for contract management and accountability.
5. Contracting performance is monitored and acted upon.

Findings

We reviewed the Ministry's contract management systems and found it has many elements of a good system. However, the Ministry needs to improve contract management in the following areas:

Ministry sole sources consulting services

1. The Ministry awards contracts for construction and maintenance projects through a tendering process. However, it sole sources engineering, architecture and cost consulting services. It uses the past experience of individual project managers to select consultants. Also, it pays these professionals at rates that their professional bodies determine. The Ministry does not formally document the justification for sole sourcing consulting services or for not negotiating fees. Thus it is unable to show that its selection process is cost-effective.

Ministry should use RFPs

2. The Ministry should use requests for proposals (RFP) when it is looking for a best value solution to resolve a problem or obtain goods or services. We noted one example where the Ministry engaged a consultant to co-ordinate the work of other consultants who conducted facility evaluations for post-secondary institutions. As the work progressed, the Ministry revised the consultant's fees from $100,000 to $450,000. One of the reasons for the increased fees was the scope of the work. The Ministry found that the scope of the work was more complex than it originally anticipated. An RFP process would have allowed the Ministry to clearly define the scope and more closely estimate the costs.

Some contracts did not specify ministry's right to review contractor's performance

3. Some of the contracts we reviewed did not contain a clause outlining an effective dispute resolution process. Also, some of the contracts did not specify the right of the Ministry to inspect and/or obtain independent review of the contractor's performance. In addition, none of the contracts we examined for consulting architects and engineers specified requirements for carrying professional indemnity insurance.

Performance not evaluated

4. None of the contracts we examined contained measurable performance targets. The Ministry does not formally evaluate consultant or contractor performance, though it informally considers previous performance as a factor in engaging consultants.

Property management contracts

5. The Ministry engages contractors for various elements of property management. Of the four contracts of this type we examined, three were renewals of contracts that the Ministry had previously tendered. The Ministry's practice is to sign two-year contracts and renew them for two more two-year terms. But the Ministry has not established a policy for renewing contracts without competition.

Implications and risks

If it does not improve its practices, the Ministry is at risk of breaching the principles of accessibility, competition, fairness to suppliers and transparency that lie at the core of government contracting policy.

### 1.1.2 Conflict of interest

**Recommendation No. 29**

Conflict of interest

**We recommend that the Ministry of Infrastructure require its employees to disclose annually in writing:**

1. **that they understand and agree to follow the *Code of Conduct and Ethics.***
2. **any potential conflicts of interest they have.**

**We also recommend that the Ministry ensure that consultant contracts contain a conflict of interest provision.**

Background

All government employees must be familiar with and abide by the *Code of Conduct and Ethics for the Public Service of Alberta* (the Code) produced by the Personnel Administration Office (PAO). The Code deals with conflicts of interest between the private interests of employees and their duty to the public. The PAO has indicated that it is not possible to produce a complete list of all conflict of interest situations. The Code provides guidance for employees to gauge their own activities.

Administration and enforcement of the Code—including the development of any department-specific supplementary codes—is the responsibility of each Deputy Minister. The Code requires the Deputy Minister to issue instructions as necessary for implementation of the Code and to promote the Code regularly to ensure that employees are aware of their obligation. The Code requires employees to disclose to the Deputy Minister any situations, which may be, or appear to be, conflicts of interest.

Criteria

1. Conflict of interest guidelines should be in place and followed.
2. Expectations regarding disclosure and avoidance of potential and actual conflicts of interest should be defined and published.
3. Types of transactions that can lead to a conflict should be identified.
4. Abstention from purchase decisions should be required when self-interest could influence decisions.

Findings

Employees don't confirm conflict of interest in writing

The Ministry provides all employees with a copy of the Code when they start working. However, it does not require them to confirm in writing that they understand the Code and agree to abide by it. Also, the Ministry has not issued any written guidance on circumstances that would result in a conflict of interest or requiring employees to abstain from purchase decisions when self-interest could influence decisions.

Consultants do not formally confirm conflicts of interest

The Ministry uses consultants to provide advice on the selection of contractors and supervise their work during construction. It does not require these consultants to formally confirm that they do not have a conflict of interest with any of the parties bidding on a job.

Implications and risks

The Ministry may be unaware of conflicts of interest between the private affairs of employees and their public duty or between consultants and third parties. There is a risk that the Ministry will not obtain best value from a contract if employees or consultants make decisions based on their personal interests.

### 1.2 Long-term capital asset plans

**Recommendation No. 30**

Long-term strategic plans

**We again recommend that the Ministry of Infrastructure implement processes to ensure that capital plans received from ministries, regional health authorities, school jurisdictions and post-secondary educational institutions contain the information it requires to prepare its long-term strategic plans (2001—No. 25).**

Background

We have repeated our previous recommendation (2001—No. 25) as the Ministry has not made satisfactory progress in implementing it.

The Financial Management Commission made the following recommendation on this subject: "Government should prepare a three to five year plan for capital and infrastructure projects and include the plan as part of its annual budget."[1]

Findings

Ministries not required to submit long-term capital plans

The Ministry requests but does not require ministries to submit long-term capital plans. Some of the letters ask that the ministries provide multi-year capital plans if they are prepared. However, the letters do not spell out the

[1] Moving From Good to Great, Enhancing Alberta's Fiscal Framework, Alberta Financial Management Commission, July 2002, page 58.

information the capital plans should include. Last year, the Ministry told us it was revising its capital manual to formalize the requirement for ministries to submit long-term capital plans. This year, the Ministry engaged a consultant to review the existing capital manual and provide an outline of what should be included in the manual. But the Ministry has not yet revised the manual.

Only eight RHAs submitted capital plans

The capital manual for health facilities requires regional health authorities (RHAs) to submit annually their capital plans by October 31. By March 2002, only eight of the nineteen authorities had submitted their plans. In March, the Minister of Health and Wellness and the Minister of Infrastructure sent a letter to each of the remaining eleven authorities indicating that the Ministry had not yet received their long-term capital plans. The letter stressed the importance of this document and requested that they should submit their plans no later than October 31, 2002. The Ministers also wrote to the eight authorities that had submitted their plans with comments on what additional information was required when they submit their next plans.

School boards' capital plans

The school capital manual requires school jurisdictions to annually submit their capital plans by May 31. The Ministries of Infrastructure and Learning intend to review the plans for compliance with the requirements and meet with the school boards to discuss deficiencies and required improvements.

Ministry working with PSIs to develop campus development plans

Post-secondary educational institutions (PSIs) include their capital plans in the business plans they submit to the Ministry of Learning. Last year, we reported that the Ministry of Learning was working with PSIs to develop detailed campus development plans. Also, the Ministry of Learning is revising the procedures to require the institutions to more clearly prioritize projects.

#### Implications and risks

The Ministry may not receive the information it needs to adequately prepare its long-term capital plan. As a result, capital spending decisions may not be properly informed.

### 1.3 Critical health and safety risks

**Recommendation**

Accountability information

**We again recommend that the Ministry obtain sufficient accountability information from post-secondary institutions (PSIs) to allow it to evaluate whether progress is being made in reducing critical health and safety needs relating to facilities.**

### Background

We have repeated our previous year recommendation (2001—No. 36) as it has only partially been implemented. Last year, we made this recommendation to the Ministries of Learning and Infrastructure. This year, we make this recommendation only to the Ministry of Infrastructure. Both Ministries have told us that the Ministry of Infrastructure is responsible for this matter.

Critical health and safety issues include concerns such as elevator and structural safety, and fire suppression systems.

### Findings

Ministry made progress in addressing our recommendation

The Ministry has made progress towards addressing our prior year's recommendation. It has taken the following steps:

- Last year, the Ministry was conducting comprehensive surveys of all PSI facilities. This year, it completed these surveys. The surveys identified the work necessary to restore the physical conditions of the facilities and address critical health and safety issues. The Ministry intends to use this information to track progress made by PSIs in reducing critical health and safety needs relating to their facilities.
- The Minister of Infrastructure stated in the 2001–2002 Infrastructure Renewal Envelope (IRE) grant letter that issues such as health and safety were to receive particular emphasis.
- The Ministry required PSIs to submit accountability reports for the 2000–2001 IRE grants. These reports provide detail on how each PSI spent the IRE grant money in such categories as health and safety and increased functionality.

However the Ministry still needs to address the following issues:

PSIs not required to report on critical health and safety issues

1. Currently, the Ministries of Learning and Infrastructure require institutions to report how their capital plans and proposed initiatives will contribute to improving the physical condition of the campus and its facilities. However, PSIs are not specifically required to refer to critical health and safety issues they plan to address.

Ministry should modify accountability reports

2. The Ministry should modify the current accountability report template to include a column entitled "critical health and safety needs." The new column should report opening outstanding critical health and safety needs less current year's expenditures.

Implications and risks

Accountability reports do not indicate the critical health and safety expenditures made. Therefore the Ministry has insufficient information to evaluate whether progress has been made in reducing critical health and safety needs.

## 1.4 Business case analyses

Background

In our *2000–2001 Annual Report* (2001—No. 23), we recommended that the Ministry of Infrastructure establish and enforce its requirements for preparing business case analyses, including the preparation of a public sector comparator for partnership projects.

The Financial Management Commission made recommendations (No. 8 and 9) [2] on funding capital projects. It recommends the need to consider alternative funding arrangements.

Findings

Business case standards prepared

The Ministry is making satisfactory progress in implementing our recommendation. The government formed a cross-government committee to develop standards for preparing business cases. The Deputy Minister of Infrastructure chairs the committee. The committee has prepared draft standards and a template. The Ministry is testing these standards by using the template on a number of projects and providing feedback to the committee.

CPI is preparing guidelines for P3 business cases

In March 2002, the *Capital Planning Initiative Committee* (CPI) issued a progress report on its activities. This report indicates that CPI is developing guidelines for preparing business cases for public-private partnership (P3) projects. These guidelines will require:

- major proposals to be supported by a business case that analyzes costs, benefits and risks associated with the initiative
- business cases to demonstrate strategic alignment of the proposal with business plan of the ministry and the government
- business cases to include a public sector comparator. The public sector comparator should identify the full life cycle cost of providing the proposed infrastructure using conventional public sector procurement network.

[2] Moving From Good to Great, Enhancing Alberta's Fiscal Framework, Alberta Financial Management Commission, July 2002, pages 60 and 61.

### 1.5 Deferred maintenance

#### Background

In our *2000–2001 Annual Report* (2001—No. 24), we recommended that the Ministry take the following actions to ensure that it bases its spending decisions on adequate information:

- establish a consistent definition of deferred maintenance
- acquire and use systems that accurately measure the extent and cost of deferred maintenance
- disclose the extent and cost of deferred maintenance in its annual report

Financial Management Commission made a similar recommendation: "standardized methods for estimating and reporting deferred maintenance…should be established and communicated."[3] The Commission also recommended the government and its funded agencies use this information in their planning and reporting.

#### Findings

Ministry defined deferred maintenance

The Ministry is making satisfactory progress in implementing our recommendation. During the year, the Ministry formed a committee to implement our recommendation. The committee has developed draft definitions of deferred maintenance and terms that are essential in developing a consistent definition of deferred maintenance.

Ministry has prepared an action plan

The committee has also prepared an action plan. The plan calls for the following tasks to be completed between 2002 and 2004:

- fine tuning the definitions
- collecting and recording information on the amount of deferred maintenance
- developing tools to collect, measure, and report deferred maintenance. The Ministry is currently developing a building and land information system. The committee has identified this system as the one the Ministry should use to collect, measure and report deferred maintenance. The Ministry expects to complete this system by March 31, 2003.

## 2. Financial statement audit: one reservation of opinion

Reservation of opinion

We audited the financial statements of the Ministry for the year ended March 31, 2002. Our auditor's report contains a reservation of opinion resulting from a departure from Canadian generally accepted accounting principles.

[3] Moving From Good to Great, Enhancing Alberta's Fiscal Framework, Alberta Financial Management Commission, July 2002, page 61.

Site restoration cost not recorded

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. The effect of this departure from generally accepted accounting principles is significant.

## 3. Specified auditing procedures

We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

# Innovation and Science

## Summary: what we found in our audits

1. The Ministry should improve systems and procedures to ensure it effectively delivers services at reasonable cost:

   1.1 Government of Alberta Central Information Technology (IT) Environment

   To improve the central IT environment, the Ministry should:
   - resolve deficiencies in the IMAGIS environment and strengthen the overall IMAGIS control framework—see page 169.
   - establish a framework to coordinate reviews of control environments at service providers—see page 171.
   - ensure that responsibilities of the IMAGIS Management Team (IMT), as described in the Master Agreement with the service provider, are addressed—see page 171.
   - establish a systems development methodology—see page 172.

2. We issued two reservations of opinion on the financial statements of the Ministry and Department—see page 174.

3. We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

4. Other entities that report to the Ministry
   - iCORE should improve its controls over research grants—see page 174.
   - We issued unqualified auditor's opinions on the financial statements of the Alberta Science and Research Authority, iCORE and Alberta Research Council for the year ended March 31, 2002.
   - We have included an additional paragraph in the auditor's report on the financial statements of the Alberta Heritage Foundation for Science and Engineering Research, as the meaning of "real value over the long term" of the Foundation's endowment fund could not be assessed for compliance with the Foundation's Act. The Alberta Heritage Foundation for Science and Engineering Research should request clarification of the meaning of "real value over the long term" of its endowment fund in its legislation—see page 175.

The Foundation should request clarification of its legislation

## Overview of the Ministry

Two core businesses

The Ministry's 2001–2004 business plan describes two core businesses:
- Science, Research and Development
- Government Information Technology

Department ASRA, iCORE, ARC and the Heritage Foundation

The Ministry consists of the Department and the Alberta Science and Research Authority (ASRA). ASRA has two wholly owned subsidiaries, the Alberta Research Council Inc. (ARC) and iCORE Inc. Also, the Alberta Heritage Foundation for Medical Research, the Alberta Foundation for Health Research and the Alberta Heritage Foundation for Science and Engineering Research report through the Minister of Innovation and Science to the Legislative Assembly.

For more information on the Ministry, visit the website at www.innovation.gov.ab.ca.

Ministry spending

In 2001–2002, the Ministry spent $192 million, mainly on the following:

| | **(millions of dollars)** |
|---|---|
| Science, Research and Development | 137 |
| Government Information Technology | 51 |

Ministry revenue

The Ministry received $50 million from sources external to government, consisting of contract revenue.

## Scope: what we did in our audits

Four parts to our audit

1. We examined the government's central IT control environment, consisting of the IMAGIS control environment at the service provider, the network infrastructure managed by the Ministry of Innovation and Science (AGNpac), and IMAGIS as implemented in the ministries. We also followed up on previous recommendations that the Ministry implement a government IT framework and improve systems to review government research.

2. We audited the financial statements of the Ministry and Department for the year ended March 31, 2002.

3. We completed specified auditing procedures on the Ministry's

performance measures.

4. We audited the financial statements of the Alberta Science and Research Authority, the Alberta Research Council Inc., iCORE, the Alberta Heritage Foundation for Medical Research, Alberta Foundation for Health Research and Alberta Heritage Foundation for Science and Engineering Research for the year ended March 31, 2002.

# Findings and recommendations

## 1. Systems findings

### 1.1 Government of Alberta Central Information Technology (IT) Environment

Our review of the government's central IT environment included:

- an examination of the Alberta Government Integrated Management Information System's (IMAGIS) general control environment, consisting of the processing environment at the service provider, and as implemented at the ministries
- a review of the security around IMAGIS
- a review of the Alberta Government Network (AGNpac)
- an examination of the feasibility and benefits of coordinating reviews of control procedures at service providers
- a follow up on items reported in the previous year

We made a number of recommendations to management following our work in this area. These included the following:

#### 1.1.1 IMAGIS Control Environment

**Recommendation No. 31**

**We recommend that the Ministry of Innovation and Science resolve deficiencies in the IMAGIS environment and strengthen the overall IMAGIS control framework.**

Background

Government's main financial system is IMAGIS

IMAGIS is the system used by ministries to process financial transactions, including payments for supplies and services and payroll. It also produces the accounting records that ministries rely on for the preparation of their financial statements and that are used to prepare the Province's consolidated financial statements.

Service provider is used

A service provider hosts and operates IMAGIS (a customized version of PeopleSoft) under an outsourcing contract with the Government of Alberta. Under the agreement, the service provider maintains the PeopleSoft Finance and Human Resources modules.

Review of control environment at service provider done this year

We have recommended in previous years that management get assurance on the effectiveness of controls in the central control environment. In response, this year management initiated a SysTrust review of the control environment at the service provider. SysTrust is a reporting standard developed by the Canadian Institute of Chartered Accountants (CICA), specifically designed to assess the reliability of financial systems.

To enable us to complete our examination of the IMAGIS environment, we considered the results of the SysTrust review done by a private sector firm of chartered accountants. We also conducted our own review of the integrity of the Government's PeopleSoft operations, within the service provider, and as implemented within the ministries.

### Findings

Reviews identified significant concerns

We identified significant concerns with control procedures at the service provider, as well as elsewhere in the IMAGIS environment. The SysTrust review also identified a number of significant concerns with the service provider's control environment. Concerns were noted in the critical areas of security management, system configurations, access controls and segregation of duties. In addition, the SysTrust review also identified deficiencies in business continuity procedures.

Management should obtain on-going assurance on control environments

Management needs to receive on-going assurance on the effective operation of control procedures, both at the service provider and within government. Such assurance can be obtained through regular, periodic assessments of the control procedures at the service provider through SysTrust reviews, or reviews carried out by an internal audit function, or reviews by an internal control group specifically responsible for monitoring the IMAGIS control environment.

### Implications and risks

Data that is used for key business decisions could be susceptible to unauthorized modification, resulting in incomplete or inaccurate management information.

General control environment needs to be strengthened

Since management has not received an acceptable level, or quality, of controls from the service provider, management is faced with a higher risk than they might expect, that is further exacerbated by the weak control environment in the IMAGIS system in the ministries.

Management is presently working with the service provider to rectify identified deficiencies.

### 1.1.2 Co-ordination of Reviews of Control Environments at Service Providers

**Recommendation**

**We recommend that the Ministry of Innovation and Science coordinate reviews of control environments at service providers.**

Background

Many ministries have outsourced their IT processing, management, or operational activities to private sector service providers.

Findings

Management needs opinion on control procedures at service organizations

We have recommended to a number of ministries that ministry management needs to obtain opinions on the adequacy of control procedures at the service organizations they use. We understand that management is standardizing contracts, so that future contracts with service providers will contain such a requirement. Until service providers are required to provide ministries with suitable assurance, the Ministry of Innovation and Science should develop a process to coordinate reviews of service providers. This type of leadership would be consistent with the core business activities of the Ministry.

Implications and risks

Unnecessary duplication of reviews

Unless reviews of service providers are coordinated, there will be unnecessary duplication of reviews, resulting in waste.

### 1.1.3 IMAGIS Management Team

**Recommendation No. 32**

**We recommend that the Ministry of Innovation and Science ensure that the strategic and contractual oversight responsibilities currently assigned to the IMAGIS Management Team, under Article 6 of the Master Agreement with the service provider, are adequately addressed.**

Background

IMT to provide key leadership to IMAGIS

The Master Agreement with the service provider requires that an IMAGIS Management Team (IMT) be established. It was envisioned that the IMT would provide key leadership to the IMAGIS project, including strategic and tactical direction, and be the primary means of communication between the government and the service provider.

IMT should be established

In previous years, we have reported to management that the conditions of Article 6 have not been met, and that establishment of the IMT should be a high priority. Last year, management agreed to review the requirements of Article 6 to determine if an amendment to the Master Agreement was required.

Findings

Progress has been slow, and action to implement the IMT remains outstanding.

Strategic leadership and contract oversight is lacking

In the absence of the IMT, other cross-ministry and technical committees, that have other primary responsibilities, are attending to IMAGIS-related operational and functional issues. However, this arrangement is inefficient, and IMAGIS continues to lack the necessary strategic leadership and contract oversight focus, which an IMT would provide.

Implications and risks

Our work in the IMAGIS environment this year (as described above) emphasizes the need for a government group responsible for monitoring and performing the responsibilities originally envisioned for the IMT.

### 1.1.4 Systems Development

**Recommendation No. 33**

**We again recommend that the Ministry of Innovation and Science, with the cooperation of other ministries, develop a systems development methodology (2001—No. 27).**

Background

This recommendation was initially made in last year's *Annual Report* (2001—No.27). We had noted that systems were being developed by vendors using a variety of systems development methods that may or may not meet the requirements of government. One of these systems, ExClaim, a project to automate expense claims using a web-based application, had to be redeveloped due to the many concerns raised by the user community and the findings of a post-implementation review.

Findings

Systems development methodology required

Management has started to address this recommendation. Our work this year on two recently developed systems again confirmed the urgent need for guidance in this area. ExClaim![2] (the redeveloped ExClaim system) contained deficiencies that could have been identified and corrected if an appropriate methodology had been in place.

Implications and risks

Flawed systems may be developed

Without an approved systems development methodology, there is an increased risk that flawed systems may be developed and that new systems might not be efficient and effective.

### 1.2 Information Technology

In our *1999–2000 Annual Report* (page 193), we recommended the Ministry develop systems to assist in the management of government wide IT services and infrastructure. In our *2000–2001 Annual Report* (page 169) we again made this recommendation.

The Ministry has made progress in implementing the framework in 2001–2002. Corporate IT plans for 2001–2002 and for 2002–2003 were approved by the Deputy Minister's Committee, and progress on these plans is reported back to the Committee during the year. As well, the Office of the CIO presented an overview of IT spending to the Deputy Minister's Committee and to Treasury Board. The Office of the CIO is also reviewing Ministry IT plans, business plans, and major unplanned initiatives for consistency with cross-government standards and goals

The Ministry has developed criteria for setting Information and Communications Technology (ICT) priorities to assist Deputy Ministers in recommending priority ICT investments to Treasury Board. The Ministry is also planning to develop performance measurement criteria for IT projects to assist Ministries in reporting on the progress of IT initiatives. We concluded that this recommendation has been implemented.

### 1.3 ASRA Annual Review

We recommended in the *2000–2001 Annual Report* (page 170–171) that ASRA improve its system to review government science, research and development.

ASRA has made progress on implementing our recommendations by:

- defining the scope of the review,
- clarifying the types of research to be included,
- identifying government research initiatives funded during the year,
- reviewing the relationship between department-funded research and ASRA strategic priorities and/or government business plan goals,
- reviewing key outcomes of government research investments, and
- identifying gaps in research investment or policy

While the Ministry has defined the scope of the review to exclude research undertaken by universities, technical institutions, and regional and Provincial health authorities, management has indicated that the scope of the 2002–2003 review should include research and development at Alberta universities. We support the inclusion of research at universities in the review, and we will continue to monitor progress. The Ministry has made satisfactory progress to date.

## 2. Financial statement audits: two reservations of opinion

Some capital assets not capitalized and amortized

Our auditor's reports on the financial statements of the Department and Ministry have a reservation of opinion for capital assets. The Department and Ministry immediately expense acquisitions under $15,000, instead of amortizing them over their useful lives. The Department and Ministry are understating their capital assets because they must follow a corporate government accounting policy. Also, the Department and Ministry recorded an expense for services to be received in future years. The expenses should have been recorded in the period in which services were rendered.

## 3. Specified auditing procedures

We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

## 4. Findings on other entities that report to the Ministry

### 4.1 iCORE Inc

**Recommendation**

**We recommend that iCORE improve control of its research grants.**

#### Background

iCORE provides research grants for Information and Communications Technology (ICT) to researchers and scientists at Alberta Universities. Grants range from studentships to Chair and Professorship grants.

#### Findings

During the year, iCORE signed a number of large contracts for research to be paid over five years based on a payment schedule. According to the contract terms, release of payment depends on iCORE's receipt of quarterly and annual program and financial reports. iCORE advanced $4 million to universities to administer the funds without receiving the necessary reporting information from the researcher, contrary to the grant payment schedule and the contract. In addition, iCORE did not obtain any assurance about controls over the funds held by the universities.

Implications and risks

Advancing funds ahead of the payment schedule significantly weakens the effectiveness of the controls in the contract. There is greater risk that a grant recipient could over-expend funds in any given year or not fulfill their commitment under the contract, and that iCORE will not be able to recover misspent grants.

### 4.2 Financial statement audits

Our auditor's report on the financial statements of ASRA, ARC and iCORE contained unqualified opinions.

### 4.3 Clarification of Legislation – Alberta Heritage Foundation for Science and Engineering Research

**Recommendation No. 34**

**We again recommend that the Minister of Innovation and Science seek an amendment to the *Alberta Heritage Foundation for Science and Engineering Research Act* to clarify the meaning of "real value of the Endowment Fund over the long term" (2001—page 174).**

Background

Recommendation is repeated from a 2000–2001 recommendation

In our *2000–2001 Annual Report* (page 174), we made a recommendation to clarify the meaning of "real value over the long term" of the Endowment Fund in the Foundation's Act.

Our auditor's report for the Alberta Heritage Foundation for Science and Engineering Research states that transfers from the Endowment Fund cannot be assessed for compliance with the Foundation's Act because the Act states that payments shall not be made out of the Endowment Fund if they would impair the real value of the Endowment Fund over the long term. The terms "real value" and "over the long term" are not defined.

Section 8(2) of the *Alberta Heritage Foundation for Science and Engineering Research Act* states that "The Provincial Treasurer shall not pay money out of the Endowment Fund if in the opinion of the trustees of the Foundation, on consultation with the Provincial Treasurer, the payment would impair the real value of the Endowment Fund over the long term." The Foundation's legislation does not define the meaning of "real value of the Endowment Fund over the long term." "Real value" could be interpreted in a variety of ways, including market value, inflation proofed assets or cost.

Findings

The Foundation's trustees have not taken action to seek an amendment to the Act.

In response to our recommendation, the Foundation stated that it would develop appropriate processes, policies and actions, to realize the intent of the Act. However, this will not adequately address our concerns, as only the Legislative Assembly can clarify the intent of these words.

During 2001–2002, the Fund transferred $1.55 million (2001—$575,000) to the Foundation. The market value of the Endowment was $475 million at March 31, 2002 (2001—$467 million). The original Endowment was $500 million. If "real value" is considered to be the market value of the Endowment Fund, or the original Endowment plus inflation, then it could be argued that no payment should have been made out of the Fund in 2002 or 2001, as the payments would not comply with legislation. However, the assessment of legislative compliance also depends on the meaning of the phrase "over the long term."

Clarification of the meaning of the legislation would assist the trustees of the Foundation in their oversight responsibilities as trustees of the Endowment Fund. It would also help Alberta Revenue ensure that payments from the Endowment Fund are in compliance with the Act.

Implications and risks

Transfers from the Fund to the Foundation, made by the Minister of Revenue and the trustees of the Foundation, may not be in compliance with legislation.

# International and Intergovernmental Relations

## Summary: what we found in our audits

Qualified auditor's report

1. Our auditor's report on the financial statements of the Ministry for the year ended March 31, 2002 has a reservation of opinion. The Ministry immediately expenses acquisitions under $15,000, instead of amortizing them over their useful lives. The Ministry is understating its capital assets because it must follow a corporate government accounting policy.

2. We found no exceptions when we completed the specified auditing procedures on the Ministry's performance measures.

## Overview of the Ministry

Core business

The Ministry's 2001–2004 business plan describes its core business as "providing leadership in the management of Alberta's international and intergovernmental relationships."

The Ministry provides services across government

Some key services provided include:
- advancing Alberta's interests through intergovernmental negotiations and discussions
- coordinating Alberta's strategies on international and intergovernmental relations
- providing strategic advice and policy analysis to Alberta ministries and other clients
- obtaining, supplying and analyzing information for Alberta ministries and other clients

Corporate structure

The Ministry consists of the Department. The Department does not prepare separate financial statements.

Ministry spending and funding

In 2001–02, the Ministry spent $6 million. The Ministry receives no revenue from sources external to the government.

For further details about the Ministry, visit their website at www.iir.gov.ab.ca.

# Justice and Attorney General

## Summary: what we found in our audits

1. The Ministry should improve systems for the *Maintenance Enforcement Program* to ensure it effectively delivers its services. Funds collected under this program were not forwarded to the intended recipients in certain circumstances—see page 181.

2. We have two reservations of opinion on the financial statements of the Ministry—see page 183.

3. We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

PTO needs to determine an appropriate SRF balance

4. The Office of the Public Trustee (PTO) needs to determine the appropriate balance to retain in the Special Reserve Fund (SRF) and prepare a plan to deal with any excess funds—see page 183.

## Overview of the Ministry

Four core businesses

The Ministry's 2001–2004 business plan describes four core businesses:
- Prosecutions
- Courts
- Legal services to government
- Legal services for vulnerable Albertans

Ministry spending

The total operating expenses for the Ministry were $223 million in 2001–2002, comprised mainly of the following:

| | **(millions of dollars)** |
|---|---|
| Court services | 89 |
| Legal services | 61 |
| Support for legal aid | 27 |
| Motor Vehicle Accident Claims | 24 |
| Public Trustee | 8 |
| Medical Examiner | 5 |

Ministry revenue

Total revenue for the Ministry was $88 million in 2001–2002. The Ministry's main revenue sources are:

| | (millions of dollars) |
|---|---|
| Fines and related late payment penalties | 34 |
| Fees | 32 |
| Transfers from the federal government | 9 |

Trust funds

A significant aspect of Justice's activities is the management of funds held on behalf of others. The balances in these accounts total approximately $499 million. Of these, trust funds administered by the Office of the Public Trustee total $457 million. For more detail on the Ministry, visit the website at www.gov.ab.ca/just/.

## Scope: what we did in our audits

Four parts to our audit

1. We followed up on our previous recommendations relating to capital asset management and fines. We also reviewed processes in the *Maintenance Enforcement Program* to ensure that maintenance payments are remitted to the appropriate party.

2. We audited the financial statements of the Ministry for the year ended March 31, 2002.

3. We completed specified auditing procedures on the Ministry's performance measures.

4. We performed the following work on the Office of the Public Trustee, an entity that reports to the Ministry:

   4.1 We followed up on our previous recommendation relating to the Office of the Public Trustee's management of the Special Reserve Fund.

   4.2 We audited the financial statements of the Office of the Public Trustee for the year ended March 31, 2002.

# Findings and recommendations

## 1. Systems findings

### 1.1 Maintenance Enforcement Program

Background

The Ministry is authorized by the *Maintenance Enforcement Act* to collect child and spousal maintenance granted by the courts. The Ministry forwards the maintenance payments to the recipient unless the recipient collects *Support for Independence*, in which case the Crown retains the funds.

Criteria

The process should ensure that maintenance enforcement payments are remitted to the appropriate party.

Findings

Maintenance enforcement payments incorrectly retained

In September 2001, we were informed by the Ombudsman of the results of work done by his Office to investigate a complaint from an individual about maintenance enforcement payments. As a result of the investigation, the Ombudsman found that the Ministry was not forwarding the correct amount of maintenance enforcement payments to the complainant. The Ministry had withheld funds because the Ministry incorrectly believed that the complainant was receiving support for independence payments. In situations where an individual is receiving *Support for Independence* payments from the Ministry of Human Resources and Employment, the Ministry of Justice retains maintenance enforcement payments received for the individual.

Ministry is in the process of correcting its errors

We reviewed this matter with the Ministry of Justice because of concerns that the Ministry's systems could be deficient and that other similar errors could have occurred. We found that the Ministry was also concerned that other errors could have occurred and had initiated the following processes to address the problem:

- The Ministry did a preliminary review of files dating back to 1986 and estimated that $1.4 million of maintenance enforcement payments were incorrectly withheld. The Ministry will complete a review of all files by March 31, 2003. As files are reviewed and amounts determined to be incorrect, amounts will be refunded to individuals.

- The Ministry is now receiving monthly reports from the Ministry of Human Resources and Employment, which indicate changes in individuals receiving *Support for Independence* payments.
- The Ministry intends to improve its systems so that information from the Ministry of Human Resources and Employment can be obtained on-line and the Ministry's accounts updated promptly.

We will continue to monitor progress until we are satisfied that all errors have been corrected and appropriate systems have been implemented.

#### Implications and risks

Without appropriate systems, there is a risk that the Ministry may retain funds that should be forwarded to individuals under the *Maintenance Enforcement Program* or alternatively, may forward funds that should be retained.

### 1.2 Capital asset management

#### Background

In our *2000–2001 Annual Report* (2001—No.28), we recommended that the Ministry of Justice improve its capital asset management process by completing long-term capital plans and linking this information to the business planning process.

#### Findings

Improved capital asset management process

The Ministry has improved its capital asset management process by preparing a more detailed capital project listing. The project listing now includes all capital projects the Ministry needs in the short (1–2 years), medium (3–5 years), and long (6–10 years) terms. The project listing also shows how the projects link to the Ministry's core businesses and goals.

Ministry awaiting specific guidance

The Ministry has made satisfactory progress in addressing our 2000–2001 recommendation. The Ministry is now awaiting guidelines for capital asset plans from the Ministry of Infrastructure. The Ministry of Justice plans to incorporate the guidelines into its planning process.

### 1.3 Fines

In our *2000–2001 Annual Report* (2001—No. 29), we again recommended the Ministry of Justice determine the results and costs of its fines collection activities.

Recommendation implemented

We are pleased to report the Ministry has implemented our recommendation. The Ministry now determines the number of fines levied, collected, satisfied, discontinued, and outstanding. Also, it has established a process to calculate the cost of collecting fines.

## 2. Financial Statement audits – two reservations of opinion

Capital assets expensed and liabilities not recorded

Our auditor's report on the financial statements of the Ministry has reservations of opinion. The Ministry immediately expenses acquisitions under $15,000, instead of amortizing them over their useful lives. The Ministry is understating its capital assets because it must follow a corporate government accounting policy. Additionally, the Ministry did not record a liability for personal injury claims under the *Motor Vehicle Accident Claims Act* that are likely to result in settlement.

## 3. Specified auditing procedures

We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

## 4. Findings on entities that report to the Ministry

### 4.1 Special Reserve Fund

**Recommendation**

Special Reserve Fund

**We again recommend that the Public Trustee determine and plan for the level of funding required to meet the legislative purposes of the Special Reserve Fund.**

#### Background

We first made this recommendation in 1998–1999.

The PTO maintains a Special Reserve Fund in addition to the Common Fund

The Office of the Public Trustee pools and invests certain clients' money in the Common Fund. The PTO also maintains a Special Reserve Fund (SRF). The PTO pays interest to its clients whose money it holds in the Common Fund at rates the Public Trustee sets by regulation. The regulated interest rate is not the same as the actual rate of return earned by these funds.

The SRF operates as a contingency fund to provide for future financial obligations resulting from errors and omissions of the Public Trustee. In doing so, the SRF absorbs surpluses or provides for shortages between regulated earnings paid to clients and actual earnings.

Balance in the SRF has grown to $51 million

Findings

Since 1990, the SRF balance has grown significantly and at March 31, 2002, it was $51 million. For the past few years, the PTO has been allocating interest to the client accounts at rates that are about 1 to 2 percentage points higher than the actual rate, to reduce the SRF balance. Also, last year the PTO engaged an actuary to project the balance of the SRF. The actuary reported that, based on the PTO's current interest allocation practice and certain economic assumptions, the PTO would deplete the balance of the SRF in about eight years. However, the PTO still needs to determine the appropriate balance to retain in the SRF and prepare a plan to deal with the excess funds.

Implications and risks

The PTO allocates interest earnings to client accounts that are higher or lower than actual earnings. This creates inequities when clients change over the years.

## 4.2 Financial statement audit

Our auditor's report on the financial statements of the Office of the Public Trustee for the year ended March 31, 2002 was issued without reservation.

# Learning

## Summary: what we found in our audits

1. The Department should improve systems and procedures in the following areas to ensure adequate planning by school jurisdictions and public post-secondary institutions and compliance with Departmental regulatory requirements.

   1.1 Basic Learning—The Department should:
   - improve its systems to ensure that school jurisdictions are complying with the requirements of the Career and Technology Studies (CTS) Program—see page 190.
   - improve its systems to ensure that long-term capital planning for school facilities is consistent with plans for the delivery of education—see page 191.
   - establish a risk management process to improve the effectiveness of its controls and monitoring activities—see page 192.
   - determine what steps are needed to ensure charter school compliance with reporting requirements—see page 192.

   1.2 Adult Learning—The Department should:
   - take the necessary steps to ensure that the Department and the public post-secondary institutions comply with the disclosure requirements of the tuition fee regulations—see page 193.
   - obtain sufficient information to evaluate the role of school jurisdictions in the education of adults—see page 194.
   - provide an updated Capital Assets Policy Statement to the public post-secondary institutions, in consultation with the Departments of Infrastructure and Innovation and Science—see page 195.

2. We again issued an adverse auditor's opinion on the Ministry financial statements because the statements did not consolidate the financial statements of school jurisdictions and the public post-secondary institutions. The Ministry and the Alberta School Foundation Fund (Fund) each had a reservation of opinion because the allowance for assessment adjustments and appeals was overstated. The opinion on the Ministry, the Departmental and the Fund financial statements had a reservation of

opinion because related party transactions weren't properly described—see page 197.

3. We did not have any exceptions on the specified auditing procedures report provided in 2001 on the Ministry's performance measures. Our work in 2002 on the Ministry performance measures is in progress.

4. We have the following findings on entities accountable to the Minister.

4.1 Basic Learning

4.1.1 We noted internal control weaknesses and accounting and reporting issues when we reviewed, under section 19(4) of the *Auditor General Act*, the audited financial statements and audit findings of the 72 school jurisdictions—see page 199.

4.2 Adult Learning

4.2.1 The University of Alberta should:
- improve its system of internal control—see page 201.
- include all operating, financing and investing activities in its overall corporate budget—see page 202.
- calculate the level of net assets required to ensure that programs and faculties will continue to be supported—see page 203.

4.2.2 The University of Calgary should:
- significantly improve its internal control systems—see page 205.
- establish a corporate security policy—see page 206.
- implement a formal methodology for the design, development, implementation, testing and maintenance of software applications—see page 207.

4.2.3 Grant MacEwan College should:
- improve its financial processes to increase efficiency and accuracy in its financial reporting—see page 207.
- either fix the weaknesses in the student information systems or implement controls to mitigate them—see page 208.
- develop a capital budgeting plan that defines the long-term capital requirements and identifies strategies to fund them—see page 209.

4.2.4 Mount Royal College and Mount Royal College Foundation:
- Mount Royal College should improve its contract management to ensure that services are sufficiently detailed in contracts—see page 210.

- The Mount Royal College Foundation should strengthen its internal controls—see page 210.

4.2.5 The Board of Governors of Red Deer College should:
- approve the College's annual budget—see page 211.
- comply with the *Colleges Act* requirement that a board cannot incur an accumulated deficit without the approval of the Minister. The legislative non-compliance was reported in the auditor's report—see page 212.

Red Deer College should calculate the level of net assets required to ensure that programs will continue to be supported—see page 212.

With the exception of Red Deer College, we issued unqualified audit opinions for all of the entities listed under 4.1.2 and 4.2 of the scope section.

## Overview of the Ministry

The Ministry's 2001–2004 business plan describes three core businesses:
- basic learning (kindergarten to grade 12)
- adult learning
- apprenticeship and industry training

The Ministry consists of the Department of Learning and the Alberta School Foundation Fund. The Alberta School Foundation Fund collects provincial education property taxes and pays grants to school jurisdictions. For more information on the Ministry, visit its website at www.learning.gov.ab.ca.

In 2001–2002 the Ministry expended approximately $4.8 billion. The largest expenses of the Ministry are:

| | **(millions of dollars)** |
|---|---|
| Operating support to public and separate schools | 3,002 |
| Funding to post-secondary institutions | 1,053 |
| Teachers' Pension Plan | 281 |
| Early Childhood services | 163 |
| Support for post-secondary learners | 113 |

The Ministry's revenue amounted to approximately $1.4 billion in 2001–2002. Major sources of revenue are:

| | (millions of dollars) |
|---|---|
| Provincial Education Property Taxes | 1,094 |
| Government of Canada | 167 |

## Scope: what we did in our audits

1. We followed up on our previous recommendations to improve systems, policies, processes and reporting practices. We also examined the Department's system used to monitor:
   - public post secondary institutions' compliance with the disclosure requirements of the tuition fee legislation
   - adult learner programs operated by school jurisdictions

2. We audited the financial statements of the Ministry, Department, and the Alberta School Foundation Fund for the year ended March 31, 2002.

3. We completed specified auditing procedures on the Ministry's performance measures.

4. We performed the following actions on entities that report to the Ministry:

   4.1 Basic Learning

   4.1.1 We reviewed, under section 19(4) of the *Auditor General Act*, the audited financial statements and audit findings for the 62 school jurisdictions and 10 charter schools for the year ended August 31, 2001.

   4.1.2 We audited the financial statements of the Northland School Division No. 61 for the year ended August 31, 2001.

   4.2 Adult Learning—we audited the financial statements of the following entities for the year ended March 31, 2002:
   - Athabasca University
   - University of Alberta and its subsidiary Research Technology Management Inc. and related entity PENCE Inc.

- University of Calgary and its subsidiaries/related entities the Artic Institute of North America, the University of Calgary Foundation (1999), University Technologies International Inc., and the Olympic Oval/Anneau Olympique
- University of Lethbridge

We audited the financial statements of the following entities for the year ended June 30, 2001:
- Alberta College-Edmonton
- Alberta College of Art and Design
- Bow Valley College
- Fairview College and its related entity Fairview College Foundation
- Grant MacEwan College
- Grande Prairie Regional College and its related entity Grande Prairie Regional College Foundation
- Keyano College
- Lakeland College and its related entity the Alberta Fire Training School
- Lethbridge Community College
- Medicine Hat College and its related entity Medicine Hat College Foundation
- Mount Royal College and its related entities Mount Royal College Day Care Society and Mount Royal College Foundation
- Northern Alberta Institute of Technology
- Northern Lakes College
- Norquest College
- Olds College and its related entities Olds College Foundation and the Olds College Centre for Innovation
- Portage College
- Red Deer College
- Southern Alberta Institute of Technology
- Students' Association of Mount Royal College

This report includes the recommendations made during these audits. Annual financial audits of these entities for the year ended June 30, 2002 were in progress at the date of this report. Any findings from these audits and the actions taken to implement our 2001 recommendations will be in our next *Annual Report*.

# Findings and recommendations

## 1. Systems findings

### 1.1 Basic Education

#### 1.1.1 Career and Technology Studies

**Recommendation**

**We again recommend that the Department improve its systems to ensure that school jurisdictions comply with the requirements of the Career and Technology Studies (CTS) program.**

Background and criteria

We made this recommendation in the *2000–2001 Annual Report* (No. 30). Specifically, we found cases where:

- student performance was not being assessed appropriately.
- required access to instruction may not have been provided.
- duplicate payments occurred.
- student transcripts were processed and reported with errors.

Findings

The Department is not ensuring school jurisdictions comply with CTS requirements

The Department has taken certain steps to implement our recommendation. The Department does CEU (credit enrolment unit) monitoring to determine school jurisdictions' compliance with Department requirements, including student assessment and access to instruction for CTS courses. The Department has also eliminated CEU funding for grade 10 students.

However, these steps have not fully rectified the problem. There is still not adequate follow-up of anomalies in mark submissions from schools. Last year we identified three schools with significant numbers of CTS courses that did not appear to comply with CTS requirements for assessing learner outcomes and providing access to instruction. We have seen evidence that the Department followed up on two of those schools. However, the Department did not investigate the third school. Only after we enquired again this year did the Department initiate action to obtain explanations and related documentation from the school.

The Department has not implemented controls to identify and correct transcript errors. Management has indicated that they plan to implement a process to identify transcript errors during the coming year.

Implications and risks

Students may not have received adequate education

The risk continues that student performance is not assessed properly, required access to instruction is not provided, and student transcripts contain errors. There is also a risk that the Department will provide funding for unsupported claims.

### 1.1.2 Long-term capital planning

**Recommendation No. 35**

**We again recommend that the Department of Learning improve its systems to ensure that long-term capital planning for school facilities is consistent with plans for the delivery of education (2001—No. 31).**

Background

We made this recommendation in the *2000–2001 Annual Report* (No. 31).

Findings

Some school jurisdictions lack adequate capital plans to ensure future needs are met

Although the Department has made some progress in implementing our recommendation, some school jurisdictions' capital plans are still not consistent with their education plans. We reviewed the education plan and related capital plan for a sample of nine jurisdictions and noted a number of discrepancies. For two school jurisdictions, modernization, new construction and replacement projects identified in the education plan did not completely match those in the capital plan. For one school jurisdiction, the education plan did not make any reference to capital needs even though the capital plan identified numerous capital needs. We also noted that two school jurisdictions originally selected as samples had not submitted a 2002–2005 capital plan as of July 15, 2002.

The Department is implementing a process in 2002 to review both capital and education plans. The Department's review process is not yet complete. To implement our recommendation fully, the Department must:

- complete its review of capital and education plans for school jurisdictions.
- investigate and resolve any apparent inconsistencies between the capital and education plans.

Implications and risks

There continues to be a risk that school jurisdiction capital plans do not meet needs in the plans for the delivery of education.

### 1.1.3 Risk management

**Recommendation No. 36**

**We again recommend that the Department of Learning establish a risk management process to improve the effectiveness of its control and monitoring activities (2001—page 196).**

#### Background

We made this recommendation in the *2000–2001 Annual Report*. This was a continuation of a recommendation in our *1999–2000 Report* (page 212). Last year, we identified the following deficiencies that might have been prevented if the Department had identified and managed its risks:

- CTS courses did not meet program and funding requirements
- Schools received funding for ineligible non-resident students
- The level of assurance required on grant accountability reports was not reflective of the level of funding

#### Criteria

In an integrated risk management process, the Department should:

- identify and prioritize risks.
- design strategies for managing risk.
- allocate resources for controls and monitoring activities to areas where the greatest risks are.
- develop a common language and framework for understanding and communicating important issues.
- allow for measurement, monitoring and reporting.

#### Findings

The Department needs to evaluate and prioritize its risks

Although the Department has established some risk identification activities, it must still:

- design strategies to manage the risks identified by the Department
- allocate resources to areas of greatest risk
- measure, monitor and report on the effectiveness of the strategies to manage the risks

#### Implications and risks

If the Department does not develop an integrated risk management process, it will not be able to prioritize and manage its risks effectively.

### 1.1.4 Charter School accountability

**Recommendation No. 37**

**We again recommend that the Department of Learning determine what steps are needed to achieve charter school compliance with reporting requirements (2001—No. 32).**

Background

In the *2000–2001 Annual Report* (No. 32), we recommended that the Department continue to assist charter schools in developing measurable outcomes so that there is a base from which to measure and evaluate charter school results against their mandates. This recommendation was first reported in our *1996–1997 Annual Report* and in every year up to 2000–2001.

Findings

Charter schools are not being fully accountable

Although all charter schools included measurable outcomes related to their mandates in the education plans for the school year 2000–2001, 4 of the 10 charter schools did not report on some or all of these measures in the Annual Education Results Report.

We have reported on this matter for several years, and it is still not fully implemented. The Department has issued guidelines that require charter schools to identify measures in their education plans and report against them in their results reports. We believe the Department has taken reasonable steps to implement our recommendation. However, the charter schools have yet to fully comply with the reporting requirements.

Implications and risks

If the Department does not have information on charter school results, there is a risk that the Department may inappropriately renew charters. Charters for seven schools have been renewed since 1997.

## 1.2 Adult Learning

### 1.2.1 Tuition Revenue Compliance

**Recommendation**

**We recommend that the Department take the necessary steps to ensure that the Department and the public post-secondary institutions comply with the disclosure requirements of the tuition fee regulations.**

Background

The *Universities Act*, the *Colleges Act* and the *Technical Institutes Act* (the Acts) specify a maximum level for tuition fees that can only be exceeded if approved by the Minister. The maximum level is based on a percentage of institutional net operating expenditures. The tuition fee regulations for these Acts require public post-secondary institutions to publish annually the tuition fee revenue, net operating expenditures related to those fees and the percentage those fees represent of the net operating expenditures, in the manner established by the Minister.

Guidance to post secondary institutions should include tuition fee reporting required by regulations

Criteria

We based our review on the documents these institutions are required to annually publish, limiting our review to the financial statements, annual reports and calendars for the 2001 fiscal year. For each public post-secondary institution we reviewed these documents to see if the institution had complied with the regulations. We also reviewed the Ministry's direction to institutions regarding reporting in these public documents.

Findings

We found that only three of the public post-secondary institutions published the tuition information required by the regulations for the 2001 fiscal year.

We also found that for the 2001 fiscal year the Ministry had not directed the institutions where they should publish the required information. The Ministry issued new Annual Report Guidelines for the 2002 fiscal year but the Guidelines don't include all the information required by the regulations.

Implications and risks

Without more complete guidance from the Department, most institutions may continue to be in non-compliance with the disclosure requirements of the tuition fee regulations. The public will not have sufficient information to determine whether institutions are complying with the maximum level of tuition fees allowed by legislation.

### 1.2.2 Post-Secondary and Other Adult Learner Programs Operated by School Jurisdictions

**Recommendation**

**We recommend that the Department obtain sufficient information to evaluate the role of school jurisdictions in the education of adults.**

Background

Adult education programs are offered by the public universities, colleges and technical institutes and by school jurisdictions under the *School Act*.

Jurisdictions offering adult education programs that are vocational are required by the *Private Vocational Schools Act* (the Act) and regulation to meet certain standards for employability of graduates, the appropriateness of curriculum and instructor qualifications. The Minister of Learning is responsible for licensing these programs.

Criteria

The Department should obtain sufficient information from school jurisdictions to assess whether:

- the programs contribute towards the orderly growth and development of the public adult education sector or are a costly duplication.
- the programs provide an easier transition from the kindergarten to grade 12 (K-12) system to the public post-secondary system.
- Provincial government grants are financing the operations of these programs or these programs are generating additional funds for jurisdictions.
- vocational programs meet the standards of the Act.

Findings

Department does not gather sufficient information to evaluate adult education programs

The Department obtains insufficient information from jurisdictions to make these assessments.

Implications and risks

Without sufficient information the Department doesn't know:

- the extent to which these programs are contributing towards Departmental objectives.
- the effect of the programs on the amount of Provincial operating funding required for jurisdictions.
- whether the Department and the jurisdictions are complying with requirements of the *Private Vocational Schools Act* and regulation.

### 1.2.3 Capital Assets Policy statement

**Recommendation No. 38**

**We again recommend the Department of Learning, in consultation with the Department of Infrastructure and the Department of Innovation and Science, provide an updated Capital Assets Policy Statement to the public post-secondary institutions (2001—No. 35).**

Background

We have repeated our previous year's recommendation (2001—No. 35) as it has not been implemented.

Over the last several years, we have recommended that institutions develop a capital budgeting plan that identifies their strategies to fund long-term capital requirements. Strategies to obtain funds include borrowing, using money from operations, and seeking contributions from the Province and others. We believe that institutions find it difficult to determine appropriate strategies without sufficient guidance from the Province. Institutions need to be able to make appropriate assumptions about capital funding they can generate themselves and what they can expect from the Province.

According to its May 31, 1995 policy statement, the Department expects institutions to provide for capital asset maintenance, replacement and betterment (excluding building replacement) through institutional revenues including operating grant revenue.

Findings

Department should provide clear direction for the management of capital assets

Since that policy statement was issued, provincial funding practice and policy has varied.

The Department is developing options with Alberta Infrastructure, Alberta Innovation and Science, and the institutions. In addition, the Department is waiting for any decisions that may be implemented from the recommendations of the Alberta Financial Management Commission before developing a capital asset policy.

Implications and risks

Without an updated capital asset policy, there is a risk that institutions will not be able to determine the amount they should budget as contributions from the Province and the amount they will need to generate from other sources.

### 1.2.4 Timeliness and reliability of data collection

In the *2000–2001 Annual Report* (No. 34), we recommended that the Department ensure that data from the public post-secondary institutions used to support certain funding decisions, is promptly collected and reliable. The Department uses the data to:

- decide whether to approve new programs proposed by institutions.
- decide whether to support funding decisions.
- assess performance of the post-secondary education sector.

The Department has made satisfactory progress by implementing initiatives to improve the timeliness of data submissions. As a result, compliance with the current year deadlines improved significantly, with a greater number of institutions able to meet the required deadlines. The Department has also begun a number of initiatives in the current year to improve the reliability of the data from the institutions.

## 2. Financial Statement Audits

### 2.1 Ministry Adverse Opinion

We again issued an adverse opinion on the Ministry financial statements. The Ministry financial statements contain only the transactions of the Department and Alberta School Foundation Fund. Generally accepted accounting principles (GAAP) applicable to the Ministry require school jurisdictions and the public post-secondary institutions to be consolidated in the Ministry financial statements. The Ministry financial statements are not presented fairly.

In 2002, the Public Sector Accounting Board released a discussion paper that provided further guidance on the issue of whether an entity should be included in the government reporting entity. This paper is not necessarily the final guidance that will be included in the CICA Handbook. However, we believe that applying the principles in the paper would support the inclusion of the school jurisdictions and the public post-secondary institutions in the Ministry financial statements. We also note that the Alberta Financial Management Commission recommended that:

"The Government should continue to work with the Public Sector Accounting Board in the development of the government entity proposal. Government-funded entities should be consolidated into the government's accounts and financial statements unless there is a compelling case why a specific entity should be excluded."

To illustrate the magnitude of the differences in the Ministry financial statements if these entities were consolidated, we used each entity's most recent financial statements as though they were dated March 31, 2002 together with certain assumptions.

Using this methodology, here's how the financial statements would change:

| Financial Statement Component | Amounts Reported on the Ministry financial statements | Estimated adjustment required if the entities were consolidated | Revised Amounts |
|---|---|---|---|
| | (billions of dollars) | | |
| Total Assets | 0.136 | 8.0 | 8.136 |
| Expenses | 4.845 | 2.0 | 6.845 |

We can't reasonably estimate the amount of the revenue and therefore the amount of net liabilities that have been omitted because of a lack of information. However, in our opinion the revenue omitted is significant. We believe that if the Ministry had a good consolidation process in place that these figures could be efficiently calculated.

### 2.2 Other Matters in Auditor's Report

The Ministry and the Alberta School Foundation Fund (Fund) had a reservation of opinion because the allowance for assessment adjustments and appeals was overstated by approximately $17 million.

The Ministry, the Department and the Fund had a reservation of opinion because government accounting policy does not recognize the school jurisdictions and public universities, colleges and technical institutes as related parties so the Ministry, the Departmental and the Alberta School Foundation Fund financial statements don't disclose transactions with them. That's contrary to GAAP, which would treat these entities as related parties.

### 2.3 Alberta School Foundation Fund – Allowance for Assessment Adjustments and Appeals

**Recommendation No. 39**

**We again recommend that the Ministry of Learning improve the process used to calculate the allowance for assessment adjustments and appeals (2001—No. 33).**

This recommendation is repeated from 2001 (2001—No. 33).

#### Background

The Alberta School Foundation Fund reports revenue earned from provincial education property taxes. The revenue reported as earned is the amount requisitioned from the municipalities net of expected losses from adjustments and appeals.

Since the outcome of all adjustments and appeals is not known at the end of the fiscal period, management estimates expected losses and records an allowance for assessment adjustments and appeals (allowance).

Allowance was overstated

A qualified opinion was issued on the financial statements of the Fund because the allowance was overstated by approximately $17 million.

Findings

Here are the main reasons the overstatement occurred:

- A portion of the allowance was being provided against revenue that would not be reported until the subsequent year.
- The Ministry included appeals where the outcome could not be estimated. Accrual of an amount where it is not supported by evidence that the outcome of the appeal is a likely loss is not appropriate. Later, in a subsequent period after the financial statements have been issued, the Ministry may obtain new evidence that the outcome of the appeal is a likely loss. Accrual of the amount should be made in the period when such evidence is available.

The Ministry has advised us if a significant loss is incurred on an appeal whose outcome was previously assessed to be indeterminable, the Ministry may have to reduce total payments to school jurisdictions or other Ministry expenses. The Ministry should choose another solution to mitigate this risk rather than overstating its allowance.

Implications and Risks

Incorrectly reporting the allowance distorts the financial position of the Fund.

## 3. Specified Audit Procedures

We didn't have any exceptions on the specified auditing procedures report provided in 2001 on the Ministry's performance measures. Our work in 2002 on the Ministry performance measures is in progress.

## 4. Findings on entities that report to the Ministry

### 4.1 Basic Learning

#### 4.1.1 Review of school jurisdictions financial reporting

We have reviewed school jurisdiction financial statements and management letters

We have completed our examination of school jurisdictions' August 31, 2001 audited financial statements and management letters as required under section 19 (4) of the *Auditor General Act*. The following is a summary of our examination:

Auditor's reports—Of the 62 school jurisdictions and 10 charter schools, 6 (6 in 2000) received qualified auditor's opinions for year ended August 31, 2001 as follows:

- Three jurisdictions (four in 2000) have scope limitations as the auditors were unable to verify the completeness of revenues derived from donations and fund raising activities.

- Two jurisdictions received qualified opinions because capital assets were not capitalized.
- One jurisdiction received a qualified opinion because of inadequate accounting of employee future benefits.

Management letters—The following is a summary of the audit findings and recommendations reported in writing to school jurisdictions by their auditors for the year ended August 31, 2001:

- School-generated funds—25 school jurisdictions (36 in 2000) need to improve controls over the processes used to collect, record and report school-generated funds such as maintaining supporting documentation for the expenditures made; implementing a review process for bank deposits, bank reconciliations and the issuance of cheques; providing proper training to the school personnel for recording school-generated funds; and establishing policies and procedures to account for the school-generated funds.
- Payroll—13 jurisdictions (nine in 2000) need to improve the controls over the accuracy, completeness and timely recording of payroll information.
- Purchases—13 jurisdictions need to improve controls over the purchase cycle such as streamlining of the accounts payable system, implementation of the review and authorization processes over purchases and the retention of receipts and supporting documentation.
- Timeliness of financial recording—12 jurisdictions need to ensure bank reconciliations, accounting transactions and reports are prepared on a regular and timely basis.
- Independent review of financial information—10 jurisdictions need to implement an independent review of accounting processes such as bank reconciliations, purchase orders and journal entries, and quarterly financial reporting.
- Policies and procedures—10 jurisdictions need to implement formal procedures and policies such as a capital assets policy, school bus policy, and guidelines in the handling and disposal of hazardous wastes.
- Capital assets—eight jurisdictions need to improve the recording of capital assets such as maintaining a capital asset listing, and ensuring that donated capital assets are recorded.
- Computer security—eight jurisdictions (nine in 2000) need to improve computer security including the implementation of access control and disaster recovery plans, and the use of offsite storage.
- Segregation of duties—five jurisdictions need to have segregation of duties over cheque issuance, payroll processing, custody of and accounting for certain assets.

We are satisfied that the Department is taking appropriate action to resolve these matters.

## 4.2 Adult Learning

### 4.2.1 University of Alberta

#### 4.2.1.1 Internal control systems

**Recommendation No. 40**

**We again recommend that the University of Alberta improve its system of internal control (2001—No. 37).**

Background

Further improvement in controls is still required

During the year, the University has improved controls in certain areas. However, we believe that meaningful progress in instituting a comprehensive, organization-wide system of internal controls has not yet occurred. We are therefore repeating our previous year recommendation (2001—No. 37).

Criteria

A system of internal control consists of the policies and procedures established and maintained by management to assist in achieving its objective of ensuring, as far as practical, the orderly and efficient conduct of the entity's business. It includes a system of checks and balances to ensure that financial data is reliable.

Findings

Here are some of the areas where controls should be improved:

- Over-expenditures in research accounts need to be controlled—while the University has made certain improvements in controls over research accounts, over-expended balances excluding encumbrances amount to $8.9 million (2000—$10.8 million).
- Manual of administrative practices and policies needs to be updated and enforced.
- Restricted capital projects funded with unrestricted funds need to be identified so that recognition of grant revenue will be more accurate.
- Billing needs to be more timely and collection needs to be more timely.
- Business continuity planning and disaster recovery planning need to be done.
- Significant control deficiencies, which could result in unauthorized access to, or modification of, the University's systems, data, functionality and network need to be rectified.

Implications and risks

Without a strong system of internal control the University increases the risks of unreliable financial information and inadequate safeguarding of assets.

### 4.2.1.2 Basis of measurement for budget

**Recommendation No. 41**

**We again recommend that the University of Alberta corporate level budget be presented solely on a GAAP basis and that it encompass all operating, financing and investing transactions (2000—No. 36).**

Background

This recommendation (2000—No.36) has been repeated as it has not yet been implemented.

The University of Alberta is one of Canada's largest universities, with in excess of 31,000 full and part time students and 7,000 academic and support staff. Each year the University prepares an overall corporate budget and individual budgets for each of its faculties, and its ancillary operations.

Criteria

1. To facilitate comparison with the audited financial statements, the corporate budget should be prepared on a basis consistent with generally accepted accounting principles (GAAP).
2. It should include all operating, investing and financing transactions.
3. To facilitate use as a tool to measure performance, faculty budgets should include the full revenue and cost of operating the faculty.
4. Faculties budgets should be prepared on a timely enough basis that they can be used as a tool for assessing financial performance.

Findings

University corporate budget discussion focuses on the internal budget instead of the GAAP budget

Although a budget prepared on a GAAP basis is included in the corporate level budget document, all discussion in the document is on a budget prepared on another basis (the internal budget). There are significant differences between the GAAP budget and the internal budget. The total revenues and expenditures on the internal budget are approximately one half of the revenues and expenses on the GAAP basis. The University also does not prepare a GAAP based cash flow statement and statement of financial position as components of its budget process. Accordingly, the corporate level budget document does not indicate all operating, investing and financing transactions.

Faculties don't prepare budgets on a GAAP basis. For example, these budgets exclude significant research related activity, investment income and depreciation of capital assets. We acknowledge that full revenue and cost budgeting at the faculty level would take some time to implement.

To enable effective reporting of actual results compared to budget at the operational level, the University's systems must be capable of providing unit managers with timely reporting. Faculty budgets approved in the 2002–2003 corporate budget were not reflected in fully revised faculty budgets until after the first quarter of the fiscal year.

Implications and risks

Not having the discussion in the corporate budget focused on the GAAP based budget, means that the overall planning is focussed on only one half of the revenues and expenses.

Improving the timeliness and including the full revenue and costs in faculty budgets will result in better financial planning, accountability and financial management at the University.

### 4.2.1.3 Net assets

**Recommendation No. 42**

**We again recommend the University of Alberta calculate the level of net assets required to ensure that programs and facilities continue to be supported (2000—No. 37).**

Background

We have repeated our previous year recommendation (2000—No. 37) as it has not yet been implemented.

Previously we indicated that the University has an unrestricted net assets deficiency. This means after excluding the assets and net assets related to endowments and capital assets purchased through University funds, the University's liabilities exceed its assets. The University operates by using some of the cash that will be required at some point to discharge liabilities to fund some of its operations and capital assets purchases.

We had also noted that the University had no net assets set aside for capital replacement for equipment and furnishings.

The University also had a significant balance of deferred maintenance.

### Criteria

The University needs to develop and implement a corporate budget plan that will:

1. eliminate the unrestricted net assets deficiency.
2. determine how much of its capital assets will need to be replaced by funds generated from the University operations and begin to accumulate these funds.
3. reduce its deferred maintenance.

### Findings

Since 2000, the unrestricted net assets deficiency has been reduced from $42.6 million to $23.6 million primarily through the receipt of unbudgeted revenues received in 2002. The 2002–2003 GAAP basis budget presents a deficit of $2.7 million and includes a four-year plan that presents an increase in the deficit over the four years of approximately $3.1 million.

The University has estimated its deferred maintenance needs have grown to over $400 million.

The University has also indicated that it believes its ability to more fully accomplish its goals is impacted by personnel and skills shortages in critical areas.

In response to our recommendation, the University has established a funding solutions taskforce to assist in developing strategies to address funding requirements. It has also prepared a report indicating its highest priority deferred maintenance needs.

University should make plans to establish an appropriate level of unrestricted net assets

While we acknowledge that the University has taken steps to consider the issues raised in our 2000 report, we believe that considerable work is still required to develop and articulate appropriate plans to eliminate the unrestricted net assets deficiency and address the ongoing capital replacement funding requirements, deferred maintenance and human capital deficiency issues.

### Implications and risks

Without appropriate plans in place, we believe that the University continues to risk a downsizing of its operational capacity.

## 4.2.2 University of Calgary

### 4.2.2.1 Internal control systems

**Recommendation No. 43**

**We again recommend that the University of Calgary significantly improve its internal control systems (2001—No. 38).**

Background

In our *2000–2001 Annual Report* (2001—No. 38), we recommended that the University of Calgary strengthen its internal controls.

Findings

The University should improve its control systems

The University improved some controls in the areas of performing reconciliations of accounts payable, accounts receivable and donations. The University also developed a gift-in-kind policy during the year. However, improvements are still required in the following areas:

- Valuation of donations of gifts-in-kind—the value of a number of gifts received was not independently verified, including two software gifts valued at approximately $30 million by the donors. Other software was donated under the condition that all changes made to the software are given to the donor. This could impact the fair value of the software donation.
- Recording of transactions—the University should ensure that items are correctly recorded. In some instances, revenue was overstated and expenses were understated.
- Valuation of inventory—the University should ensure that departments are aware of the need to accurately reflect the value of inventory.
- Monitoring of access to systems—Some employees have access to systems that is not required to perform their assigned duties. Access should be reviewed when employees change responsibilities. The University cannot always determine who has entered information into a database.
- Capital asset system—
  - The current capital asset system is inefficient. The University estimates the effort to complete capital asset schedules at year end is approximately 12 person weeks. The system also does not allow the University to track capital asset additions by source of funding. Therefore, in calculating amortization on externally funded assets, the University must make certain assumptions. This can result in a misstatement of revenue.
  - During the year, the University capitalized some expenses that do not appear to be capital assets. While these amounts were written off in the year, the results of activities are distorted as amortization is overstated and other expenses are understated at year end.

Implications and risks

Financial results could be misstated

A system of internal control can help the University ensure that financial data is reliable. Incorrectly recording or valuing transactions can result in a misstatement of the results that could be significant.

4.2.2.2 Corporate Security Policy

**Recommendation**

**We recommend that the University of Calgary establish a corporate security policy.**

Background

The University has information that is available for public use and information that needs to remain confidential. We examined whether the University had procedures in place to ensure that all University employees are aware of, and in compliance with, the information and security policies. Non-compliance with policies can impact the University's ability to protect its information.

Criteria

The corporate security policy should include:

- the policy objective and scope.
- defined responsibilities.
- classification of information by level of sensitivity.
- policy statements.
- penalties for non-compliance as well as any exemptions to the policy.
- strategies for security awareness training.
- regular reviews/audits and assessments of information systems.
- plans for the development and maintenance of both business continuity plans and disaster recovery plans.

Findings

The University's data is at risk

The University does not have a clear, published corporate security policy. We found improvements could be made in the areas of physical access, data classification, security assessments and access to applications.

We found it possible to gain access to logged-in terminals that had been left unattended. Unsecured physical terminals could result in unauthorized individuals gaining access to the internal network.

The University lacks documentation for the classification of some of its information. Data classification ensures that data is properly assigned a level of sensitivity, and once that level of sensitivity is established, that it is maintained throughout the lifetime of that data.

There was no clear evidence of regular security assessments to determine if, in fact, the security technologies deployed are working as expected.

Implications and risks

Lack of a corporate security policy leads to non-existent or incomplete security policies, standards and procedures that can result in:

- failure of security systems.
- misclassification of confidential data,
- unauthorized access to data.
- difficulties in detecting a breach in security and in recovering information.

#### 4.2.2.3 Application development methodology

**Recommendation No. 44**

**We recommend that the University of Calgary implement a formal methodology to design, develop, implement, test, and maintain software applications.**

Background and findings

Control over changes to information systems is lacking

The University's current financial system was developed in-house. The University has undertaken a project to assess replacement of its core business systems. The University does not have a formal methodology that is used to implement changes to systems or to develop new applications. Developers can put changes into production without a quality control or validation process.

Implications and risks

Having an appropriate methodology in place will assist the University ensure that system modifications do not compromise data integrity. Without a formal methodology, there is also an increased risk that systems could be inefficient.

### 4.2.3 Grant MacEwan College

#### 4.2.3.1 Financial Processes

**Recommendation No. 45**

**We again recommend that Grant MacEwan College improve its financial processes and controls to increase efficiency and accuracy in financial reporting (2001—No. 39).**

Background

We have repeated our previous year recommendation (2001—No. 39).

Although the College is producing more timely financial statements and it met the reporting deadline of the Department of Learning, inefficient processes (and control weaknesses) continue to cause extensive year-end backlogs and many avoidable errors.

Findings

Processes could be improved by:

The College can improve efficiency and accuracy in the preparation of financial data by:

- ensuring its accounting policies and practices for capitalizing capital assets and prepaid expenses meet GAAP.
- improving its grant revenue reporting to eliminate significant errors. To do this the College needs to understand the basis under which revenue should be recognized. When the revenue is recognized on the basis of the College incurring eligible expenditures, the eligible expenditures need to be separated in the accounts from ineligible expenditures.
- changing the timing of when grant revenue is recognized. The College currently records grant revenue when cash is received regardless of whether or not the grant conditions have been met. This results in extensive year-end corrections, which are time consuming and prone to error. It also means the internal financial statements, produced quarterly, overstate revenue until the year end corrections are made. This minimizes the usefulness of internal financial statements as a planning and accountability tool.
- improving its process for preparing financial statements. The process is time consuming and prone to errors that are not easily detected.

Implications and risks

Improved internal controls and financial processes are necessary to ensure the timely and accurate reporting of the College's financial information.

4.2.3.2 Student information system

**Recommendation**

**We recommend that Grant MacEwan College either fix the weaknesses in the student information system (SIS) or implement controls to mitigate them.**

Background

Controls need to be improved in the Student Information System

SIS is a primary system of the College. It manages students' academic records and marks. It also calculates tuition fee revenue and tracks outstanding tuition fees. Several SIS weaknesses caused many errors this year, some of which persist.

Findings

We observed the following types of weaknesses:

- SIS cannot produce an accurate Accounts Receivable age analysis.
- Poor segregation of duties should be improved over the processing and receipt of fees functions.
- Several instances were noted of double invoicing of students.
- There are inadequate validation tests in the system to ensure it captures only valid, accurate data, and only once.
- The College can't produce the information necessary to calculate deferred revenue for courses and contract programs that go past year-end, nor can it calculate money received before year-end for courses that start after year-end.

Implications and risks

These weaknesses need to be fixed to ensure that this data is reliable.

#### 4.2.3.3 Budgeting for capital needs

**Recommendation**

**We again recommend that Grant MacEwan College develop a capital budgeting plan that defines long-term capital requirements and identifies strategies to fund them.**

Background

We have repeated our recommendation from 2000 (No. 40).

Findings

As a first step to implement the recommendation, the Board of Governors approved in 2000 the setting aside of certain amounts in a reserve to be used for capital replacement. However, the College did not include any funds in the reserve in 2001 as the Board did not require any cash to be restricted for that year.

The College needs a strategy to ensure its long term capital needs will be met

We will continue to repeat this recommendation until we see a plan that identifies the strategies for funding longer term needs, including when the policy of funding the reserve will begin and the amounts to be generated under this strategy.

Implications and risks

The College needs a long-term capital plan that indicates the level of nets assets required to ensure that programs will continue to be supported.

## 4.2.4 Mount Royal College and Mount Royal College Foundation

### 4.2.4.1 Contract management – Mount Royal College

**Recommendation**

**We again recommend that Mount Royal College improve its contract management to ensure that services to be provided are sufficiently detailed in contracts.**

Background and findings

Last year we reported that the College did not have formal contracts for some of its international courses. In some cases, the only evidence of the terms and conditions was a letter from the College with the course dates and payment terms.

The College is not following its own procedures

We understand that the College now requires that evidence of approval of the terms and conditions be obtained. However, the documents we reviewed had no evidence of approval.

Implications and risks

The College risks financial loss

While the letters outline some details, without formal acceptance of the terms and conditions, it may be difficult to settle disagreements. In the event of a disagreement, the College may risk financial loss as there is no evidence that the terms and conditions have been accepted by the party to which services are being provided.

### 4.2.4.2 Internal controls – Mount Royal College Foundation

**Recommendation**

**We recommend that Mount Royal College Foundation strengthen its internal controls.**

Background

The Foundation raises funds for Mount Royal College. Amounts raised are received by the Foundation and then transferred to the College.

Criteria

A good internal control system reduces the possibility of errors in the accounts. Internal controls include policies and practices that ensure the integrity of financial data. Good internal controls also include an independent review of monthly reconciliations by someone other than the person who prepares them.

Findings

The Mount Royal College Foundation has inadequate internal controls

The Foundation needs to improve its internal controls to enable it to prevent and detect errors. The Foundation did not reconcile its bank account during the year nor did it reconcile the amount transferred to the College with the amounts received from donors.

Certain reports, such as a delinquent pledge report, were not produced. The Foundation could not review outstanding pledges on a regular basis to verify that amounts received had been recorded.

Recording errors were not detected, resulting in overstatement of receivables and payables.

Implications and risks

The Foundation is at risk of loss

Weaknesses in controls can put the Foundation at risk of loss. It can also result in inaccurate reporting of the results.

## 4.2.5 Red Deer College

### 4.2.5.1 Budget approval

**Recommendation**

**We recommend that the Board of Governors approve Red Deer College's annual budget.**

Background

The Board of Governors of Red Deer College have delegated budget responsibility, including approval of the budget, to the President.

Criteria

To fulfill its governance responsibilities, the Board should approve the budget and hold management accountable for performance against the budget. Further, section 22 of the *Colleges Act* requires college boards to adopt an annual budget and submit it to the Minister for approval.

Findings

The Board of Governors did not approve the 2001 budget of the College. The 2001 budget was approved by management on March 13, 2000 and provided to the Board of Governors for information on May 8, 2000.

The Board of Governors needs to approve the College's budget

The College did not comply with the *Colleges Act* as neither the Board nor the Minister approved the College's budget for the 2001 fiscal year.

Risks and implications

The College's budget provides a benchmark against which the Board can evaluate the performance of the College. For the Board to appropriately fulfill its governance responsibilities, the Board should be approving the College's budget. In addition, the College is in non-compliance with the *Colleges Act*.

### 4.2.5.2 Ministerial approval of deficits

**Recommendation**

**We recommend that Red Deer College comply with the *Colleges Act* and not incur an accumulated deficit without the prior approval of the Minister.**

Background

Section 23 of the *Colleges Act* states that a board cannot incur a liability or make an expenditure unless the liability or expenditure can be provided for out of the board's annual income or from money available for that purpose, unless approved by the Minister of Learning. Alberta Learning annually reviews the business plans submitted by colleges. Any budgeted deficits are reviewed with the respective college and Ministerial approval may be provided.

Findings

The College did not comply with legislation

Red Deer College budgeted a deficit of $959,000 for the June 30, 2001 year-end. This budget was provided to the Board of Governors on May 8, 2000 and financial results were reported against this budget on a quarterly basis. The College could not provide for all of its liabilities on expenditures from annual income or other available money. Alberta Learning was not aware of the budgeted deficit and did not provide Ministerial approval to the College.

Risks and implications

The College did not comply with the *Colleges Act*. Without Ministerial approval, it is unclear who will fund the deficit. Our auditor's report on the financial statements contained a fourth paragraph to report on the College's legislative non-compliance.

### 4.2.5.3 Net assets

**Recommendation**

**We recommend the Red Deer College calculate the level of net assets required to ensure that programs continue to be supported.**

### Background

While the College has total net assets of approximately $19 million, the portion available for any purposes of the College (unrestricted net assets) is a deficiency of approximately $563,000 as at June 31, 2001. The rest of the net assets have already been invested in capital assets or are for restricted endowments.

### Findings

The College's level of net assets is not sustainable

The College has not identified specific strategies to correct this problem. By having an unrestricted net assets deficiency, in effect the College is using some of the cash that will be required at some point to pay off liabilities to fund some of its operations and capital asset purchases.

The College needs a plan to maintain its asset base

The College needs a plan that establishes the level of net assets it needs to invest in capital and to maintain its programs. It would be useful for the College to develop a balanced budget that first determines an appropriate level of unrestricted net assets required to deliver the College's planned programs and services, and then defines an annual balanced budget sufficient to maintain its capital base.

### Risks and implications

If the College does not have a plan to replace assets through accumulated equity, then over time the College will in effect be downsizing.

## 4.2.6 Southern Alberta Institute of Technology

### 4.2.6.1 Business case analysis and project management controls

Last year we made a recommendation (2001—No. 40) that the Institute improve the business case analysis for major projects and strengthen project management controls. We will follow up on the progress against our recommendation in 2002–2003.

### 4.2.6.2 Conflict of interest policy and Code of Conduct

On page 221 of the *2000–2001 Annual Report*, we recommended that the Institute require annual disclosure of conflict of interest for staff involved in the procurement and project management functions. We also recommended that the Institute obtain conflict of interest disclosure from its contractors and review its code of conduct and ethics policy for contracted project management staff.

The Institute has started obtaining disclosure of conflict of interest statements from staff involved in the procurement and project management functions. The Institute has also extended its code of conduct and ethics policy to cover contracted project management staff. The Institute has also requested disclosure of conflict of interest from its contractors and is planning changes to its contract templates. We have concluded that sufficient progress is being made in addressing our recommendations.

# Legislative Assembly

## Summary: what we found in our audits

We audited the financial statements of all the Offices, except our own. A private sector firm of chartered accountants appointed by the Standing Committee on Legislative Offices audited our financial statements.

Our auditor's report on the Ombudsman's financial statements was qualified

Our auditor's reports for all Offices' financial statements, except for the Office of the Ombudsman, contained an unqualified opinion for the year ended March 31, 2002. Our auditor's report for the Ombudsman's financial statements for the year ended March 31, 2002 contained a qualification of opinion because capital assets less than $15,000 are expensed and not recognized as assets in the financial statements. We estimated that this resulted in assets being understated and net liabilities being overstated by approximately $175,000 at March 31, 2002.

## Overview of the Legislative Assembly

There are six Offices of the Legislative Assembly. They, and their expenses are:

| | **2001-2002 (millions of dollars)** |
|---|---|
| Legislative Assembly Office | 31.1 |
| Office of the Auditor General | 15.2 |
| Office of the Information and Privacy Commissioner | 2.7 |
| Office of the Ombudsman | 1.4 |
| Office of the Chief Electoral Officer | 1.1 |
| Office of the Ethics Commissioner | 0.3 |

# Municipal Affairs

## Summary: what we found in our audits

1. The findings of our systems audits are summarized below:

    1.1 The Ministry should improve the quality of its systems to promote and coordinate the emergency plans of Alberta government departments and municipalities—see page 220.

    1.2 The Ministry should improve the quality of its systems to monitor the activities of various accredited and delegated entities involved in delivering safety services—see page 223.

    1.3 In our *Managing for Results* audit, we found that the Ministry needs to improve the implementation of its Ministry business plan, the information in the business plan, and the human resource performance planning and staff assessment processes—see page 225.

2. We have two reservations of opinion on the financial statements of the Ministry—see page 229.

3. We found no exceptions When we completed specified auditing procedures on the Ministry's performance measures.

4. Our auditor's reports on the following entities under the administration of the Ministry for the year ended December 31, 2001, were unqualified:
    - Improvement Districts 4, 9, 12, 13 and 24
    - Kananaskis Improvement District
    - Special Areas Trust Account

## Overview of the Ministry

The mandate of the Ministry is to:

- help ensure public confidence in local government
- provide comprehensive safety systems and services for disaster and emergency situations

There are three core businesses and two operating divisions

The Ministry's 2001–2004 business plan describes three core businesses:

- Local Government Services—providing support services, policies and legislation to assist the local government sector.
- Safety Services (including fire protection)—administering a safety system that provides uniform application of safety standards throughout the Province
- Disaster Services—managing Provincial disaster planning and recovery programs and supporting municipalities to ensure their preparedness to deal with major emergencies and disasters

The Ministry also includes the Municipal Government Board, which provides an independent quasi-judicial adjudication on matters specified under the *Municipal Government Act*.

There are two main operating divisions: Local Government Services and Public Safety. The latter division encompasses disaster services and safety services. The Minister has delegated many of his duties for delivering safety services to the *Safety Codes Council* (SCC), four delegated administrative organizations (DAOs) and some 450 other organizations, mainly municipalities, accredited to issue permits, mainly for building construction and related activities. The SCC sets safety standards and performs most of the accreditation processes.

There are nine distinct activities for which permits are issued: building, fire, boiler and pressure vessels, plumbing, gas, electrical, elevators, amusement rides and ski lifts. The DAOs are authorized to issue permits in certain of the more specialized activities.

For more information on the Ministry and its programs, visit their website at www.gov.ab.ca/ma.

Ministry spent $168 million

Ministry expenses for 2001–2002, amounted to $168 million and comprise:

| | **(millions of dollars)** |
|---|---|
| Local Government Services (including the Municipal Government Board) | 114 |
| Safety Services (including fire protection) | 48 |
| Disaster Services | 6 |

Ministry earned $3 million

The Ministry received $3 million from external sources.

# Scope: what we did in our audits

1. We performed the following systems audits:

    1.1 A review of the systems designed to meet the Ministry's responsibilities under the *Disaster Services Act* relating to Alberta government department and municipal government emergency preparedness.

    1.2 A review of the systems used by the Ministry to verify that its delegated responsibilities to issue permits under the *Safety Codes Act* are being properly discharged.

    1.3 A review of *Managing for Results* (business planning, performance information, human resource management, and governance) systems of the Ministry, to determine if cross-government recommendations were implemented and identify examples of good practices.

    1.4 A follow-up of our 2000–2001 recommendation that the Ministry improve the controls designed to ensure that the municipal property tax assessments are fair and equitable.

    1.5 A follow-up to our 2000–2001 observation that neither the Ministry nor other ministries had been taking responsibility for promoting and coordinating business resumption plans.

2. We audited the financial statements of the Ministry for the year ended March 31, 2002.

3. We completed specified auditing procedures on the Ministry's performance measures.

4. We audited the financial statements of the following entities under the administration of the Ministry for the year ended December 31, 2001:
    - Improvement Districts 4, 9, 12, 13 and 24
    - Kananaskis Improvement District
    - Special Areas Trust Account

# Findings and recommendations

## 1. Systems findings

### 1.1 Emergency preparedness

**Recommendation No. 46**

**We recommend that the Ministry of Municipal Affairs improve its procedures to promote and coordinate emergency preparedness plans developed by Alberta government departments and municipalities. We further recommend that the Ministry reassess the present and future suitability of the existing *Government Emergency Operations Centre*.**

#### Background

Local authorities provide the primary response to disasters

Alberta's model for responding to emergencies and disasters is a community-based model. Local authorities are responsible for coordinating their own emergency preparedness, as well as being the first line of response in the event of an emergency. After the local community, there is a graduated system of involvement for the Provincial and federal governments, depending on the nature and severity of the disaster. Ultimately however, it is the local municipality or First Nation community that is responsible for emergency preparedness within their community.

The Disaster Services Branch promotes and coordinates emergency plans at the municipal and Alberta government department levels. These Branch responsibilities carry a high risk

Section 2(1) of the *Government Emergency Planning Regulation* 62/2000 places certain responsibilities upon the Disaster Services Branch of the Ministry for the coordination and promotion of emergency plans across both municipal governments and Provincial departments. The Branch fulfils these obligations through a number of activities including:

- assisting municipalities in the preparation of municipal emergency response plans
- reviewing preparedness plans every two years
- testing each municipality plan at least once every four years
- preparing standards for disaster preparedness training
- liaising with Emergency Planning Officers(EPOs) within provincial government departments to develop departmental plans
- preparing and maintaining the Alberta Emergency Plan

A well-planned and -executed response plays an important part in ensuring that casualties and damage are minimized after a disaster. We believe that the risk associated with the Disaster Services Branch objective of coordinating and overseeing the quality of emergency preparedness across the Province is high because:

- responsibility for emergency preparedness is largely devolved to municipalities, creating greater potential for variation in plans
- effective emergency preparedness requires coordination of a large number of stakeholders, including Provincial government departments, municipal governments, First Nations, industry and the federal government
- the risk of diseases, such as foot-and-mouth disease and mad cow disease, and threats of domestic terrorism, are increasing

### Findings (summary)

We found three significant weaknesses in the systems designed to meet the Branch's emergency preparedness responsibilities

Our examination of the systems and strategies the Ministry uses to manage the risks from its responsibilities to oversee and coordinate emergency preparedness, revealed the following:
- There are significant deficiencies in the capabilities of the existing Government Emergency Operations Centre (GEOC) to meet the Ministry's needs in the event of a major disaster (see 1.1.1).
- Cross-department coordination of emergency preparedness is being adversely affected because of the failure of many Provincial government departments to prepare adequate plans, and the ineffectiveness of the Ministry systems in dealing with this issue (see 1.1.2).
- Controls to ensure consistency in review and testing of municipal plans by the Disaster Services Branch are lacking (see 1.1.3).

### Implications and risks

The potential impact of having deficiencies in the emergency preparedness program could be significant in the event of a disaster.

## 1.1.1 Capability of the existing government emergency operations centre

Firstly, the present Emergency Operations Centre is unsuitable as a command centre for Alberta government departments

The Province's Government Emergency Operations Centre (GEOC) is activated when an emergency is of a magnitude to warrant full provincial programs support. The *Alberta Emergency Response Plan* requires that the GEOC act as the command centre for relevant government agencies to operate from, to facilitate the sharing of information and coordination of resources.

The current GEOC has 4 workstations. There are 26 departments and agencies, plus federal and industry partners, that could be a part of any emergency response.

Findings (detailed)

Our review of the GEOC capabilities, revealed the following deficiencies:

- The GEOC cannot physically house all of the personnel that would be required to be there in the event of major disaster.
- The location of the GEOC and its proximity to refineries and rail yards makes it unsuitable as a command centre for responding to certain disasters.
- Security is poor. The GEOC space is not walled off from the adjoining space, which is in constant use by Alberta Transportation staff.
- The facility is crowded, leaving no space for secured conversations, planning and co-ordination, and access to tools.
- If the GEOC were to be activated for a long period of time (more than 72 hours), there is no provision for sleeping accommodation, etc., for emergency response, crisis management, and communication personnel.
- There is currently no testing plan in place for the GEOC.

### 1.1.2 Cross-department coordination of plans

The *Government Emergency Planning Regulation* 62/2000 requires that departments prepare emergency plans in consultation with the Disaster Services Branch. Such plans should demonstrate how departments would operate out of the GEOC in providing skills and resources to assist local authorities. The plans should also show how each department's response fits into a coordinated Provincial response to emergencies.

The Regulation places an obligation on the Branch to promote and coordinate the preparation of departmental emergency plans and to coordinate the government response in the event of an emergency.

Criteria

1. Deputy ministers should be advised by the Disaster Services Branch when departments are failing to prepare emergency plans.
2. The Branch should implement a program of testing of departmental plans, as is currently the case with local government plans.

Findings (detailed)

Secondly, many Alberta government departments have not prepared adequate emergency plans.

1. Many departments have not prepared adequate emergency plans. Because of this, simulated exercises both within departments and across departments cannot take place. The Branch typically communicates with EPOs, not with the deputy ministers, on emergency preparedness matters.

The Branch thus cannot efficiently coordinate a Provincial response to disasters

Attempts by the Branch to coordinate planning activities across departments have been hampered by the fact that emergency planning meetings are not consistently attended by the designated EPOs. In many cases, EPO responsibility is assigned to an officer within each department in addition to other full-time responsibilities. Many of the departments either share an EPO with other departments or have an EPO that has another competing emergency management responsibility.

2. There has been no testing of Provincial department plans.

#### 1.1.3 Consistency in review and testing of municipal plans

The Disaster Services Branch undertakes a program of reviewing and testing municipal emergency plans (MEPs) with each municipality. Each MEP is reviewed bi-annually and is tested at least once every four years.

Third and last, the Branch needs to develop standards for reviewing and testing municipal plans

The approach to reviewing or testing a municipal plan varies with the size of the community. Reliance is generally placed on the experience and judgement of the District Officer to adopt an appropriate approach. Because of a lack of consistent criteria, there is an increased risk of lack of uniformity across all districts in the assessment of the effectiveness of MEPs.

Criteria

1. To ensure that the effectiveness of each MEP is assessed consistently, there should be clear formal criteria or standards against which the Disaster Services Branch reviews and tests MEPs.
2. The outcome of reviews and tests of MEPs should be reported to a committee or to councillors, as this would increase the likelihood of the municipality taking action in the event that weaknesses are identified.

Findings (detailed)

1. Standards for reviewing and testing MEPs have not been established.
2. Reports are not generally provided to council members after a review or test.

### 1.2 Safety services

**Recommendation**

**We recommend that the Ministry improve its process to verify that responsibilities to issue permits under the *Safety Codes Act,* that it has delegated to other entities, are being properly discharged.**

### Background

The Ministry has delegated the issuance of permits to municipalities and others

In 1999–2000, the government's responsibilities for administering the *Safety Codes Act* (the Act) were transferred to the Ministry from the Ministry of Labour. Certain responsibilities have been delegated to four DAOs and to some 450 municipalities, corporations and other accredited organizations and include the performance of inspections and issuance of permits to builders and operators required to meet the standards of the Act.

The Ministry makes field visits to permit issuers to check on their performance. We identified weaknesses in its checking procedures

The Ministry evaluates the performance of all delegated entities. Fieldchecking procedures are performed annually on 80 per cent of accredited municipalities and accredited corporations and the 4 DAOs, and quarterly on authorized accredited agencies.

### Findings

While the Ministry has made substantial progress over recent years towards the implementation of comprehensive fieldchecking procedures, the following weaknesses exist:

- Departmental staff need better guidelines to assist them on field visits.
- The sample size used for field visit purposes did not always comply with the guidelines.
- Accredited organizations should be, but are not, required to report back on corrective action taken on the deficiencies discovered by Ministry staff at field visits. There is no evidence of follow-up by the Ministry of these deficiencies.
- The procedures do not include a site-verification or other forms of reperformance.
- The Ministry has developed a procedure to assess risk as a basis for decisions to omit certain accredited organizations from field visits in a particular year. However, this procedure was not always followed.
- Omissions of responses to questions posed in the standard checklists used by Ministry staff were frequently not addressed as part of the supervisory review of field visits.
- Performance information is not requested from most accredited organizations on a frequent and regular basis. Desk reviews of performance information can reduce field visits or improve field visit focus.
- Accidents and major complaints/claims are not being compiled in a manner that will assist the field visit process. Where there are indications or suspicions that an inadequate inspection resulted in the accident or complaint, information should be provided to the field staff to help focus on potential areas of weakness. Also, the Ministry should use the information to determine whether the quality of the fieldchecking procedures is adequate.

Implications and risks

The delegation to others of responsibility for program delivery with respect to building construction permits and safety inspections increases risk. In many cases, accredited organizations are inspecting their own work, further increasing the risk. It is vital that fieldchecking procedures are performed with rigour if the Ministry is to assure itself that safety standards are being maintained.

## 1.3 Managing for results

In our opinion, the Ministry's *Managing for Results* processes substantially met the relevant criteria. We made a number of recommendations to assist the Ministry in obtaining more value from these processes. The following is a summary of these recommendations.

**Recommendation No. 47**

**We recommend that the Ministry of Municipal Affairs:**

1. **effectively implement the Ministry business plan by fully integrating its operational plans with the Ministry business plan and staff performance plans.**
2. **improve the implementation of the human resource performance planning and assessment process.**
3. **refer to all relevant entities in the business plan and expand the discussion of risks and environment factors.**
4. **review the methodology for two performance measures.**

In a detailed report to the Ministry, we elaborated on these recommendations and provided more information on good practices.

Background

The government initiated changes to its business processes and we have, in the past, made recommendations to obtain best results from the implementation of these changes across all ministries

In the early 1990s, the government initiated fundamental changes to its business processes to assist management to identify and focus on desired results; improve the communication of the results, both internally and externally; and report on how well it did in achieving the desired results. These changes impacted business planning, performance measurement and reporting, human resource management, and governance processes. We refer to these processes as *Managing for Results*.

We have examined the progressive implementation of these changes over several years and have made recommendations at the cross-government level to assist government in gaining full value from these improvements. We now are looking at the *Managing for Results* processes on a ministry-by-ministry basis. This year we looked at Municipal Affairs.

### Criteria

The business plan, performance report, and underlying systems should help management achieve desired results and legislators make informed funding decisions. We used an extensive set of criteria that we developed through consultation with government management.

### Findings

In general, we found that the Ministry's *Managing for Results* processes were well designed.

The Ministry's business plan has many good features but needs more information on risks, on environmental factors, and on certain entities falling under its control

The *Municipal Affairs 2002–2005 Business Plan* exhibits many features that we consider to represent a good business plan. Also, the Ministry employs a number of good practices in the development of its plan:

- The plan portrays succinctly what the Ministry does and why.
- In the business plan, core businesses are aligned with goals, key results, strategies, performance measures and costs. The plan clearly shows the results that will be achieved in each core business and how much the achievement of those planned results will cost.
- The alignment of core businesses to the Ministry's organization and budget structures has facilitated development and implementation of the plan and reporting on achievements.
- Management considered environmental scanning information, from scans conducted by the government and the Ministry, in the planning process.
- Senior management, staff and stakeholders are involved in the planning process, which includes regular management forums.
- Assessment of alternative funding and delivery mechanisms is included in proposals for new initiatives and programs.

We found that the Ministry business plan did not:

1. refer to all entities used by the Ministry to accomplish goals. We found no reference to the Special Areas Board or delegated administrative organizations and limited reference to the Safety Codes Council.
2. adequately discuss risk and key environmental factors that may affect accomplishment of business plan goals.

We made specific recommendations to improve the plan and related processes in these areas.

Operational plans for Ministry units should be standardized and better integrated with the Ministry plan

We found that operational planning, necessary for effective implementation of the Ministry business plan, varied considerably among the divisions, branches and units within the Ministry. Better value would be gained if operational plans were comprehensive, consistent and better integrated with the Ministry plan and with individual performance plans. Also, monitoring systems to track progress towards goals could be improved. As a result, we recommended to management that these processes be improved.

While most performance measures met relevancy and sufficiency tests, two measures need improvement

We found that most performance measures met the relevancy and sufficiency criteria. The methodology for calculation of the measure "percentage of assessed accredited municipalities, corporations, agencies, and delegated administrative organizations administering the *Safety Codes Act* that achieve a satisfactory rating" could be improved, and we recommended that it be reviewed. We also found that the results for the "percentage of municipalities meeting the Ministry's criteria of financial accountability" are based on municipalities' audited financial statements for the calendar year ending 15 months before the end of the Ministry's annual report year. We recommended to management that it examine if more current data could be used.

Human resource management systems are well designed but we found three areas where implementation should be improved

We found that the human resource management systems were well designed:

- The Ministry uses a collaborative and on-going human resource planning process.
- The human resource plan captures the significant issues of the Ministry and is integrated with the government's corporate human resource initiatives and priorities.
- The government's Core Measures Survey results are used to report against the human resource plan.
- The Ministry performance planning and assessment system encourages planning to achieve goals, while assessing whether goals were achieved and also defining actions to improve performance.

We found, however, that the human resource management systems need to be implemented more consistently. We recommended that management:

1. incorporate the assessment and development of core competencies into the performance planning and assessment process.
2. use the performance planning and assessment results to support human resource management decisions and the allocation of the achievement bonus.
3. develop better guidance for staff and provide training on the purpose and completion of performance plans.

The Municipal Government Board's business processes were reviewed as a separate core business and met predetermined criteria set for governance responsibilities

The Municipal Government Board is included in the Ministry business plan for 2002–2005 as a separate core business. The Board processes met relevant criteria for governance:

- The Board's role within the overall Ministry structure is clearly defined.
- The Board uses a comprehensive recruitment process that includes evaluation of candidates by a committee of stakeholders and Board members. The Board also employs orientation, training and ongoing development processes.
- Board members actively participate in planning.
- The Board has established systems that support integration of performance assessment and reporting into its management practices.

#### Implications and risks

Full value of the Ministry's business plan not yet realized

Well-designed systems for *Managing for Results* enhance the Ministry's opportunity to achieve its goals. The Ministry needs to ensure that its business plan is comprehensive and is implemented through integrated operational planning and human resource management processes. The value of the Ministry business plan will not be fully achieved unless, and until, the Ministry's *Managing for Results* systems are more effectively implemented.

### 1.4 Municipal property tax assessment

On page 227 of our *2000–2001 Annual Report*, we recommended that the ministry improve the controls designed to ensure that municipal property tax assessments are fair and equitable.

We are pleased to report that the Ministry has taken significant steps toward addressing the deficiencies identified in our *2000–2001 Annual Report*. A large part of this progress has been the development of a plan to deal with the backlog of field audits and improve the field audit process.

We will follow-up in greater depth when the Ministry has implemented its planned measures.

### 1.5 Business resumption planning

Business resumption plans of ministries are progressing satisfactorily, mainly as a result of the Disaster Services Branch

In the *2001–2002 Annual Report*, we reported our agreement with the Ministry's position that the *Government Emergency Planning Regulation* draws a distinction between emergency plans and business resumption plans and that, unlike emergency plans, the Regulation does not give the Ministry responsibility for the promotion and coordination of departmental business resumption plans. However, we expressed our concern that no efforts

other ministry has been assigned this responsibility. We also reported that in response to our concern and to the events of September 11, 2001, the Ministry had indicated that it would be taking immediate steps to assume responsibility for the promotion and coordination of departmental business resumption plans and had allocated resources to the Disaster Services Branch for this purpose.

Since then, a separate unit within the Branch has been established which is dedicated to business resumption planning. A comprehensive business resumption planning guide has been developed and distributed to all ministries. Also, a training course has been designed and offered to all ministries. The Branch has advised us that, by the end of July 2002, personnel from 15 departments had participated in the training course. The Branch has developed but not yet implemented a cross-government business resumption planning coordination process and also an evaluation process for individual plans.

Our audits of the various ministries indicate that the progress made since last year is satisfactory. Twelve of the major departments have prepared business resumption plans and the remainder have plans in various stages of development. We will continue to monitor the collective progress by the Branch and the departments in the development and maintenance of a fully coordinated and tested plan for the Alberta Government.

## 2. Financial statement audits: two reservations of opinion

### Background

We audited the financial statements of the Ministry for the year ended March 31, 2002, which are prepared in accordance with the corporate government accounting policies established by Alberta Finance.

### Findings

The Ministry financial statements complied with Alberta Finance accounting policies but did not comply with generally accepted accounting principles in the following respects:

All capital assets are not recorded in Ministry financial statements

1. The Ministry immediately expenses acquisitions under $15,000, instead of amortizing them over their useful lives. The Ministry is understating its capital assets because it must follow a corporate government accounting policy.

The operations of entities with responsibilities delegated by the Ministry are not included in Ministry financial statements

2. Ministry financial statements contain only the results of operations and net assets of the Department of Municipal Affairs. The delegated administrative organizations (DAOs) and the Safety Codes Council should be included in these financial statements. These organizations require the Minister's approval of revenue-raising, expenditure and resource allocation policies related to their functions.

   Safety services administration is the responsibility of the government. Consolidation of the DAOs and the Safety Codes Council with the Ministry of Municipal Affairs would provide a complete overview of the full nature and extent of the financial affairs and resources for which the Minister is accountable.

   Had the Safety Codes Council and the DAOs been included in the Ministry's statements, then revenues, expenses, assets, liabilities and net assets would have increased by $13 million, $12 million, $15 million, $4 million and $11 million, respectively.

## 3. Specified auditing procedures

We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

## 4. Findings on entities that report to the Ministry

The audits of the financial statements of the following entities under the administration of the Ministry for the year ended December 31, 2001 resulted in unqualified opinions:

1. Improvement Districts, 4, 9, 12, 13 and 24
2. Kananaskis Improvement District
3. Special Areas Trust Account

# Revenue

## Summary: what we found in our audits

1. We have a reservation of opinion on the financial statements of both the Ministry and Department—see page 233.

2. We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

3. We have the following findings on entities that report to the Ministry:

   3.1 We issued auditor's opinions without reservation for all the financial statements of the entities listed in 3.1 of the Scope section that follows.

   3.2 Transfers from the Alberta Heritage Science and Engineering Research Endowment Fund may not be in compliance with legislation—see page 233.

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## Overview of the Ministry

Four core businesses

The Ministry's 2001–2004 business plan identifies four core businesses:
- manage and invest financial assets prudently
- administer tax and revenue programs fairly and efficiently
- manage risk associated with loss of public assets
- regulate Alberta's capital market

The Ministry includes the:
- Department of Revenue
- Alberta Heritage Savings Trust Fund
- Alberta Heritage Foundation for Medical Research Endowment Fund
- Alberta Heritage Scholarship Fund
- Alberta Heritage Science and Research Endowment Fund
- Alberta Risk Management Fund
- Alberta Securities Commission

Investments managed—$38 billion

The Ministry managed approximately $38 billion of investments. This included the assets of the Alberta Heritage Savings Trust Fund, other Provincial endowment funds, government-sponsored public sector pension plans and other government-related clients.

Revenues—$7.8 billion

The Ministry collected $7.8 billion in revenue in 2001–2002, from the following sources:

| | **(in millions)** |
|---|---|
| Income taxes | 6,412 |
| Other taxes | 1,149 |
| Investments | 183 |
| Fees, permits and licences | 15 |
| Other | 20 |

Expenses—$159 million

The Ministry spent $159 million in 2001–2002. For more detail on the Ministry, visit the website at www.revenue.gov.ab.ca.

## Scope: what we did in our audits

1. We audited the financial statements of the Ministry and Department for the year ended March 31, 2002.

2. We completed specified auditing procedures on the performance measures in the Ministry's annual report.

3. We also performed the following additional work:

    3.1 We audited the financial statements of the following Ministry entities for the year ended March 31,2002:
    - Alberta Heritage Savings Trust Fund
    - Alberta Heritage Foundation for Medical Research Endowment Fund
    - Alberta Heritage Scholarship Fund
    - Alberta Heritage Science and Engineering Research Endowment Fund
    - Alberta Risk Management Fund
    - Alberta Securities Commission
    - ARCA Investments Inc.

We also audited the financial statements of Orion Properties Ltd. for the year ended December 31, 2001.

3.2 We followed up on legislative compliance concerns in the financial statements of the Alberta Heritage Science and Engineering Research Endowment Fund.

3.3 We also completed quarterly reviews of the Alberta Heritage Savings Trust Fund interim financial statements.

## Findings and recommendations

### 1. Financial statement audits

Some capital assets were not capitalized and amortized

Our auditor's reports on the financial statements of the Department and Ministry have a reservation of opinion for capital assets. The Department and Ministry immediately expense acquisitions under $15,000, instead of amortizing them over their useful lives. The Department and Ministry are understating their capital assets because they must follow a corporate government accounting policy.

### 2. Specified auditing procedures

We found no exceptions when we completed specified auditing procedures on the Ministry's key performance measures.

### 3. Findings on entities that report to the Ministry

#### 3.1 Unqualified auditor's reports

We issued unqualified auditor's reports on the entities listed in section 3.1 of Scope.

#### 3.2 Alberta Heritage Science and Engineering Research Endowment Fund financial statements

Background

Recommendation to Foundation repeated

We have repeated our recommendation that the trustees of the Alberta Heritage Foundation for Science and Engineering Research (the Foundation) request clarification over the meaning of "real value of the Endowment Fund over the long term" in its legislation—see page 175.

Findings

No action taken by the Foundation

The trustees of the Foundation have not taken action to seek an amendment to the Foundation's legislation.

Consequently, our auditor's opinion on the Alberta Heritage Science and Engineering Research Endowment Fund states that, as the terms "real value" and "over the long term" are not defined in legislation, we were unable to assess whether transfers from the Endowment Fund were made in compliance with section 8(2) of the *Alberta Heritage Foundation for Science and Engineering Research Act*.

### Implications and risks

Transfers from the Fund may not be in compliance with legislation

There is a risk that the Minister of Revenue could transfer money out of the Endowment Fund to the Foundation, which would not be in compliance with the Foundation's legislation.

# Seniors

## Summary: what we found in our audits

1. We have one reservation of opinion on the financial statements of the Ministry. The Ministry should consolidate in its financial statements the assets, liabilities, revenues and expenses of management bodies—see page 236.

2. We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

3. We issued unqualified auditor's opinions on the cost-sharing claims under the *National Housing Act* (Canada).

## Overview of the Ministry

The Ministry's 2001–2004 business plan describes two core businesses:
- supporting the independence and well-being of seniors
- supporting family and special purpose housing needs

The Ministry consists of the Department and the Alberta Social Housing Corporation. For more information on the Ministry visit the website at www.seniors.gov.ab.ca.

In 2001–2002, the Ministry spent $355 million, primarily as follows:

| | **(millions of dollars)** |
|---|---|
| Financial support and information services to seniors | 175 |
| Support provisions and management of housing | 118 |
| Debt servicing costs | 49 |
| Grants in Kind | 9 |

The Ministry received $83 million in 2001–2002, $64 million of which came from transfers from the Government of Canada.

# Scope: what we did in our audits

1. We audited the financial statements of the Ministry, Department, and Alberta Social Housing Corporation for the year ended March 31, 2002. We include the Corporation with the Department and the Ministry as they are managed in a common financial reporting system.

2. We completed specified auditing procedures on the Ministry's performance measures.

3. We also audited the 2001–2002 cost-sharing claims under the *National Housing Act* (Canada).

# Findings and recommendations

## 1. Financial statement audits: one reservation of opinion

Our auditor's report on the financial statements of the Ministry contains an adverse opinion because the Ministry's failure to record the assets, liabilities, revenues and expenses of management bodies in its financial statements is not in accordance with Canadian generally accepted accounting principles. As a result, the Ministry's consolidated financial statements are incomplete.

The Ministry must provide complete and accurate information about its operations as part of its accountability to the Legislative Assembly and public. The Legislative Assembly and the public should know the extent of revenues generated by Ministry assets, the expenses incurred on Ministry operations, and the surpluses (net assets) that are available for future use. We are not making a recommendation to this Ministry because changes to corporate government accounting policies are initiated by Alberta Finance.

During the year, the Ministry became responsible for housing programs. These programs are delivered by 138 management bodies, which meet the definition of entities accountable to, and controlled by, the Minister, through relevant provisions of the *Alberta Housing Act*. The assets, liabilities, revenues, and expenses of the management bodies should be recorded in the Ministry statements to show the full nature and extent of operations and resources for which the Minister is responsible. The effect of this departure from Canadian generally accepted accounting principles is material.

## 2. Specified auditing procedures

We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

## 3. Cost-sharing claims

We issued unqualified auditor's opinions on the 2001–2002 cost-sharing claims under the *National Housing Act* (Canada).

# Solicitor General

## Summary: what we found in our audits

1. The Department needs to finalize the policing standards manual—see page 240.

2. We have a reservation of opinion on the financial statements of the Ministry and the Department—see page 241.

3. We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

4. We have a reservation of opinion on the financial statements of the Victims of Crime Fund—see page 241.

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## Overview of the Ministry

Three core businesses

The Ministry's 2001–2004 business plan describes three core businesses:
- Ensure safe communities in Alberta through adequate and effective policing and the promotion of crime prevention activities
- Ensure victims are treated with dignity and respect and that they receive information and assistance during the police investigation and any criminal court proceeding that may result
- Maintain effective and efficient correctional programs while ensuring offenders return to the community better able to positively contribute to society

Ministry spending

The Ministry comprises the Department and the Victims of Crime Fund. The total operating expenses for the Ministry were $256 million in 2001–2002 and comprise primarily:

| | **(in millions of dollars)** |
|---|---|
| Public Security | 117 |
| Correctional services | 121 |
| Victims of Crime | 13 |

Ministry revenue

Total revenue for the Ministry was $36 million in 2001–2002. The Ministry's main revenue sources are:

| | (in millions of dollars) |
|---|---|
| Transfers from the federal government primarily for cost-sharing agreements | 22 |
| Fine surcharges | 13 |

Transfers of $18 million from the federal government are for the *Young Offenders Program*.

For more detail on the Ministry, visit the website at www.gov.ab.ca/just/.

## Scope: what we did in our audits

Four parts to our audit

1. We followed up on our previous recommendation to measure the adequacy and effectiveness of policing services.
2. We audited the financial statements of the Ministry and the Department for the year ended March 31, 2002.
3. We completed specified auditing procedures on the Ministry's performance measures.
4. We audited the financial statements of the Victims of Crime Fund for the year ended March 31, 2002.

## Findings and recommendations

### 1. Systems findings: Contracting of police services

#### Background

In our *1997–1998 Annual Report* (1998—No. 34), we recommended that the Department, in collaboration with policing services, set measurable performance objectives for service delivery.

#### Findings

In our *1998–1999 Annual Report*, we reported the Department had taken initial steps towards defining adequate and effective policing levels, which would help it to establish criteria for evaluation of police services and establish minimum levels of policing.

Progress has been made since 1997-1998

Since then, the Department has formed a committee to establish policing standards, including minimum performance criteria and indicators. This committee has prepared a draft policing standards policy manual. The Department has accepted the policing standards prescribed in the manual.

Final policing standards manual has not yet been issued

After it issues the manual, the Department plans to periodically audit police services to ensure they comply with the policing standards. However, the Department has decided not to issue the manual now because it wants to review the report of the MLA *Policing Review Committee*, issued on July 10, 2002, to assess its impact on policing standards.

Satisfactory progress, but the Department should establish outcome measures

The Department has made satisfactory progress in implementing our 1997–1998 recommendation. However, as the Department continues to finalize the manual, it should include outcome measures that show the achievements of various policing services. The Department should also develop a process to obtain performance information from the various policing services.

## 2. Financial statement audits

Capital assets expensed

Our auditor's reports on the financial statements of the Department and Ministry have a reservation of opinion for capital assets. The Department and Ministry immediately expense acquisitions under $15,000, instead of amortizing them over their useful lives. The Department and Ministry are understating their capital assets because they must follow a corporate government accounting policy.

## 3. Specified auditing procedures

We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

## 4. Findings on entities that report to the Ministry

Liability not recorded

Our auditor's reports on the financial statements of the Ministry and the Victims of Crime Fund contain a reservation of opinion. A liability was not recorded for known recurring payments handled by the Crimes Compensation Board.

# Sustainable Resource Development

## Summary: what we found in our audits

1. The Department needs to improve the planning, documentation, reporting, and timeliness of its timber production auditing—see page 245.

2. We have two reservations of opinion and an information paragraph on the Ministry's financial statements—see page 248.

3. We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

4. We have a reservation of opinion on the financial statements of the Environmental Protection and Enhancement Fund—see page 249. There were no reservations on the financial statements of the Natural Resources Conservation Board.

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## Overview of the Ministry

Two core businesses

The Ministry's 2001–2004 business plan describes two core businesses:
- Industry Development
- Resource Stewardship

The Ministry and its components

The Ministry of Sustainable Resource Development consists of the Department of Sustainable Resource Development, the Natural Resources Conservation Board, the Surface Rights Board, the Land Compensation Board and the Environmental Protection and Enhancement Fund. The Ministry is also responsible for three delegated administrative organizations: the Alberta Conservation Association, the Forest Resource Improvement Association of Alberta, and the Alberta Professional Outfitters Society.

Ministry spending

In 2001–2002, the Ministry spent $299 million. The following programs are the largest costs of the Ministry:

| | (millions of dollars) |
|---|---|
| Natural Resources Emergency Program | 116 |
| Forest Protection | 54 |
| Forest Management | 22 |
| Land Administration | 21 |
| Enforcement Field Services | 15 |
| Fisheries and Wildlife Management | 12 |

Ministry revenue

The Ministry received $129 million in 2001–2002. The following are the largest sources of revenue for the Ministry:

| | (millions of dollars) |
|---|---|
| Timber Royalities and Fees | 64 |
| Land and Grazing | 47 |

For further detail about the Ministry, visit its website at www.gov.ab.ca/srd.

## Scope: what we did in our audits

1. We completed a systems audit of the Department’s timber production audit function.
2. We audited the financial statements of the Ministry and Department of Sustainable Resource Development for the year ended March 31, 2002.
3. We completed specified auditing procedures on the Ministry’s performance measures.
4. We audited the financial statements of the Environmental Protection and Enhancement Fund and the Natural Resources Conservation Board for the year ended March 31, 2002.

# Findings and recommendations

## 1. Systems findings

### 1.1 Timber production audits

**Recommendation No. 48**

**We recommend that the Department of Sustainable Resource Development improve:**

1. **the planning, documentation, and reporting of results for its timber production audit group.**
2. **the timeliness of its timber production auditing.**

#### Background

Crown forests are allocated to private companies

The Province of Alberta owns most of the forests in northern Alberta. The Department of Sustainable Resource Development allocates those forests to private forestry companies through dispositions. The companies are expected to manage their dispositions on a sustainable basis, not only harvesting timber but also preserving wildlife habitat, recreational opportunities, and environmental benefits. The companies pay timber royalties and fees to the Department based on the volumes of timber harvested.

The purpose of timber production auditing

Timber royalties and fees are the largest source of revenue for the Department. To ensure prompt and accurate reporting by forestry companies, the Department's Forest Management Branch conducts timber production audits. The purpose of a timber production audit is to verify that correct volumes of timber are reported and that the correct royalties and fees are paid. Accurate timber harvest volumes are also important in ensuring that forest use is sustainable.

Timber Production Audit Framework

The Forest Management Branch has created the Timber Production Audit Framework document to guide timber production auditing. The framework outlines audit objectives, responsibilities of the timber production auditors and forest area staff, audit timing, risk assessment, and all phases of the audit process from start to completion. It states that timber production auditors should identify and assess risk for each company being audited. The auditor should interview company staff and, based on the replies, categorize and analyze the risks specific to that company. Audit procedures should then focus on high-risk areas of the company's operations.

Coordinating audits in Edmonton and the regions

Generally, timber production auditors from the Forest Management Branch in Edmonton audit the largest forestry companies. Staff at the Department's regional offices audit the smaller harvesters who make up about 5% of timber production. The Branch's provincial audit coordinator prepares an annual audit plan for the Edmonton staff and reports audit results quarterly within the Department. The provincial audit coordinator shares planning and reporting information with the regional audit coordinators to ensure that auditing is comprehensive across the province.

### Criteria

Audit criteria agreed with management

We developed and agreed with management on 11 criteria against which to evaluate the performance of the timber production audit section. The criteria were:

- compliance with legislation; risk assessment for each timber audit based on legislated and contractual requirements
- audit findings considered in assessing the audit and regulatory process
- effective annual audit plan
- adequate understanding of terms and conditions of dispositions
- adequate audit standards
- adequate audit files and documentation
- timeliness of timber audits
- summary reporting of audit results within the Department
- communication on audit results to related revenue and disposition management systems within the Department
- adequate resources to provide the audit service
- adequate training for audit staff

### Findings

Five criteria successfully met

We found that the timber production audit group successfully met five of the eleven criteria. Timber auditors understand the forestry business that they audit, as well as the legislative and contractual requirements that govern forestry operations. The group sets reasonable standards for audit performance. Audit findings feed into the Department's revenue and disposition management systems. However, six of the criteria were not met. Our major findings can be grouped into two themes.

The timber production audit group can improve its planning, documentation, and reporting of results. Following the group's direction, the regions can also improve their processes.

Issues with the Timber Production Audit Framework

1. The group has not updated the Timber Production Audit Framework for several years. The framework should explicitly state the goals and objectives for the timber production audit function. The framework should also discuss the coordination of regional activities; annual planning and reporting requirements for timber production auditing should be defined.

Annual audit plan

2. The annual audit plan should be improved. The plan should detail staffing assignments, budgeted time, milestone dates, and important information about each audit. The plan would then promote timely and complete audit coverage by matching audit resources with the appropriate tasks. Senior management should approve the annual audit plan.

Coordination between Edmonton and the regions

3. Coordination and communication between Edmonton and the regional offices can be improved. We visited one region and found that the regional coordinator's annual plan did not include timber permit audits; this region's staff had performed inspections, but no audits have been completed since 1996–1997. The region reported its annual plan to the provincial audit coordinator, but not its annual results.

Risk assessments

4. Risk assessments for every large forestry company should be completed, documented, and used to determine which companies should be audited. During our audit, we found no documented evidence of risk assessments for FMA and quota certificate audits. We were told that timber production auditors informally assess the risk related to each audit based on previous audit findings.

Documentation of audit results

5. Timber audit documentation should be improved. Audit files should be organized on a logical and consistent basis. They should include an index, risk assessment, correspondence, referenced working papers evidencing the audit work done, and a completion checklist.

Annual reporting of the audit function

6. The timber production audit group should prepare a summary annual report comparing work performed to its annual audit plan. The annual report should explain the scope of the work done, summarize audit results, and flag issues that need to be addressed.

Timber production audits are not timely

The second theme is that the timber production audit group needs to improve the timeliness of its service delivery. The Timber Production Audit Framework specifies that audits be conducted at regular intervals, ideally not to exceed two years. We found that all of our sample files exceeded the two-year time frame. The timber production audit group's records indicate that 45% of audits exceeded the two-year target. Our testing showed that the group missed other timeliness targets that are based on legislation or policy.

Implications and risks

Planning, documenting, and reporting

Without improved planning, the Department risks not achieving its goal of auditing the forestry companies' timber reporting promptly. Without adequate documentation of timber audit results, the Department may not be able to support its findings and conclusions, leading to delays in finalizing results and collecting revenues. In the absence of adequate annual reporting, the Department will not know whether it has achieved its goals for timber production auditing.

Timeliness

The longer it takes the Department to do its timber auditing, the greater the difficulty in completing the audits. Companies may close or be sold, key personnel in the companies may leave, and documents become difficult to find. There is also an impact on the management of crown forests. Audit adjustments may force companies to change their planned harvests and disrupt their plans for sustainable management of their dispositions.

### 1.2 Fish management

In 2002–2003, we will report the status of the fish management recommendation that we made in our *1999–2000 Annual Report*.

## 2. Financial statement audits

We audited the financial statements of the Ministry and Department of Sustainable Resource Development for the year ended March 31, 2002.

Consumable inventory

Our auditor's reports on the financial statements of the Department and the Ministry contain a reservation of opinion for consumable inventory. Following corporate government accounting policy, consumable inventory has been expensed when purchased and has not been recognized as an asset in the accompanying statements of financial position. The value of consumable inventory not recorded at March 31, 2002 is estimated to be at least $4 million. As a result, net assets are understated by the same amount.

Capital assets

Our auditor's reports on the Department and Ministry also contain a reservation of opinion on capital assets. The Department and Ministry immediately expense acquisitions under $15,000, instead of amortizing them over their useful lives. The Department and Ministry are understating their capital assets because they must follow a corporate government accounting policy.

Information paragraph for Swan Hills provisions

In addition to the reservations of opinion, our auditor's report for the Ministry contained an information paragraph relating to the Swan Hills waste treatment plant. We reported that the provision for cell monitoring and remediation and the provision for future removal and site restoration recognized in those financial statements are also disclosed in the financial statements of the Ministry of Environment. The two provisions on the consolidated statement of financial position, described in Notes 7 and 8 of the Ministry financial statements, and the environment statutory programs recorded on the consolidated statement of operations relate to monitoring and restoration activities at the Swan Hills waste treatment plant. Due to government restructuring in March 2001, the responsibility for these provisions and expenses is shared. As a result, the expenses related to these provisions are recognized in both the Ministries of Environment and Sustainable Resource Development. In our opinion, it is uncertain in which ministry's financial statements these provisions and expenses should be recognized. The government intends to resolve this uncertainty in the coming year.

## 3. Specified auditing procedures

We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

## 4. Financial statement audits of entities that report to the Ministry

The auditor's report on the 2001–2002 financial statements of the Environmental Protection and Enhancement Fund contains a reservation of opinion on capital assets. Since the Fund does not separately identify expenses that are capital in nature, the amount of the misstatement cannot reasonably be determined. However, we believe it to be material and it results in a reservation on the Fund's auditor's report.

The 2001–2002 financial statements of the Natural Resources Conservation Board received an unqualified auditor's opinion.

# Transportation

## Summary: what we found in our audits

1. The Ministry needs to ensure its employees and consultants disclose in writing any potential conflicts of interest—see page 252.

2. We have a reservation opinion on the Ministry's financial statements—see page 255.

3. We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

## Overview of the Ministry

Five core businesses

The Ministry's 2001–2004 business plan describes five core businesses:
- improve road, driver and vehicle safety
- improve provincial highway infrastructure
- support municipalities in the provision of their transportation and water/wastewater needs
- influence national and international policy on roads and transportation services
- represent Alberta's interest in internal and external trade agreements impacting transportation

The Ministry consists of the Department of Transportation. For more detail on the Ministry, visit its website at www.trans.gov.ab.ca.

Ministry spending

In 2001–2002, the Ministry spent $926 million, mainly on the following programs:

| | **(millions of dollars)** |
|---|---|
| Highway systems operating costs | 456 |
| Municipal infrastructure grants | 398 |

Ministry revenue

The Ministry's revenue from sources external to the government was $20 million in 2001–2002.

# Scope: what we did in our audits

Three parts to our audit

1. We followed up our previous recommendations on deferred maintenance and infrastructure management systems. We also reviewed the Ministry's contract management systems.

2. We audited the Ministry's financial statements for the year ended March 31, 2002.

3. We completed specified auditing procedures on the Ministry's performance measures.

# Findings and recommendations

## 1. Systems findings

### 1.1 Conflict of interest and contract management systems

**Recommendation No. 49**

Conflict of interest

**We recommend that the Ministry of Transportation require its employees to disclose annually in writing:**

1. **that they understand and agree to follow the *Code of Conduct and Ethics*.**
2. **any potential conflicts of interest.**

**We also recommend that the Ministry ensure that consultant contracts contain a conflict of interest provision.**

Background

All government employees must be familiar with and abide by the *Code of Conduct and Ethics for the Public Service of Alberta* (the Code), produced by the Personnel Administration Office (PAO). The Code deals with conflicts of interest between the private interests of employees and their duty to the public. The PAO has indicated that it is not possible to produce a complete list of all conflict of interest situations. The Code provides guidance for employees to gauge their own activities.

Administration and enforcement of the Code—including the development of any department-specific supplementary codes—is the responsibility of each Deputy Minister. The Code requires the Deputy Minister to issue instructions as necessary for implementation of the Code and to promote the Code regularly to ensure that employees are aware of their obligation. The Code requires employees to disclose to the Deputy Minister any situations that may be, or appear to be, conflicts of interest.

### Criteria

A contract management system should ensure:

1. an appropriate contract selection method is chosen
2. competition is open, fair, and gets good value
3. the decision to sole source is justified
4. the contract contains a sound framework for contract management and accountability
5. contracting performance is monitored and acted upon
6. conflict of interest guidelines are in place and followed
7. expectations regarding disclosure and avoidance of potential and actual conflicts of interest are defined and published
8. types of transactions that can lead to a conflict are identified
9. abstention from purchase decisions is required when self-interest could influence decisions

### Findings

The Ministry's contract management system met most of the above criteria.

Employees don't confirm conflict of interest in writing

The Ministry provides all employees with a copy of the Code when they start working. As well, the Ministry has issued a project administration manual. The manual defines conflict of interest in the selection of consultants. The manual also requires employees to withdraw from the consultant selection process if they are in conflict of interest. However, the Ministry does not require them to confirm in writing that they understand the Code and agree to abide by it.

Ministry does not require consultants to formally confirm conflict of interest

The Ministry uses consultants to provide advice on the selection of contractors and supervise their work during construction. It does not require these consultants to formally confirm that they do not have a conflict of interest with any of the parties bidding on a job.

### Implications and risks

The Ministry may be unaware of conflicts of interest between the private affairs of employees and their public duty or between consultants and third parties. There is a risk that the Ministry will not obtain best value from a contract if employees or consultants make decisions based on their personal interests.

## 1.2 Deferred maintenance

### Background

In our *2000–2001 Annual Report* (2001—No. 24), we recommended that the Ministry take the following actions to ensure that it bases its spending decisions on adequate information:

- establish a consistent definition of deferred maintenance
- acquire and use systems that accurately measure the extent and cost of deferred maintenance
- disclose the extent and cost of deferred maintenance in its annual report

### Findings

Ministry defined deferred maintenance

The Ministry is making satisfactory progress in implementing our recommendation. During the year, the Ministry formed a committee to implement our recommendation. The committee has developed draft definitions of deferred maintenance and terms that are essential in developing a consistent definition of deferred maintenance.

Ministry has an action plan

The committee has also prepared an action plan. The plan calls for the following tasks to be completed between 2002 and 2004:

- fine tuning the definitions.
- collecting and recording information on the amount of deferred maintenance.
- developing tools to collect, measure, and report deferred maintenance. The Ministry is currently developing a transportation information management system. The committee has identified this system as the one the Ministry should use to collect, measure and report deferred maintenance. The Ministry expects to complete this system in the 2003–2004 fiscal year.

## 1.3 Infrastructure management systems

### Background

In our *1999–2000 Annual Report* (2000—No.27), we recommended that the Ministry review the plans for developing the Ministry's infrastructure management systems and satisfy itself that the most cost-effective systems are being developed and that it has the resources to successfully develop and implement the systems. On page 163 of our *2000–2001 Annual Report*, we reported that the Ministry had improved its processes relating to the development of infrastructure management systems. We therefore narrowed our recommendation to help the Ministry focus on its implementation. In 2000–2001, we recommended that the Ministry formalize the requirement for the preparation of a comprehensive business case analysis to support systems development decisions.

Findings

Recommendation implemented

The Ministry has implemented our recommendation by issuing a guide for managing information management technology projects. The guide provides guidance on preparing business cases. The guide requires business cases to analyze costs, benefits, and risks. According to the guide, the cost benefit analysis should be prepared using the framework issued by the government's Chief Information Officer.

## 2. Financial statement audit: reservation of opinion

Reservation of opinion

We audited the financial statements of the Ministry for the year ended March 31, 2002. Our auditor's report contains a reservation of opinion resulting from a departure from Canadian generally accepted accounting principles.

Site restoration cost not recorded

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. The effect of this departure from generally accepted accounting principles is significant.

## 3. Specified auditing procedures

We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

# Section 11(b) Audits

Under section 11(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 2001–2002 fiscal year, the Auditor General acted as auditor of the following organizations:

- 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
- WestView Regional Health Authority
- Universities Academic Pension Plan

# Supplementary information

| | Total Numbered Recommendations | Accepted and Fully Implemented | | Not Implemented Due to changed Circumstance | | Not Yet Implemented | |
|---|---|---|---|---|---|---|---|
| | | Number | % | Number | % | Number | % |
| **1994-1995** | 38 | 34 | 89% | 1 | 3% | 3 | 8% |
| **1995-1996** | 35 | 29 | 83% | 2 | 6% | 4 | 11% |
| **1996-1997** | 28 | 25 | 89% | 0 | 0% | 3 | 11% |
| **1997-1998** | 51 | 33 | 65% | 0 | 0% | 18 | 35% |
| **1998-1999** | 50 | 27 | 54% | 1 | 2% | 22 | 44% |
| **1999-2000** | 49 | 16 | 33% | 0 | 0% | 33 | 67% |
| **2000-2001** | 50 | 10 | 20% | 0 | 0% | 40 | 80% |

# Performance report for the year ended March 31, 2002

**Office of the Auditor General**

**Results Analysis**

**March 31, 2002**

## Mission

*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 Office of the Auditor General (OAG) is ultimately responsible to the public who require assurance that the government's performance reporting is credible.

The Auditor General is appointed by the Legislative Assembly of Alberta and, pursuant to the *Auditor General Act*, the Auditor General and the staff of the OAG fulfils the Auditor General's statutory duties.

The purpose of the 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:

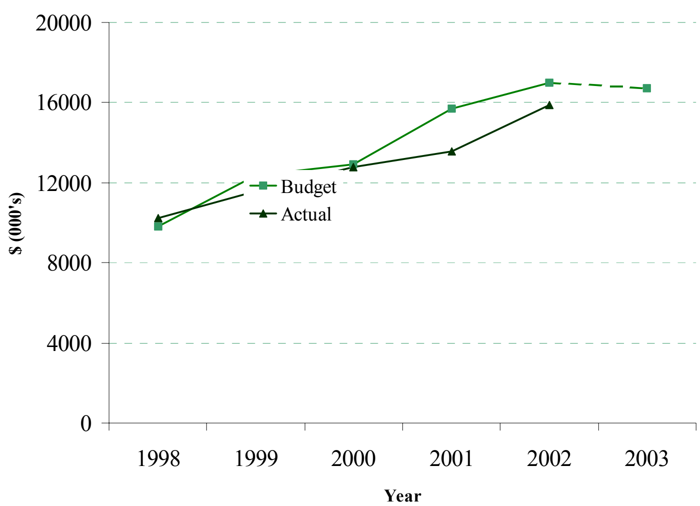
- Reports on the results of his examinations of the entities for which he is the auditor, giving details of any reservation of opinion in an audit report, and advises the Legislative Assembly on the work of his Office, including whether he received all the information, reports and explanations he required;
- Accounts to the Public Accounts Committee for matters in the Auditor General's Annual Report.
- Assists the Provincial Audit Committee and gives 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.
- Trains legislative auditors.

The Auditor General is uniquely positioned to fulfil this mission, as he is appointed by and responsible to the Legislative Assembly.

## Office Performance

The OAG's primary source of funds for operations is the annual appropriation by the Legislative Assembly. For 2001–2002, the funding approved was $16,099,000 for operating purposes, and $887,000 for capital purposes. While the Office returned funds to the Legislative Assembly for the 2001–2002 operating year, the total cost of providing assurance services continues to increase. The Office does, however, continue to place a high degree of scrutiny on cost control and effective spending. Figure 1 shows the budgets approved for the last 5 years.

***Figure 1: Budgets Approved by the Legislative Assembly***




The Office is returning $1,106,000 to the Legislative Assembly for the 2001–2002 fiscal year. The variance from our budget arises primarily in personnel and capital items.

## Operating Variances

### Personnel

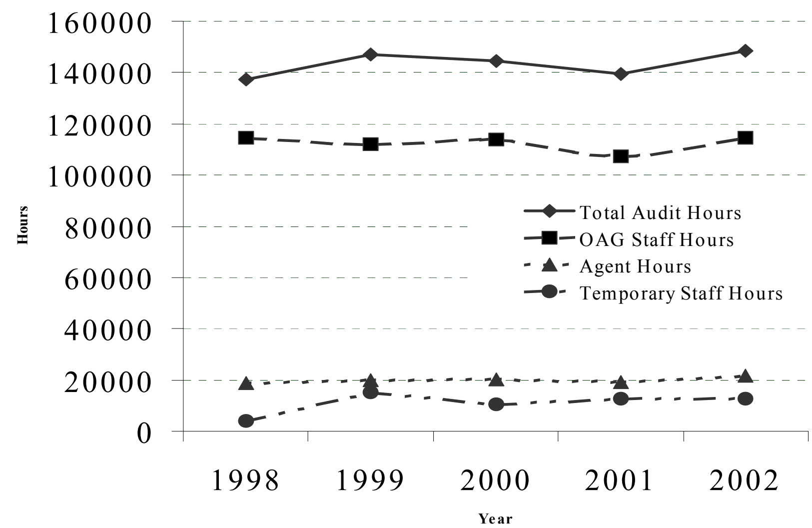
Approximately 84% of current operating expenses are for personnel. As stated in past reports, the most significant business challenge continues to be the shortage of trained professional staff to meet the increasing demands for services.

At March 31, 2002, the current staff complement was 115 full-time equivalent positions. The Office staff numbers fluctuate yearly, but our average staff complement over the last five years has been 115 full-time positions. This is significantly less than our target staff complement of 126 full-time positions. In contrast, over the same five-year period the number of audit hours has increased by 8.9% or 11,468 hours, which would require almost eight additional positions. This increase in audit hours has been dealt with by OAG staff working more overtime and deferring vacations and training, and by using temporary staff and agents.

### *Temporary Staff*

Using temporary staff allows the OAG to meet work demands during peak times. There are, however, downsides to temporary staff. For example, the costs and logistics of training short-term staff is a challenge since OAG resources are diverted from direct audit work. Permanent staff also require supervision, but since they are training continually in legislative audit methodology, less direct supervision is required. Moreover, the cost of temporary staff is variable and reflects market demand. In the current year, the average rate for temporary staff was $109.25 per hour; this contrasts with the average rate for OAG staff at the same staff level of $85.50 per hour.

*Figure 2: Hours by Resource Type*




In the current year, the Office under spent its budget for temporary staff by approximately 17.4% or $281,000. This reflects the Office's concerted efforts to reduce its reliance on temporary staff, and reduce the average cost paid for temporary staff.

### *Agent and Advisory Services*

The Office also employs agents to meet work demands. Since 1980, CA firms have been extensively used to complete audit work. In the past year, 21 public accounting firms in 13 communities across the Province assisted the OAG. When using agents, OAG staff continue to lead the work, but our practice benefits by using additional resources to meet peak work demands, employing specialist skills cost-effectively, gaining a point of reference for comparing our methodology and costs, and saving on travel costs.

In the past year, the Agent Professional Services budget was under spent by 14.7% or $523,000. This is due to a number of factors, including:

- audit efficiencies gained through OAG, agent and client efforts;
- reallocation of resources due to higher priority demands;
- greater use of internal resources for completing projects, reducing agent time and costs on projects.

**Supplies and Services**
In the Supplies and Services category the total positive variance from budget was 6.6% or $170,000. Expense items that exceeded budget provisions were:

- Amortization costs were over budget due to capital purchases made during the year that exceeded budget.
- Computer services exceeded budget due to increased IMAGIS charges, and changes in software licensing terms, requiring a large initial outlay to maintain our software licenses.
- Repairs and maintenance costs were higher than anticipated due to costs borne by the Office in completing renovations associated with the Office's lease renewal.

These items were compensated for by expense items that were under budget including:

- Professional fees, training and development was not used to the extent planned; this is largely a factor of work demands, and the inability of OAG staff to take time for formal training.
- Travel expenses were lower than expected due to less training and development, and lower costs associated with using local agents to perform audits.

**Capital Items**
The OAG substantially reinvested in its project management software. Although the reinvestment was planned for, we did not anticipate purchasing a product from the United States, and the related exchange rate impact. Also, we did not fully consider the need for expert advice on purchasing and implementing this type of software. As such, this investment exceeded its budget by $229,000, for a total cost of $429,000. Due to the limitations and age of the Office's current project management software, this expenditure was necessary and was dealt with by transfers from other capital and operating areas. The software will enable the Office to obtain better information about its performance, allowing us to improve our performance and our measures.

**By Output Hours**
Schedule 1 of the Office's financial statements shows the output of the OAG in financial terms. This Schedule complements the Annual Report of the Auditor General. The Annual Report details the qualitative work done by the Office, while Schedule 1 quantifies the cost of doing that work.

At March 31, 2001, we expressed concern about the inability of the Office to dedicate resources to complete planned systems projects. This year, we have made positive steps in correcting this through work reallocations, and improved audit efficiencies. For the 2001 Annual Report, 124 system projects were completed, using 28,000 personnel hours. This is an increase of 20.1%. Hours spent completing attest projects also increased by 2.0% over the prior year due to government restructuring in March 2001. The projection to maintain a similar volume of system audits for the 2002 Annual Report reinforces the OAG's commitment to systems work, and effective recommendations for improved government operations.

## Business Plan

**2001–2002 performance against objectives**
The OAG's strategic objectives are set out in its 2001–2004 Business Plan. The OAG measures its performance in achieving its objectives throughout its fiscal year, as well as annually. For the current and forthcoming years, we have changed some of our performance measures to better reflect our goals and core businesses. The changes made are discussed below.

**Discussion of performance**

***Issuance of audit reports***
The Auditor General's audit report on the consolidated statements of the Province of Alberta was issued June 20, 2001. This met our target date of June 30, 2001.

For future years, the Office has added targets for Ministries; Departments, funds and consolidated agencies; and other organizations for which audit reports are issued.

***Issuance of reports on the results of applying specified auditing procedures to performance information***
This measure has been added for future years to measure our performance in achieving our objective of increasing assurance services related to performance information of public sector organizations.

***Acceptance of the Auditor General's primary recommendations***
The Office target is for 85% of primary recommendations to be accepted. In fact, 78% were accepted. Acceptance does not include "accepted in principle" or "under review," which together account for a further 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. In some instances, the Auditor General has acknowledged that a particular recommendation will be difficult to resolve, and will take significant time and efforts on the part of Ministry staff.

***Implementation of the Auditor General's primary recommendations***
Seventeen recommendations made prior to 1998 are not yet implemented. The concerned Ministries have not rejected these; rather, progress in implementation is slower than originally anticipated. Of the 17 recommendations, the progress with 6 is satisfactory. Details of the recommendations in question are on page 265 of the 2000–2001 Annual Report of the Auditor General.

***Release of the Auditor General's Annual Report***
We have added this measure to the Office Business Plan for reporting purposes because of our commitment to providing recommendations in a timely and, therefore, effective manner.

***Average hourly cost of OAG staff***

Our costs continue to increase with the marketplace due to higher personnel and supply costs. The OAG has a higher number of professional staff than in prior years due to our students' progress through their respective professional programs. Also, our continued reliance on temporary staff, which is an expensive type of resource, continues to push our internal costs up. The Office's target is for the hourly cost of audits to be no higher than 75% of private sector accounting firms' average hourly cost charged to the OAG. This year, this target was not met as the average hourly cost for the OAG is 78% of that charged by agents to the OAG. When adjusted for temporary staff obtained from private sector accounting firms, OAG costs are 70% of that charged by private sector accounting firms. This contrast compels the OAG to continually examine its reliance on temporary staff. We also continue to review strategies that address OAG hourly cost targets, including work mix and job staffing.

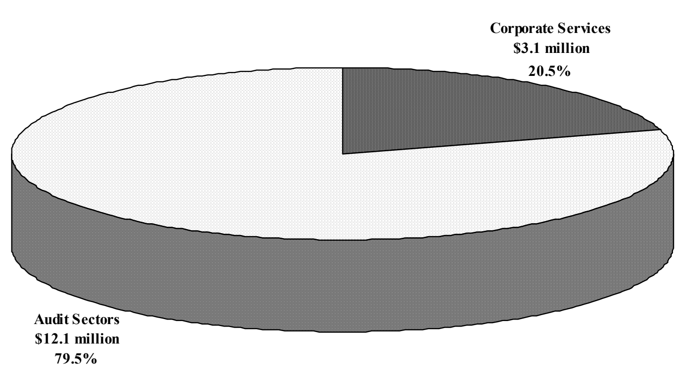
***Student pass rate***

In 2001, 72% of the OAG's students passed the Uniform Final Exam required under the Chartered Accountant professional program. While we will continue to track our students' progress through their professional programs, this will no longer be an annual measure due to changes in the Chartered Accountant professional program. Students now learn through a series of modules at varying rates of progress. The previously existing exams, the Uniform Final Exam and Qualifying Exam, on which the OAG measured student progress, have been modified or replaced to fit with the new module based program. Accordingly, student progress based on these exams is no longer an appropriate measure of the success of our training programs.

***Corporate Service costs***

The OAG recognizes that corporate systems are critical for the Office's success, and dedicates resources to training and development, planning, information technology, finance, human resources, and administration. At the same time, however, the primary focus is on the OAG's core businesses of providing assurance services and performing system audits. To this end, concerted efforts are made to focus corporate service costs on those items necessary to support these core businesses. The Office's target is to restrict Corporate Service costs to less than 30% of total Office costs. Since March 31, 2000, Corporate Services costs have been reduced from 25.2% to the current rate of 20.5% of total Office cost.

***Figure 4: Corporate Costs***



**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 Canadian 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 LLP, Chartered Accountants, on behalf of the members of the Legislative Assembly.

[Original signed by Fred J. Dunn, CA]
Fred J. Dunn, CA
Auditor General
June 25, 2002

**Alberta Legislature**

**Office of the Auditor General**

**Financial Statements**

**March 31, 2002**

Kingston Ross Pasnak LLP

Chartered Accountants KRP

## Auditor's Report

To the Chairman, Standing Committee on Legislative Offices:

We have audited the statement of financial position of the Office of the Auditor General as at March 31, 2002 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 Canadian 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, 2002 and the results of its operations and the changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original signed by Kingston Ross Pasnak LLP]
Kingston Ross Pasnak LLP
Chartered Accountants
May 23, 2002
Edmonton, Alberta

**Alberta Legislature**
**Office of the Auditor General**
**Statement of Financial Position**
**As at March 31, 2002**

| | 2002 | 2001 (Restated, see Note 2) |
|---|---|---|
| **Assets** | | |
| Audit fees receivable | $ 881,165 | $ 1,111,052 |
| Other receivables and advances | 51,763 | 71,990 |
| Capital assets (Note 3) | 1,290,014 | 652,434 |
| | $ 2,222,942 | $ 1,835,476 |
| **Liabilities** | | |
| Accounts payable | $ 1,472,715 | $ 627,803 |
| Accrued vacation pay | 849,602 | 870,256 |
| Deferred contributions related to capital assets | 1,290,014 | 652,434 |
| | 3,612,331 | 2,150,493 |
| **Net Liabilities** | | |
| Net liabilities at beginning of year | (315,017) | (1,106,942) |
| Net cost of operations | (12,482,841) | (11,129,912) |
| Capital and operating contributions | 12,538,144 | 12,090,727 |
| Deferred contributions related to capital asset additions | (1,129,675) | (168,890) |
| | (1,389,389) | (315,017) |
| | $ 2,222,942 | $ 1,835,476 |

The accompanying notes and schedules are part of these financial statements

**Alberta Legislature**
**Office of the Auditor General**
**Statement of Operations**
**Year ended March 31, 2002**

| | 2002 | | 2001 |
|---|---|---|---|
| | **Budget** | **Actual** | **Actual** |
| | (Note 5) | | (Restated, see Note 2) |
| Expenses: | | | |
| Personnel | | | |
| Salaries and wages (Note 7) | $ 7,500,000 | $ 7,171,292 | $ 6,700,146 |
| Agent professional services | 3,559,000 | 3,036,121 | 2,645,947 |
| Temporary staff services | 1,612,000 | 1,331,474 | 1,547,586 |
| Employer contributions | 865,000 | 993,863 | 905,805 |
| Advisory services | 394,000 | 226,752 | 111,937 |
| | 13,930,000 | 12,759,502 | 11,911,421 |
| Supplies and services: | | | |
| Amortization of capital assets | 445,000 | 492,095 | 334,841 |
| Professional fees, training and development | 570,000 | 437,179 | 314,200 |
| Office leases | 414,000 | 369,530 | 293,685 |
| Travel | 442,000 | 355,831 | 322,032 |
| Computer services | 198,000 | 287,451 | 190,650 |
| Materials and supplies | 242,000 | 229,066 | 247,659 |
| Telephone and communications | 137,000 | 87,705 | 88,053 |
| Miscellaneous | 75,000 | 80,730 | 70,996 |
| Repairs and maintenance | 27,000 | 46,877 | 12,063 |
| Rental of office equipment | 49,000 | 42,117 | 42,567 |
| | 2,599,000 | 2,428,581 | 1,916,746 |
| Total office professional services | $ 16,529,000 | 15,188,083 | 13,828,167 |
| Less Audit fee revenue | | (1,787,865) | (1,981,001) |
| Amortization of deferred contributions related to capital assets | | (492,095) | (334,842) |
| Contribution of services provided at no charge | | (425,282) | (382,412) |
| Net cost of operations for the year | | $ 12,482,841 | $ 11,129,912 |

The accompanying notes and schedules are part of these financial statements.

**Alberta Legislature**
**Office of the Auditor General**
**Statement of Changes in Financial Position**
**Year ended March 31, 2002**

| | 2002 | 2001 (Restated, see Note 2) |
|---|---|---|
| Operating transactions: | | |
| Net cost of operations | $ (12,482,841) | $ (11,129,912) |
| Non-cash transactions: | | |
| Amortization of capital assets | 492,095 | 334,842 |
| Amortization of deferred contributions related to capital assets | (492,095) | (334,842) |
| | (12,482,841) | (11,129,912) |
| Decrease (Increase) in audit fees receivable | 229,887 | (257,424) |
| Decrease (Increase) in other receivables and advances | 20,227 | (63,685) |
| Increase (Decrease) in accounts payable | 844,912 | (579,431) |
| Increase (Decrease) in accrued vacation pay | (20,654) | 108,615 |
| Net cash provided (used) by operating transactions | (11,408,469) | (11,921,837) |
| Investing transactions: | | |
| Purchase of capital assets | (1,129,675) | (168,890) |
| Financing transactions: | | |
| Net transfer from general revenues | 12,538,144 | 12,090,727 |
| Net cash provided (used) | - | - |
| Cash, beginning of year | - | - |
| Cash, end of year | $ - | $ - |

The accompanying notes and schedules are part of these financial statements.

# Alberta Legislature

## Office of the Auditor General

## Notes to the Financial Statements

## Year Ended March 31, 2002

**Note 1: Authority and Purpose**

The Auditor General is an officer of the Legislature operating under the authority of the *Auditor General Act*, Revised Statutes of Alberta 2000, Chapter A-46. General revenues of the Province of Alberta finance the net cost of operations of the Office of the Auditor General. The Standing Committee on Legislative Offices reviews the Office's annual operating and capital budgets.

The Office of the Auditor General exists to serve the Legislative Assembly and the people of Alberta. The Auditor General is the auditor of all government ministries, departments, funds, and Provincial agencies, including universities, public colleges, and technical institutes. With the approval of the Assembly's Select Standing Committee on Legislative Offices, the Auditor General may also be appointed auditor of a Crown-controlled corporation or another organization. The results of our work are reported in the Annual Report of the Auditor General presented to the Legislative Assembly. The 2000–2001 Annual Report of the Auditor General was released in the 2002 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 assurance services are performed. Audit fees are charged to organizations that are funded primarily from sources other than Provincial general revenues.

**(b) Output costs**

Schedule 1 provides detailed costs for two types of output:

i) Assurance Services result in Auditor's Reports on financial statements.

ii) System Audits are undertaken to produce recommendations in the Auditor General's Annual Report to the Legislative Assembly for improved government management of, and accountability for, public resources.

**Note 2: Significant Accounting Policies and Reporting Practices (continued)**

**(c) 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 |

**(d) 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.

**(e) Pension expense**

Pension costs included in these statements refer to employer contributions for current service of employees during the year.

**(f) Change in Accounting Policy**

During the year, the Office of the Auditor General changed its method for accounting for work in progress. For the current and future years, work in progress relates to all work done prior to year-end that can be billed to the client by the Office, but has not yet been recorded as revenue. For the year ended March 31, 2002, all such work in progress was billed, and is included in Audit Fees Receivable. This policy has been adopted retroactively, resulting in a restatement of the Office's 2001 financial statements. Formerly, work in progress was the cost of work arising from systems projects, none of which was billed. The impact of this restatement is to reduce net assets by $769,928, and increase the net cost of operations by $234,490 for the year ended March 31, 2001. The effect on the current period cannot be calculated due to a change in our accounting processes.

**(g) Comparative figures**

Certain 2001 figures have been reclassified to conform to the 2002 presentation.

**Note 3 Capital Assets**

| | 2002 | | | 2001 |
|---|---|---|---|---|
| | Cost | Accumulated Amortization | Net Book Value | Net Book Value |
| Computer hardware | $ 1,258,244 | $ 841,737 | $ 416,507 | $ 53,045 |
| Computer software | 665,523 | 236,518 | 429,005 | 109,469 |
| Office equipment | 719,463 | 327,344 | 392,119 | 409,284 |
| Leasehold improvements | 332,515 | 280,132 | 52,383 | 80,636 |
| | $ 2,975,745 | $ 1,685,731 | $ 1,290,014 | $652,434 |

**Note 4 Defined Benefit Plans**

The Office participates in the 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. The expense for these pension plans is equivalent to the annual contributions of $478,808 for the year ended March 31, 2002 (2001: $441,215).

At December 31, 2001, the Management Employees Pension Plan reported a surplus of $5,338,000 (2000: $170,858,000) and the Public Service Pension Plan reported a surplus of $320,487,000 (2000: $635,084,000). At December 31, 2001, the Supplementary Retirement Plan for Public Service Managers had a deficiency of $399,000 (2000: surplus $180,000).

The Office also participates in a multi-employer Long Term Disability Income Continuance Plans. At March 31, 2002, the Management, Opted Out and Excluded Plan reported an actuarial deficiency of $2,656,000 (2001: $4,583,000). The expense for this Plan is limited to the annual contributions for the year.

**Note 5 Budget**

The actual amount of expenses voted to the Office by the Legislative Assembly was $16,099,000, which is $430,000 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. The following table reconciles the budget shown on the Statement of Operations to the voted budget for both operating expenses and capital items, and compares the voted budget to the Office’s actual expenditures:

**Note 5 Budget (continued)**

Operating expenses:

| | Amount |
|---|---|
| Budget shown on Statement of Operations | $ 16,529,000 |
| Less amounts included to be paid by government department | (430,000) |
| Voted budget | 16,099,000 |
| Actual expenses shown on Statement of Operations | 15,188,083 |
| Less amounts included paid by government departments | (425,282) |
| Actual expenses for comparison with voted budget | 14,762,801 |
| Unexpended | $ 1,336,199 |

Capital investments:

| | Amount |
|---|---|
| Total capital budget | $ 1,012,000 |
| Less amounts included to be paid by government departments | (125,000) |
| Voted budget | 887,000 |
| Actual purchase of capital assets shown on Statement of Changes in Financial Position | 1,129,675 |
| Less amounts included paid by government departments | (12,750) |
| Actual purchases for comparison with voted budget | 1,116,925 |
| Over expended | $ (229,925) |

**Note 6 lease Commitments**

Minimum rental commitments for leased accommodations are as follows:

| Fiscal: | |
|---|---|
| 2003 | $ 486,378 |
| 2004 | 489,725 |
| 2005 | 499,768 |
| 2006 | 503,031 |
| 2007 | 514,659 |

**Note 7 Salaries and Benefits**

Salaries and benefits of the Auditor General and his five Assistants comprise:

| | 2002 | | | 2001 |
|---|---|---|---|---|
| | Salary(1) | Benefits and Allowances(2) | Total | Total |
| Auditor General (3) (4) (5) | $140,528 | $ 72,727 | $ 213,255 | $206,001 |
| Assistant Auditor General(6) | 121,230 | 29,641 | 150,871 | 145,582 |
| Assistant Auditor General(7) | 110,930 | 38,116 | 149,046 | 143,900 |
| Assistant Auditor General(8) | 134,949 | 44,594 | 179,543 | 159,238 |
| Assistant Auditor General(9) | 130,709 | 41,223 | 171,932 | 168,770 |
| Assistant Auditor General(10) | 131,429 | 48,263 | 179,692 | 163,116 |
| | $769,775 | $ 274,564 | $1,044,339 | $986,607 |

(1) Salary includes regular base pay, bonuses, and lump sum payments.
(2) Benefits and allowances include the Office's share of all employee benefits, and contributions or payments made on behalf of employees, including pension, health care, dental coverage, group life insurance, short and long-term disability plans, WCB premiums, professional memberships and tuition fees.
(3) Automobile provided, no dollar amount included in benefits and allowances figures.
(4) Benefits and allowances include vacation payments as follows:

| | 2002 | 2001 |
|---|---|---|
| Auditor General | $ 36,721 | $ - |
| Assistant Auditor General(6) | 4,509 | 4,119 |
| Assistant Auditor General(7) | 9,925 | 9,828 |
| Assistant Auditor General(8) | 10,878 | - |
| Assistant Auditor General(9) | 9,724 | 9,142 |
| Assistant Auditor General(10) | 14,667 | - |

(5) The Auditor General retired January 31, 2002. The position was occupied on an acting basis for the remainder of the year by Assistant Auditor General (8).
(6) Responsibilities – Systems Auditing
(7) Responsibilities – Aboriginal Affairs & Northern Development, Children's Services, Cross Government Issues, Economic Development, Environment, Executive Council, Gaming, Infrastructure, International & Intergovernmental Relations, Legislative Assembly, Sustainable Resource Development, Transportation
(8) Responsibilities – Agriculture, Food & Rural Development, Energy, Finance, Government Services, Human Resources & Employment, Innovation & Science, Justice, Municipal Affairs, Revenue, Seniors, Solicitor General
(9) Responsibilities – Professional Practice and Quality Assurance
(10) Responsibilities – Community Development, Health & Wellness, Learning

## *Schedule 1*

Alberta Legislature
Office of the Auditor General
Schedule of Output Costs by Ministry
For the year ended March 31, 2002

| | Budget | | | Actual | | | | 2001 Actual | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Assurance Services | System Audits | Total | Assurance Services | System Audits | Other Client Services | Total | Assurance Services | System Audits | Other Client Services | Total |
| **Work performed by Sector (Note 1)** | | | | | | | | | | | |
| Aboriginal Affairs and Northern Development | $ 21,207 | $ 20,363 | $ 41,570 | $ 28,661 | $ 14,904 | $ - | $ 43,565 | $ - | $ - | $ - | $ - |
| Agriculture, Food and Rural Development | 505,536 | 37,419 | 542,955 | 416,259 | 34,916 | - | 451,175 | 518,841 | 88,725 | | 607,566 |
| Children's Services | 1,145,411 | 76,461 | 1,221,872 | 878,300 | 283,808 | - | 1,162,108 | 938,782 | 53,241 | - | 992,023 |
| Community Development | 608,225 | 14,018 | 622,243 | 708,117 | 11,687 | - | 719,804 | 429,743 | 19,197 | - | 448,940 |
| Cross-Government | 463,767 | 911,465 | 1,375,232 | 403,426 | 841,795 | - | 1,245,221 | 371,948 | 406,005 | | 777,953 |
| Economic Development | 68,800 | - | 68,800 | 106,885 | - | - | 106,885 | 87,526 | 43,093 | - | 130,619 |
| Energy | 541,444 | 49,406 | 590,850 | 334,121 | 43,388 | - | 377,509 | - | - | - | - |
| Environment | 123,162 | 45,100 | 168,262 | 71,643 | 67,878 | - | 139,521 | 301,093 | 132,088 | - | 433,181 |
| Executive Council | 115,103 | 9,245 | 124,348 | 74,786 | 47,368 | - | 122,154 | 113,534 | 2,060 | - | 115,594 |
| Finance | 1,123,924 | 217,795 | 1,341,719 | 1,422,390 | 214,561 | | 1,636,951 | - | - | - | - |
| Gaming | 237,925 | 153,224 | 391,149 | 239,496 | 169,288 | - | 408,784 | 238,719 | 24,992 | - | 263,711 |
| Government Services | 88,191 | 35,939 | 124,130 | 388,704 | 47,442 | - | 436,146 | 87,672 | 13,089 | - | 100,761 |
| Health and Wellness | 1,820,440 | 1,259,476 | 3,079,916 | 1,772,975 | 363,894 | - | 2,136,869 | 1,637,489 | 696,530 | | 2,334,019 |
| Human Resources and Employment | 469,884 | 59,382 | 529,266 | 430,698 | 46,037 | - | 476,735 | 396,314 | 54,739 | - | 451,053 |
| Infrastructure | 213,752 | 128,706 | 342,458 | 309,758 | 80,897 | - | 390,655 | 304,038 | 21,322 | - | 325,360 |
| Innovation and Science | 547,335 | 92,543 | 639,878 | 243,859 | 34,345 | - | 278,204 | 328,146 | 52,699 | - | 380,845 |
| International and Intergovernmental | 71,410 | 97,731 | 169,140 | 110,300 | 27,653 | - | 137,953 | 85,566 | 42,179 | - | 127,745 |
| Justice | 132,665 | 97,897 | 230,562 | 218,006 | 57,763 | - | 275,769 | 209,668 | 50,469 | - | 260,137 |
| Learning | 2,758,205 | 460,838 | 3,219,043 | 3,266,292 | 282,469 | - | 3,548,761 | 2,890,244 | 212,185 | - | 3,102,429 |
| Legislative Assembly | 81,626 | - | 81,626 | 150,836 | 4,901 | - | 155,737 | 158,795 | - | - | 158,795 |
| Municipal Affairs | 171,668 | 95,857 | 267,525 | 241,673 | 85,540 | - | 327,213 | 359,882 | 8,532 | - | 368,414 |
| Resource Development | - | - | - | - | - | - | - | 501,233 | 2,963 | - | 504,196 |
| Revenue | 509,741 | 33,744 | 543,485 | 236,499 | 10,174 | - | 246,673 | - | - | - | - |
| Seniors | 179,342 | 31,664 | 211,006 | 48,392 | - | - | 48,392 | - | - | - | - |
| Solicitor General | 35,785 | 50,399 | 86,184 | 31,839 | 9,353 | - | 41,192 | - | - | - | - |
| Sustainable Resource Development | 109,592 | 44,591 | 154,183 | 171,881 | 48,557 | - | 220,438 | - | - | - | - |
| Transportation | 213,752 | 147,843 | 361,595 | 48,702 | 4,967 | - | 53,669 | - | - | - | - |
| Treasury | - | - | - | - | - | - | - | 1,719,592 | 225,234 | | 1,944,826 |
| | $ 12,357,895 | $ 4,171,105 | $ 16,529,000 | $ 12,354,498 | $ 2,833,585 | $ - | $ 15,188,083 | $ 11,678,825 | $ 2,149,342 | $ - | $ 13,828,167 |

Note: By Order in Council (O.C. 95/2001), responsibilities for a number of ministries were redistributed effective April 1, 2001. It has not been possible to complete reallocate the current year's budget to the newly created ministries. Prior year comparatives are presented for the Ministries, as they existed at March 31, 2001.

## *Schedule 2*

**Schedule of Recommendation Work and Status of Recommendations**
**For the year ended March 31, 2002**

**Focus of Work**

| | 2000-2001 Recommendations [1] | | 1999-2000 Recommendations | |
|---|---|---|---|---|
| | Primary | Secondary | Primary | Secondary |
| Governance | 2 | 6 | 5 | 4 |
| Planning what needs to be done to achieve goals | 18 | 8 | 15 | 9 |
| Doing the work and monitoring progress | 25 | 14 | 17 | 26 |
| Reporting on results | 12 | 4 | 12 | 7 |
| Compliance with authorities, and matters of probity | - | 8 | - | - |
| | 57 | 40 | 49 | 46 |

**Government Response to Recommendations**

| | March 19, 2002 (date of response) | | April 24, 2001 (date of response) | |
|---|---|---|---|---|
| | | % | | % |
| Accepted | 39 | 78% | 37 | 76% |
| Accepted in principle | 7 | 14% | 9 | 18% |
| Under review | 3 | 6% | 1 | 2% |
| Rejected [2] | 1 | 2% | 2 | 4% |
| | 50 | 100% | 49 | 100% |

[1] Total is more than actual since some recommendations are found in more than one category.

[2] 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.

| | 2000-2001 Annual Report | | 1999-2000 Annual Report | |
|---|---|---|---|---|
| | | % | | % |
| New recommendations | 26 | 52% | 33 | 67% |
| Repeat recommendations | 24 | 48% | 16 | 33% |
| Total primary recommendations | 50 | 100% | 49 | 100% |

Performance Measurement:
The Office has set performance targets as follows:
A. Each primary recommendation will be implemented within three years of its acceptance.

Actual Performance:
The Office has not met the target. By September 2001, 17 recommendations accepted prior to September 1998 had not been implemented.
B. 85% of primary recommendations will be accepted.

Actual Performance:
The Office has not met the target. As shown above, 78% 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, 2002**

**Average Hourly Costs**

| | Auditor General | | Agents[1] | |
|---|---|---|---|---|
| | 2002 | 2001 | 2002 | 2001 |
| Overall average | $ 95.60 | $ 88.85 | $ 122.33 | $ 129.74 |

**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 75% of agent average hourly costs.

The Office has not met the target as indicated below.

| Target | 2002 | 2000 |
|---|---|---|
| Not greater than 75% | 78% | 68% |

(1) Average based on fees paid to major agents in metropolitan centres.

**Public Reporting**

| | 2000-2001 Reports | 1999-2000 Reports |
|---|---|---|
| Auditor General's Annual Report: | | |
| Date of Report | September 26, 2001 | October 3, 2000 |
| Date of public release | October 9, 2001 | October 12, 2000 |
| Consolidated financial statements: | | |
| Date of the Auditor's Report | June 20, 2001 | June 22, 2000 |
| Date of public release | June 28, 2001 | June 29, 2000 |

# Committees and Agents

## Standing Committee on Legislative Offices

Reports issued under section 19 of the *Auditor General Act* are tabled in the Legislative Assembly by the Chairman of the Standing Committee on Legislative Offices. Members of the Committee on May 14, 2002, the day the Assembly last adjourned were:

| | |
|---|---|
| Janis Tarchuk, Chair | Denis Ducharme, Deputy Chair |
| Laurie Blakeman | Gary Friedel |
| Yvonne Fritz | Marlene Graham |
| Mark Hlady | Mary O'Neill |
| Raj Pannu | Kevin Taft |
| Don Tannas | |

## 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. Our *Annual Report* and the ministry annual reports are used by the Committee in its examination of the use and control of public resources. The members are:

| | |
|---|---|
| Hugh MacDonald, Chair | Shiraz Shariff, Deputy Chair |
| Cindy Ady | Laurie Blakeman |
| Dave Broda | Wayne Cao |
| Harvey Cenaiko | Alana Delong |
| Hector Goudreau | Drew Hutton |
| Mary Anne Jablonski | Thomas Lukaszuk |
| Richard Marz | Brian Mason |
| Gary Masyk | Luke Ouellette |
| Kevin Taft | |

# 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:

| | |
|---|---|
| Peter Watson, Chair | The Hon. Patricia Nelson |
| Patrick Daniel | George Cornish |
| Frank Kobie | Harry Schaefer |
| Beverly Wittmack | |

# 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 our agent under section 9 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, 2002, 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 LLP
Heywood Holmes & Partners
Hudson & Company
Johnston, Morrison, Hunter & Co. LLP
Joly, McCarthy & Dion
King & Company
KPMG LLP
Meyers Norris Penny LLP
PricewaterhouseCoopers LLP
Roy Solbak Walsh
Tien Rostad LLP
Young Parkyn McNab LLP

The employees of the Office of the Auditor General as of the date of this report, and students who worked over the summer or completed a co-op work term, are:

Alishah Janmohamed
Angela Nicoli-Griffiths, CA
Ann Roberts
Ann Phan
Annie Shiu, CHRP
Arlene Sideroff
Barb McEwen, MBA
Barbara Clay, CA
Barbara Grendowicz
Bob Ballachay, CA, CMA
Bob Fitzsimmons, CA
Brad Ireland, CA
Brad Weiland, CA
Brian Corbishley, CMC
Bruce Laycock, LLB
Carrie Lorenz
Cathy Ludwig, CA
Cecille Quinto, CA
Charlotte Barry
Cornell Dover, CA
Cory Goodale, CMA
Dale Beesley, CMA
Dale Borrmann, CHRP
Dan Balderston, CA
Darlene Orsten, CMA
David Allan, CA
David Birkby, CA
Deborah Herron
Domenic Gallace, CMA
Donna Banasch, CMA, CA
Donna Chapman
Donna Yurkiwsky, CA
Doug McKenzie, CA
Doug Wylie, CMA
Eric Wagner
Erika Nemeth
Fred J. Dunn, CA
Gerry Lain, CA
Graeme Arklie, CA
Ian Sneddon, CA
Jackie DiLullo
Jaime McKenzie
Jane Staples, CA
Janine Mryglod, CA
Jeff Dumont, CA
Jeff Sittler, CA
Jill Bray
Jim Hug, CA
Joe Ng
John Margitich
Karen Chan
Karen Hunder, CA
Karen Schmidt
KariAnn Burmaster
Karim Pradhan, CA
Kathleen Gora, CA
Kathryn Pringle
Kathy Anderson
Ken Hoffman, CA
Kristi Berlin
Kristy Heard
Lawrence Taylor, CA
Levy Castillo
Lisa Peterson, CHRP
Lori Trudgeon
Loulou Eng, CMA
Lynda Turpin
Marcin Lach
Marteen Dalke
Mary-Jane Dawson, CA
Maryna Kirsten
Merwan Saher, CA
Michael Reinhart
Michael Sendyk, CA
Michael Stratford, CA
Michelle Fleming
Monica Norminton, LLB, MBA, CA
Nadia Potochniak
Nick Shandro, CA
Pamela Tom, CMA
Patrick Doyle
Patty Hayes, CA
Paul Beck, CA
Pelma Jore
Peter Zuidhof, CGA
Phil Minnaar, CA
Rahim Kanji, CA
Ram Rajoo, CA
Rene Boisson, CMA
Robert Drotar, CA
Roger Elvina
Ronda White, CA
Salima Mawani, CA
Shauna Bruce, CA
Shawn Dineen
Sherry Hassen, CA
Stu Orr
Sukh Johal
Sunil Khurana
Tabreez Lila
Tammy Bailey, CMA
Tara Poole
Teresa Mitchell, CA
Teresa Wong, CA
Theresa Politylo
Thomas Wong
Tim Lamb
Tina Hanson
Todd Wellington, CGA
Tony Payne, CISA
Trevor Mills, CA
Trevor Shaw, CA
Valerie Holmgren-Jones, CMA
Venus Toy
Vivek Dharap, CA
Yien-Wyn Yip

**Students**

Alyson Rimmer
Chris Lynch
David Luu
Jaime Pickrell
Jeff Urbanowski
Justin Kereluk
Karin McCalla
Kim Hamilton
Laura Durrance
Patty Glasgow
Rob Horne
Sarat Maharaj
Shayne Saskiw
Steven Carlstrom
Susan Nguyen

# AUDITOR GENERAL ACT

## CHAPTER A-46

*Key sections*



HER MAJESTY, by and with the advice and consent of the Legislative Assembly of Alberta, enacts as follows:

**Auditor General as auditor**

**11** 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

**Access to information**

**14(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 the Auditor General's 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 the Auditor General to exercise or perform the Auditor General's 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 the Auditor General's 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

#### Reliance on auditor

**16(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 the Auditor General's powers and duties under this or any other Act.

RSA 1980 cA-49 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 the Auditor General's 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 the Auditor General's reasons for that reservation and indicate the effect of any deficiency on the financial statements, and

(c) include any other comments related to the Auditor General's audit of the financial statements that the Auditor General 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 the Office of the Auditor General, and

(b) on whether, in carrying on the work of that Office, the Auditor General received all the information, reports and explanations the Auditor General required.

**(2)** A report of the Auditor General under subsection (1) shall include the results of the Auditor General's examinations of the organizations of which the Auditor General is the auditor, giving details of any reservation of opinion made in an audit report, and shall call attention to every case in which the Auditor General 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 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 the Auditor General 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 the Auditor General 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 the Auditor General's attention is adequately disclosed,

(b) include summarized information and the financial statements of an organization on which the Auditor General 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.

**(4)** 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.

**(5)** A report under this section shall be presented by the Auditor General to the chair 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.

**(6)** The Auditor General need not report on deficiencies in systems or procedures otherwise subject to report under subsection (2)(d) or (e) which, in the Auditor General's opinion, have been or are being rectified.

RSA 1980 cA-49 s19;1995 cG-5.5 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 the Auditor General's opinion, should not be deferred until the presentation of the Auditor General's annual report under section 19.

**(2)** A report under this section must be presented by the Auditor General to the chair 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.

RSA 1980 cA-49 s20

**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 the Auditor General's 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 Provincial Treasurer of any of those matters that, in the opinion of the Auditor General, are material to the exercise or performance of the Provincial Treasurer's powers and duties.

RSA 1980 cA-49 s28

# Glossary

This glossary has brief definitions of the key accounting terms and concepts we use in this report.

**Accountability**
The obligation to answer for the execution of one's assigned responsibilities. *Accountability* involves reporting results compared to agreed-upon expectations. Accountable people and organizations explain any differences between their planned and actual results: how much was spent, what was delivered, and what was achieved. Through *accountability*, Albertans decide whether the government is doing a good job. They can examine what government provides, as well as what it spends, and assess both the costs and benefits of government action.

**Accountability framework**
All those who use public resources should:
1. set measurable goals, and responsibilities
2. plan how to achieve the goals
3. do the work and monitor progress
4. report on results
5. evaluate results and provide feedback to refine or adjust plans

Ministries meet their responsibilities by using systems to plan, manage, control and measure their performance.

**Accrual basis of accounting**
The method of recording transactions by which revenues and expenses are reflected in the determination of results for the period in which they are considered to have been earned and incurred, respectively. Whether or not such transactions have been settled finally by the receipt or payment of cash or its equivalent is not relevant.

**ACSC**
Abbreviation for "Alberta Corporate Services Centre".

**Adverse auditor's opinion**
An opinion that the matters subject to audit are not in accordance with the criteria against which they were assessed.

**Amortize, amortization**
The writing off, in a rational and systematic manner over an appropriate number of accounting periods, of a balance in an account. Depreciation accounting is a form of amortization applied to tangible capital assets.

**Assurance**
The conclusion provided by an auditor concerning a subject matter of interest to a user. Absolute assurance is not attainable because of factors such as the use of judgment, the use of testing, the inherent limitations of control, and the fact that much of the evidence available to an auditor is persuasive rather than conclusive in nature.

**Attest work, attest audit**
A professional engagement to express an opinion on the reliability of assertions made by management.

**Audit**
An examination of evidence to determine the reliability of a management assertion, to evaluate compliance with laws, or to report on the adequacy of management systems, controls and practices.

**Auditor's opinion**
The opinion expressed by an auditor in the written communication issued at the conclusion of an audit of financial statements.

**Auditor's report**
The written communication issued by an auditor at the conclusion of an audit engagement.

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| **Capital asset** | An asset, whether tangible or intangible, held for long-term use rather than for sale. |
| **Capitalize, capitalization** | To charge an expenditure to a capital asset account rather than an expense account. |
| **Capital planning** | Capital planning is a process that includes:<br>• identifying the short- and long-term capital assets needed to carry out core businesses.<br>• prioritizing capital projects.<br>• preparing business cases to support capital projects.<br>• determining the cost and method of financing capital projects. |
| **Core business** | A major grouping of related strategies and actions. Portrays succinctly what a ministry does and why; a primary framework for allocating resources. |
| **Corporate government accounting policy** | Those accounting policies that the Ministry of Finance has identified as the most appropriate to be used by Departments in preparing their financial statements. Accounting policies are the specific accounting principles used by an organization and the methods of applying the principles. |
| **Criteria** | Reasonable and attainable attributes of adequate systems against which systems being audited can be assessed. |
| **Cross-government** | The systems that affect several ministries or the whole government. |
| **Deferred maintenance** | Any maintenance work not performed when it should have been. Maintenance work should be performed when necessary to ensure capital assets provide acceptable service over their expected lives. |
| **Exception** | A matter that is not in accordance with the criteria against which it was assessed. |
| **Expense, expensed** | A cost that is properly identifiable with the operations of a period or with revenues earned during that period or that is not identifiable with the operations or revenues of a future period or periods. |
| **GAAP** | Abbreviation for “generally accepted accounting principles”. |
| **Governance** | Governance is a process and structure that brings together capable people and information to achieve goals. It guides an organization to achieve its goals and ensures the effective use of public resources. The process and structure clearly define the organization’s accountability systems. |
| **IMAGIS** | The Alberta government’s Integrated Management Information System (IMAGIS) is a customized version of PeopleSoft that integrates a set of software modules for key information systems. It is the primary financial and human resources application used by government ministries. |
| **Internal audit** | Typically, an internal audit group assesses and reports on the adequacy of internal controls. Allowing the group to report its audit findings directly to the Deputy Minister preserves objectivity. Internal auditors should have an unrestricted scope that includes examining business strategies; financial internal control systems; compliance with policies, procedures, and legislation; economical and efficient use of resources; and the effectiveness of operations. |

**Internal control** Management is responsible for an effective internal control system in an organization, and the organization's governing body should ensure that the control system does, in fact, operate as intended. The internal control system is designed to provide reasonable assurance that an organization will reliably achieve its objectives. The control system is effective when the governing body and management have reasonable assurance that:
- they understand the effectiveness and efficiency of operations.
- internal and external reporting is reliable.
- the organization is complying with laws, regulations, and internal policies.

**Material, materiality** The quality of being important. Generally, in the context of financial reporting, materiality may be judged in relation to the reasonable prospect of an item or aggregate of items being significant to users in making decisions.

**Misstatement** A misrepresentation of financial information arising from error, fraud or other irregularities.

**Net realizable value** Estimated selling price in the ordinary course of business less estimated costs of completion and sale.

**Outcomes** Outcomes are the results an organization tries to achieve. They focus on the goals of the organization.

**Outputs** Outputs are the goods and services actually delivered by an organization to achieve outcomes. They tell you "how much" or "how many".

**Performance measures** Performance measures are a method of assessing progress towards achieving a goal.

**Performance targets** Performance targets specify the desired level of performance for a performance measure.

**Qualified auditor's opinion** An opinion that, except for the effect or possible effect of one or more particular aspects, the matters subject to audit are in accordance with the criteria against which they were assessed.

**Recommendation** A solution proposed by the Office of the Auditor General to improve the use of public resources or to improve performance reporting to Albertans.

**Reservation, reservation of opinion** A generic term for an adverse or a qualified auditor's opinion.

**Risk** A risk is anything that affects an organization's ability to achieve its goals.

**Risk management** Risk management means being proactive in reducing the gap between expected and actual results.

**Specified auditing procedures** Specified auditing procedures are procedures performed by an auditor to check certain attributes, such as reliability, of reported information. These procedures are not extensive enough to allow the auditor to express an opinion on the information.

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

**Systems (accounting)** A set of interrelated accounting control processes relating to revenue, disbursements, the preservation or use of assets, or the determination of liabilities.

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| **Systems audit** | An audit of a specific component of the business to determine whether accounting and/or management systems exist, are adequate or are complied with. |
| **Unqualified auditor's opinion** | An opinion that the matters subject to audit are in accordance with the criteria against which they were assessed. |

## Other resources

The Canadian Institute of Chartered Accountants (CICA) produces a useful book called, *Terminology for Accountants*. They can be contacted at CICA, 277 Wellington Street West, Toronto, Ontario, Canada M5V 3H2 or website address www.cica.ca.