



Report of the Auditor General of Alberta

OCTOBER 2014



Mr. Matt Jeneroux, MLA
Chair
Standing Committee on Legislative Offices

I am honoured to send my *Report of the Auditor General of Alberta—October 2014* to Members of the Legislative Assembly of Alberta, as required by Section 19(5) of the *Auditor General Act*.

[Original signed by Merwan N. Saher, FCA]

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Auditor General

Edmonton, Alberta
September 29, 2014

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Auditor General's Message and Recommendations

REPORT OF THE AUDITOR GENERAL OF ALBERTA

October 2014

Auditor General's Message

We want to reiterate the message from our July 2014 public report regarding the need for improved results analysis reporting. This October 2014 report provides further evidence of that need—seniors care and the joint Canada–Alberta plan for oil sands monitoring.

The purpose of results analysis is to learn from what you do, so that you can do better in the future. Reporting those results helps Albertans understand what the government is achieving and how it might improve. Our July 2014 report provided a framework for three inseparable elements: governance, oversight and accountability for results. We urge users of our public reports to revisit the July 2014 report.

Good leadership encourages a clear analysis of results for significant matters, including priority initiatives. We cannot ask those we audit to tell Albertans whether they are achieving results as planned, if we do not do the same ourselves. We include our Results Analysis Report 2014 in this report (page 217).

Seniors Care in Long-term Care Facilities (page 71)

Every program and process we discuss in this report serves a single function—to make sure that individual residents receive the daily care they need. All monitoring processes, funding models, contracting arrangements, staffing, education and training, performance measures and reporting, standards, legislation—everything—exists to ensure the basic needs and the unique care needs of every resident are met. And at the heart of everything is each resident's care plan. It is the sum of all of the care plans in a facility that establishes the right staff at the right time to deliver the right care to each of the residents.

The Department of Health and Alberta Health Services have made improvements in the right direction since our 2005 audit. This momentum must be reinforced to complete the task of ensuring every resident's individual needs are met. We found that Alberta Health Services has insufficient assurance that long-term care facilities are appropriately and consistently allocating publicly funded staff hours to each shift, to deliver daily care that fulfills individual residents' care plans. Additionally, the Department of Health needs to improve public reporting on the results achieved for the funds provided.

A key point in our September 2014 public report is that actively managed patient care plans are at the heart of cost-effective chronic disease management. The clear message of both reports is that consistent, province-wide quality in health care depends on patient-centred systems.

Joint Canada-Alberta Plan for Oil Sands Monitoring (page 23)

The plan describes projects the two governments agreed to carry out over three years starting in 2012. The purpose is to understand the cumulative effects of oil sands development and determine whether the development is environmentally responsible. The two governments released their first annual report 15 months after the plan's first year ended. The report was not clear on whether the plan was on track; it also contained inaccuracies. The Department of Environment and Sustainable Resource Development's project management was weak.

In April 2014 the Alberta Environmental Monitoring, Evaluation and Reporting Agency took over Alberta's commitments under the joint plan. AEMERA needs to clarify actions for implementing outstanding commitments at March 2015 (the end of the joint plan).

Natural Resources Conservation Board—Confined Feeding Operations (page 67)

There are about 2,000 confined feeding operations in the province, posing a contamination risk to groundwater and surface water.

In a series of audits since 2004 we have examined the NRCB's process for monitoring confined feeding operations. Two matters remained outstanding in 2013. We are pleased to report we have now concluded that for groundwater the NRCB ranks compliance and enforcement activities based on risk. For surface water risks, the NRCB has demonstrated that its compliance approach is adequate.

Various Departments—Contracting (page 57)

Sole sourcing of contracts can be appropriate when the contractor was selected because of its proprietary expertise or in the event of an emergency, where time is of the essence—but the explanation of the decision must be documented and authorized before the contract is entered into and the work starts. We found the departments of Health, Municipal Affairs and Executive Council did not follow their contracting policies. The rationale for contracting and the demonstration of compliance with policy was not properly documented before work started. Also, administration of these contracts was sub-standard.

There is a lesson here. It is not wrong for anyone, based on their experience, to recommend a contractor in particular circumstances. It is wrong, however, for the party acting on that advice to treat the advice as overriding their obligation to comply with all of their contracting policies before and during the contract that they now have ownership of.

We noted during our work that the departments of Health, Municipal Affairs and Executive Council have three different contracting policies for procuring services. We intend to follow up with government to understand why this is the case.

Innovation and Advanced Education—Post-secondary Institutions (page 155)

Our report card on internal controls over financial reporting at the universities of Alberta, Calgary and Lethbridge, and Athabasca University shows “green,” which is good. Athabasca University still has work to do implementing outstanding recommendations. The challenge now, which should not be underestimated, is to sustain the quality of their control environments. In our opinion, board vigilance will be the crucial determinant of ongoing success in not only effective year-end financial reporting processes but also the preparation of high quality financial information throughout the year.

Outstanding Recommendations (page 19)

We are making progress, albeit slowly, on reducing the number of outstanding recommendations. With each report we publish we add to the total number of recommendations for departments to implement, but at the same time we are seeing an increase in the number of implemented recommendations. Since October 2013 we made 44 new recommendations and reported that 73 have been implemented.

As we say in our Results Analysis Report 2014 (page 242) we have learned that reducing a backlog of outstanding recommendations requires singular focus. We appreciate the support of ministries and the Standing Committee on Public Accounts in this endeavour.

The following five ministries have the greatest number of recommendations outstanding for more than three years, so we must all focus on them in the next year: Health (15); Environment and Sustainable Resource Development (15); Innovation and Advanced Education (6); Infrastructure (4) and Treasury Board and Finance (4).

October 2014 Recommendations

We conducted our audits in accordance with the *Auditor General Act* and the standards for assurance engagements of the Chartered Professional Accountants of Canada.

This report contains 23 new and 3 repeated recommendations to government. The repeated recommendations have been made because we do not believe there has been sufficient action taken to implement our previous recommendations.

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

We believe all of the recommendations in this report require a formal public response from the government. In instances where a recommendation has been made to a board-governed organization, we expect the organization to implement the recommendation and report back to its respective government ministry as part of proper oversight of the organization. By implementing our recommendations, the government will significantly improve the safety and welfare of Albertans, the security and use of the province's resources, or the oversight and ethics with which government operations are managed.

Reporting the status of recommendations

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

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

We report the status of our recommendations as:

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

On occasion, we may make the following comments:

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

SYSTEMS AUDITING—NEW AUDITS

Environment and Sustainable Resource Development—Alberta Environmental Monitoring, Evaluation and Reporting Agency—Joint Canada–Alberta Plan for Oil Sands Monitoring

Page 26

RECOMMENDATION 1: ENSURE TIMELY, ACCURATE AND TRANSPARENT PUBLIC REPORTING

We recommend that the Alberta Environmental Monitoring, Evaluation and Reporting Agency work with the Government of Canada to ensure that public reporting on the joint plan is timely, accurate and transparent.

Implications and risks if recommendation not implemented

Without timely, accurate and transparent public reporting, Albertans will not know if the government is meeting its commitments under the joint plan and whether the implementation of the enhanced monitoring in the oil sands is on track.

Page 29

RECOMMENDATION 2: IMPROVE PLANNING AND MONITORING

We recommend that the Alberta Environmental Monitoring, Evaluation and Reporting Agency:

- implement effective processes for monitoring project status
- develop and implement work plans, with roles and responsibilities and timelines and deliverables, for implementing all key commitments under the joint plan
- clarify what needs to be done to implement any joint plan projects and commitments remaining after March 2015

Implications and risks if recommendation not implemented

Without effective project management, the governments of Alberta and Canada could fail to carry out their plan for monitoring the environmental impacts of oil sands development. This may jeopardize AEMERA's ability to monitor cumulative effects of oil sands development and report to Albertans and Canadians on the condition of Alberta's environment in the oil sands and when impacts on the environment exceed accepted limits.

Health—Crown's Right of Recovery of Healthcare Costs from Motor Vehicle Accidents

Page 37

RECOMMENDATION 3: CLARIFY OBJECTIVES OF COLLECTING REVENUE AND PREPARE SUPPORTING RATIONALE

We recommend that the Department of Health:

- publicly articulate its objectives in setting the aggregate assessment
- report the extent to which the aggregate assessment recovers the department's calculation of healthcare costs caused by motor vehicle accidents

We also recommend that the Department of Health obtain additional information to demonstrate that the amount proposed for the aggregate assessment is the appropriate amount that should be charged given the competing objectives.

Implications and risks if recommendation not implemented

Unless the department describes its objectives, external stakeholders will not have a standard against which to analyze the effectiveness of the setting of the dollar amount for the aggregate assessment.

Without obtaining additional information, the department can't demonstrate whether the proposed aggregate assessment is appropriate. It may be appropriate or it may be too low or too high.

Page 38

RECOMMENDATION 4: CALCULATING THE AGGREGATE ASSESSMENT

We recommend that the Department of Health review the methodology it uses in the calculation of the aggregate assessment and put a process in place to periodically check whether the estimate calculated is a reasonable approximation of the Crown's associated healthcare costs.

Implications and risks if recommendation not implemented

The estimate of healthcare costs that supports the aggregate assessment may not be a reasonable approximation of the Crown's associated healthcare costs.

Service Alberta—IT Disaster Recovery Program

Page 45

RECOMMENDATION 5: IMPROVE RECOVERY OF CRITICAL INFORMATION TECHNOLOGY APPLICATIONS

We recommend that the Department of Service Alberta, with support from the Deputy Ministers' Council:

- identify the most critical IT applications throughout all government entities
- identify the times, after a disaster, that critical IT applications must be recovered
- ensure that there are tested plans and adequate resources to recover critical IT applications within those times

Implications and risks if not implemented

The government may not know what IT infrastructure and applications support critical government programs and services. Therefore, the government may spend more resources than needed in some areas and not enough in others. This also means that the government cannot assure Albertans that:

- it is correctly allocating disaster recovery resources for the right IT infrastructure and applications throughout government
- in the event of another disaster, that IT infrastructure and applications, based on need, risk and cost, are being recovered according to tested plans and within the targeted times

Treasury Board and Finance—Collection of Outstanding Corporate Taxes

Page 51

RECOMMENDATION 6: MAINTAIN POLICIES AND PROCEDURES AND TRAIN STAFF

We recommend that the Department of Treasury Board and Finance:

- update and maintain its policies and procedures for tax compliance officers
- review its training program to ensure it provides relevant and ongoing training to tax compliance officers

Implications and risks if recommendation not implemented

Without documented policies, procedures and adequate training, compliance officers will not execute their duties the same way, leading to Tax and Revenue Administration treating taxpayers inconsistently. Opportunities to collect taxes may be lost when compliance officers do not have clear policies, procedures and training.

Page 52

RECOMMENDATION 7: DEVELOP INTERNAL AND EXTERNAL PERFORMANCE MEASURES AND TARGETS

We recommend that the Department of Treasury Board and Finance develop comprehensive performance measures and targets for tax collections and determine which to report publicly.

Implications and risks if recommendation not implemented

Without comprehensive measures and targets and public reporting, the department cannot demonstrate that its collection program is efficient and effective. In addition, management and staff may not be held accountable for results.

Page 54

RECOMMENDATION 8: IMPROVE MANAGEMENT INFORMATION AND ANALYZE DATA PERIODICALLY

We recommend that the Department of Treasury Board and Finance:

- update its management reports to include additional information on the status of tax collection files and the success of its various collection activities
- periodically analyze the characteristics of the corporate taxes outstanding to identify potential changes to legislation, policies and collections strategies
- deal with the backlog of files submitted for write-off and low value accounts

Implications and risks if recommendation not implemented

Without relevant management information and analysis, the department may not use its resources and available collection tools in an effective and efficient manner, and it may not identify alternative strategies to deal with outstanding taxes and non-compliance.

Various Departments – Contracting

Page 58

RECOMMENDATION 9: IMPROVE CONTRACT POLICY AND DEMONSTRATE COMPLIANCE

We recommend that the Department of Health:

- upgrade its contract policy to ensure its branches consider and document whether or not a project is a phase of an overall project requiring a competitive bid
- ensure the contract policy describes the information that should be documented to support sole sourcing
- improve its processes to demonstrate it complies with its contract policy

Implications and risks if recommendation not implemented

The department may not be able to demonstrate that it is in compliance with its contract policy and applicable trade agreements or that the fees paid represent reasonable amounts for the services provided.

Page 62

RECOMMENDATION 10: IMPROVE COMPLIANCE WITH CONTRACTING POLICIES

We recommend that the Departments of Municipal Affairs and Executive Council:

- document the rationale for contracting services and selecting vendors when entering into sole sourced contracts
- follow proper contract administration and evaluation processes
- update their contracting policies to deal with situations where one department arranges for a contractor to perform services for another department

Implications and risks if recommendation not implemented

Good contracting policies are designed to ensure the procurement of services is competitive, fair and cost-effective, and results in the right services delivered at the right place and at the right time. To not follow policy is to risk substandard performance by not receiving the best value for money.

SYSTEMS AUDITING—FOLLOW-UP AUDITS

Health and AHS—Seniors care in long-term care facilities

Page 84

RECOMMENDATION 11: MONITORING CARE AT THE RESIDENT LEVEL

We recommend that Alberta Health Services improve the design of its current monitoring activities. AHS should:

- develop a system to periodically verify that facilities provide residents with an adequate number and level of staff, every day of their operation
- develop a system to periodically verify that facilities deliver the right care every day by implementing individual resident care plans and meeting basic needs of residents

Implications and risks if recommendation not implemented

Without a system to monitor whether facilities implement care plans for individual residents, AHS cannot ensure that the unique care needs of each Albertan who lives in a long-term care facility are being met. Without a system to monitor that facilities provide adequate numbers and level of staff at different times of day and on different days of the week, AHS cannot ensure that residents it places at long-term care facilities are safe and have access to the right care at all times.

Page 88

RECOMMENDATION 12: MANAGING PERFORMANCE OF LONG-TERM CARE FACILITIES

We recommend that Alberta Health Services improve its system to monitor and manage performance of long-term care facilities. AHS should:

- clearly define which program area within AHS is responsible for managing performance of individual facilities
- establish a formal mechanism to use all available compliance data to review periodically the overall performance of each facility, and initiate proactive compliance action with facilities based on the level of risk to health and safety of residents
- establish a formal mechanism to escalate compliance action for higher risk facilities

Implications and risks if recommendation not implemented

Without systems to monitor performance of individual facilities and take proactive compliance action based on risk, AHS cannot ensure that facilities achieve the expected care outcomes with the residents placed there by AHS.

RECOMMENDATION 13: OVERSIGHT AT THE PROVINCIAL LEVEL

We recommend that the Department of Health:

- clearly define and separate its role and responsibilities from those of AHS in monitoring and managing long-term care service delivery
- improve public reporting on what results the provincial long-term care system is expected to achieve and whether it is achieving them
- finish the review of the continuing care health service standards
- implement a mechanism for timely analysis and action on the accommodation cost data

Implications and risks if recommendation not implemented

There is significant risk that if operational facility level monitoring remains divided between the department and AHS, the overall monitoring system will be fragmented and weak, with lack of clear lines of accountability for the care outcomes of individual long-term care residents at each facility.

Timely action on key initiatives and public reporting of information are important for maintaining the momentum behind improvement and for maintaining public confidence in the provincial long-term care system.

FINANCIAL STATEMENTS AND PERFORMANCE MEASURES AUDITING

Aboriginal Relations—Department

RECOMMENDATION 14: ESTIMATION PROCESSES

We recommend that the Department of Aboriginal Relations improve its financial reporting processes to ensure its estimates are reliable and supportable.

Implications and risks if recommendation not implemented

Regardless of the complexity of the estimate to be made, management is at risk of making improper conclusions if processes are not in place to appropriately obtain, understand and analyze the information used to make estimates. This may materially impact the financial reporting that the ministry and outside users rely on in their decision making.

Energy—Department

RECOMMENDATION 15: IMPROVE FINANCIAL REPORTING PROCESSES

We recommend that the Department of Energy improve its processes to prepare department and ministry financial statements and supporting working papers.

Implications and risks if recommendation not implemented

Without effective processes to estimate and review amounts reported in the financial statements, the department cannot promptly and accurately report its financial results.

Health—Alberta Health Services

Page 136

RECOMMENDATION 16: FOLLOW PROCESSES FOR HIRING AND TERMINATION OF EXECUTIVES

We recommend that Alberta Health Services follow its human resource processes for hiring and termination of executives.

Implications and risks if recommendation not implemented

AHS could be exposed to risks such as increased costs, lack of compliance with employee conduct and confidentiality policies, or not having the proper authority in place to ensure performance of key tasks.

Page 138

RECOMMENDATION 17: INFORMATION TECHNOLOGY CONTROL POLICIES AND PROCESSES—REPEATED

We again recommend that Alberta Health Services:

- develop an information technology control framework, including appropriate risk management processes and controls, for the management of its information technology resources
- monitor compliance with security policies, implement effective change management processes and improve password controls

Implications and risks if recommendation not implemented

AHS's processes to identify risk and implement and monitor cost-effective controls will only work if AHS clearly documents how they all work together. The IT control framework can only work to manage their identified risks if management is aware of the big picture as well as the details of how the framework functions.

It is critical that AHS document the entire process to manage risk and monitor controls. If the entire process and all of their key controls aren't well documented, there is a risk that staff won't know what processes and controls they must follow to ensure they have an IT environment that can cost-effectively support critical business functions and minimize avoidable disruptions.

Human Services—Department

Page 151

RECOMMENDATION 18: IMPROVE ACCESS CONTROL PROCESSES

We recommend that the Department of Human Services improve access control processes for all its information systems, to ensure:

- user access to application systems and data is properly authorized
- user access is disabled promptly when employees leave their employment or role

Implications and risks if recommendation not implemented

Unauthorized individuals may access the department's systems and applications and may change or manipulate critical personal, business and financial information. Unauthorized access to financial systems could impair the integrity of financial reporting and results.

Innovation and Advanced Education—Alberta Innovates—Energy and Environment Solutions

Page 159

RECOMMENDATION 19: IMPROVE FINANCIAL REPORTING PROCESSES

We recommend that Alberta Innovates—Energy and Environment Solutions:

- improve its processes to identify contributions that funders have restricted
- ensure it has incurred eligible expenses before recording the same amount of contributions as revenue in financial statements

Implications and risks if recommendation not implemented

Without effective controls in place, the corporation may record contributions as revenue before it has met the terms in agreements or grant letters.

Without an effective system to track agreements or grant letters, the corporation may fail to report those contributions that funders have promised but not yet released to the corporation.

Municipal Affairs—Department

Page 183

RECOMMENDATION 20: EFFECTIVENESS OF THE SENIORS LODGE PROGRAM AND DETERMINING FUTURE NEEDS—REPEATED

We again recommend that the Department of Municipal Affairs:

- improve the measures it uses to assess the effectiveness of the Seniors Lodge Program and obtain sufficient information periodically to set the minimum disposable income of seniors used as a basis for seniors lodge rent charges
- improve its processes for identifying the increasing care needs of lodge residents and consider this information in its plans for the Seniors Lodge Program

Implications and risks if recommendation not implemented

Without clearly articulated goals, targets and performance measures to demonstrate their achievements, the department cannot show that the Seniors Lodge Program delivers the expected results. Without comprehensive information on the needs of seniors in lodges, the department may not be able to adequately set expectations, assess resource requirements and plan service delivery for the Seniors Lodge Program.

Tourism, Parks and Recreation—Travel Alberta

Page 187

RECOMMENDATION 21: ENHANCE DOCUMENTATION TO SUPPORT SENIOR MANAGEMENT EXPENSES

We recommend that Travel Alberta improve the consistency and rigour of its approval process and enhance the documentation to support senior management expenses.

Implications and risks if recommendation not implemented

Without consistently applied approvals and the necessary supporting documentation, Travel Alberta may pay for unreasonable expenses and be unable to demonstrate the expenses are cost effective.

Treasury Board and Finance—Department

Page 194

RECOMMENDATION 22: ENTERPRISE RISK MANAGEMENT SYSTEMS

We recommend that the Department of Treasury Board and Finance update and follow its enterprise risk management system by identifying, monitoring, communicating and appropriately mitigating relevant risks.

Implications and risks if recommendation not implemented

Without an effective enterprise risk management system, the department may not identify and manage its risks efficiently and effectively.

Page 195

RECOMMENDATION 23: IMPROVE ACCESS CONTROLS OVER THE TAX AND REVENUE ADMINISTRATION SYSTEMS

We recommend that the Department of Treasury Board and Finance improve the security of its tax and revenue information systems to ensure that it:

- assigns access based on job roles and responsibilities
- defines, monitors and enforces its rules for segregation of duties
- periodically reviews if access to its systems remain appropriate

Implications and risks if recommendation not implemented

Without understanding its complex information systems security needs and capabilities, management may assign access that will allow users to perform transactions that are not part of their responsibilities.

Page 197

RECOMMENDATION 24: CORPORATE TAX REFUNDS

We recommend that the Department of Treasury Board and Finance approve tax refunds before making payments in accordance with the requirements of the *Financial Administration Act*.

Implications and risks if recommendation not implemented

Approval before disbursement allows the department to comply with the *Financial Administration Act* and to prevent erroneous refunds to taxpayers.

Treasury Board and Finance—AIMCo

Page 199

RECOMMENDATION 25: VALUING INVESTMENTS IN LIFE SETTLEMENTS

We recommend that Alberta Investment Management Corporation ensure that its Statement of Investment Valuation Principles and Practices is applied when valuing and accounting for its life settlement investments.

Implications and risks if recommendation not implemented

Accounting information provided to clients does not comply with their financial reporting frameworks. Performance of these investments may be overstated in the year of purchase and understated in later years because large day-one gains were recognized.

Treasury Board and Finance—ATB Financial

Page 202

RECOMMENDATION 26: SERVICE AUDITOR REPORTS—REPEATED

We again recommend that ATB Financial improve its processes related to service providers by ensuring its business areas:

- receive service auditor reports
- review service auditor reports and assess the impact of identified internal control weaknesses
- put end user controls in place to complement service provider controls

Implications and risks if recommendation not implemented

Operational problems with outsourcing arrangements can go undetected if ATB does not monitor the control environment of its service providers, and design and implement the end user controls the outsourced service provider expects ATB to follow.

Outstanding Recommendations Summary

A list of outstanding recommendations for a ministry and the entities that report to it is included at the end of each ministry chapter in this report. The list begins with the first ministry on page 109. We list outstanding recommendations under the entity that is responsible for their implementation.

These recommendations include the following categories:

- **Numbered**—These require a formal public response from the government. When implemented, these recommendations will significantly improve the safety and welfare of Albertans, the security and use of the province’s resources, or oversight and ethics processes in government.
- **Unnumbered**—In previous reports some recommendations were unnumbered; although important, these recommendations do not require a formal public response from government.

Each list has two parts, indicating where management has informed us that either:

- the recommendation is still being implemented and not ready for a follow-up audit, or
- the recommendation has been implemented and is ready for a follow-up audit

At the date of this report, we have 196 outstanding recommendations—175 numbered and 21 unnumbered. A year ago, the total outstanding was 225, so this result does show progress. However, Albertans should be concerned that the number of recommendations more than three years old (3+ years in table below) is only 4 fewer than the 55 reported a year ago. The government and the Office of the Auditor General must focus on reducing these older recommendations, since the payback on the investment of audit dollars in producing a recommendation is the follow-up audit that confirms that substantial change has taken place.

	Numbered		Unnumbered	Total
	3+ Years	Other		
Ready for follow-up audits	19	38	12	69
Not yet ready for follow-up audits	32	86	9	127
Total	51	124	21	196

Since October 2013, we have made 44 new recommendations and reported that 73 have been implemented.

Report	Implemented	New	Total
October 2013			225
February 2014	29	5	201
July 2014	9	1	193
August 2014	0	6	199
September 2014	0	9	208
October 2014	35	23	196
	73	44	

The reports that contain these recommendations are on our website at www.oag.ab.ca



Stand-alone Systems Auditing — New Audits

REPORT OF THE AUDITOR GENERAL OF ALBERTA

October 2014

Environment and Sustainable Resource Development—Alberta Environmental Monitoring, Evaluation and Reporting Agency—Joint Canada–Alberta Plan for Oil Sands Monitoring

SUMMARY

Background

The oil sands are an important resource to Albertans and of interest to all Canadians and the international community. Rapid oil sands development in recent years has led to widespread concerns about their environmental impacts and the need to better understand these impacts.

In February 2012 the governments of Alberta and Canada committed to implementing a scientifically rigorous, comprehensive and transparent environmental monitoring program for the oil sands.¹ The program's purpose is to understand the cumulative effects² of oil sands development and obtain evidence to determine whether the development is environmentally responsible. Improvements to environmental monitoring in the oil sands will also provide a starting point for implementing Alberta-wide environmental monitoring.³ The joint plan describes how the two governments will improve monitoring over a three-year period (2012–2015). The two governments agreed that oil sands operators will bear the cost of the enhanced monitoring by providing up to \$50 million annually in the first three years of the program.⁴

The plan describes specific projects⁵ the two governments agreed to carry out over the next three years. It also describes their commitments⁶ to ensure the program is accountable, credible and transparent. A key commitment is annual reporting to the public on the governments' progress with implementing the plan.

In its approvals, permits and licenses for oil sands projects, the Alberta government specifies various environmental monitoring activities that oil sands operators must comply with and pay for. Operators then fund independent regional organizations⁷ to do the monitoring. During the first two years of the joint plan, operators continued to directly pay independent organizations for monitoring done to fulfill

¹ <http://www.ec.gc.ca/pollution/EACB8951-1ED0-4CBB-A6C9-84EE3467B211/Final%20OS%20Plan.pdf>

² Cumulative effects are the combined effects of past, present and foreseeable human activities, over time, on the environment, economy and society in a particular place. Currently, the Government of Alberta reviews and approves developments on a case-by-case basis.

³ <http://esrd.alberta.ca/focus/environmental-monitoring-in-alberta/default.aspx>

⁴ Agreement between Canada and Alberta on the Joint Canada–Alberta Implementation Plan for Oil Sands Monitoring states that the average annual allocation of industry funding to the joint oil sands monitoring program, incremental to that already carried out by or on behalf of Canada and Alberta, will not exceed \$50 million. The agreement expires on September 30, 2015.

⁵ For example, add water quality monitoring stations or assess the caribou population.

⁶ For example, engage stakeholders on the plan's content, incorporate traditional ecological knowledge in monitoring activities and develop and apply standardized quality assurance procedures.

⁷ Regional Aquatics Monitoring Program, Alberta Biodiversity Monitoring Institute, Wood Buffalo Environmental Association and Ecological Monitoring Committee for the Lower Athabasca.

regulatory conditions, most of which also supported the new monitoring plan. However, this direct funding relationship left the Department of Environment and Sustainable Resource Development with little control over how these organizations were delivering projects in the joint plan and reporting their results. Operators also paid for monitoring projects the two governments carried out under the joint plan. The projects done by the Government of Alberta were the focus of our audit.

Starting in 2014–2015, the funding relationship between oil sands operators and independent monitoring organizations has changed. The Government of Alberta is now collecting fees from the operators and will use them to pay for all monitoring projects in the joint plan. This new funding model will give the department more direct control over monitoring done by independent organizations. Oil sands operators continue to be responsible for the monitoring their regulatory conditions require.

In fall 2013, the *Protecting Alberta's Environment Act* established a new arm's length organization, the Alberta Environmental Monitoring, Evaluation and Reporting Agency. The Act came into force on April 28, 2014 and made AEMERA responsible for collecting credible scientific data on the condition of the environment in Alberta, and for open and transparent reporting to the public. AEMERA also assumed the department's responsibilities under the joint plan that was in its second year of implementation. By creating AEMERA, with a clear mandate, governance and commitment to scientific monitoring, the Alberta government intended to clearly separate environmental monitoring, evaluation and reporting from regulatory activities,⁸ and add legitimacy, credibility and capacity to the program. AEMERA, which is accountable to the Minister of Environment and Sustainable Resource Development, expects to be fully operational in 2015. Therefore, we are making our recommendation to AEMERA.

What we examined⁹

Our audit objective was to assess the nature and quality of the first annual report (2012–2013) on the joint plan for monitoring oil sands development. We also assessed whether the results the two governments shared in the report were complete and verifiable, based on evidence that was sufficient and appropriate. To assess the quality of that evidence, we looked at the processes the department used in 2012–2013 to manage the projects for which it was responsible.

What we found

The governments of Alberta and Canada jointly released their first annual report long after the information it contained was current.

The report for 2012–2013 was released in June 2014, 15 months after the March 31, 2013 end of the first year. The 2013–2014 report on the second year of implementation has not yet been released.

The report lacked clarity and key information and contained inaccuracies. The report was not clear on:

- whether overall implementation of the plan was on track
- which of the projects committed to for 2012–2013 were completed, partly completed or not completed
- what remained to be done to implement the governments' key commitments

⁸ Policy development and regulation, granting of approvals, permits and licenses, and enforcement activities.

⁹ The Office of the Auditor General of Canada tabled its report on the audit of the Government of Canada's implementation of the Joint Canada–Alberta Implementation Plan for Oil Sands Monitoring on October 7, 2014. 2014 Fall Report of the Commissioner of the Environment and Sustainable Development, Chapter 2 – Environmental Monitoring of Oil Sands, http://www.oag-bvg.gc.ca/internet/English/parl_lp_e_901.html

Most projects we tested lacked project plans or had plans without key information such as clearly defined deliverables and timelines. Without clear deliverables, effective monitoring of progress is not possible. We found insufficient evidence that the department regularly monitored progress of most projects we tested. Evidence for the project status stated in the report was also insufficient. Despite committing to do so in the joint plan, neither government monitored the projects the independent monitoring organizations were delivering to ensure they implemented them as required.¹⁰

The weaknesses in project management during 2012–2013 created risks of improper or delayed implementation of individual projects and, ultimately, the joint plan. Furthermore, the two governments may be unable to meet their commitments by March 31, 2015. AEMERA¹¹ needs to determine what remains to be completed at the plan’s conclusion and assess further actions.

For the third and final year of the plan, 2014–2015, the department has improved its project planning and monitoring processes. We did not fully examine these processes because they were newly implemented at the conclusion of our audit.

Why this is important to Albertans

Timely, transparent and verifiable public reporting allows Albertans to know if the Government of Alberta is meeting its commitments and whether the implementation of the enhanced monitoring in the oil sands is on track.

Without effective project management, the joint plan is at risk of not being completed on time and not meeting its objectives. This may jeopardize AEMERA’s ability to monitor the cumulative effects of oil sands development and report to Albertans on the condition of Alberta’s environment in the oil sands and when impacts on the environment exceed accepted limits.

AUDIT OBJECTIVES AND SCOPE

Our audit objective was to determine whether the first public report on the plan was complete and verifiable, based on evidence that is sufficient and appropriate to support the reported results.

Our audit focused on:

- the 20 projects the department was responsible for delivering in 2012–2013
- the 2012–2013 annual report that the governments of Alberta and Canada issued jointly in June 2014

We conducted our field work from April to August 2014 and substantially completed our audit on August 15, 2014. We conducted our audit in accordance with the *Auditor General Act* and the standards for assurance engagements set by the Chartered Professional Accountants of Canada.

¹⁰ <http://www.ec.gc.ca/pollution/EACB8951-1ED0-4CBB-A6C9-84EE3467B211/Final%20OS%20Plan.pdf>

¹¹ As of April 2014, the Alberta Environmental Monitoring, Evaluation and Reporting Agency assumed responsibility for implementing the Government of Alberta’s commitments under the joint plan.

FINDINGS AND RECOMMENDATIONS

Public reporting

RECOMMENDATION 1: ENSURE TIMELY, ACCURATE AND TRANSPARENT PUBLIC REPORTING

We recommend that the Alberta Environmental Monitoring, Evaluation and Reporting Agency work with the Government of Canada to ensure that public reporting on the joint plan is timely, accurate and transparent.

Background

The Governments of Canada and Alberta commissioned several reviews to assess Alberta's previous approach to environmental monitoring and provide advice on how to improve it.¹² These reviews emphasize various aspects of monitoring, such as governance and funding, monitoring design, data evaluation, use of traditional ecological knowledge¹³ and reporting norms. All of the reviews note that Alberta's approach to environmental effects monitoring was not well coordinated or integrated and would benefit from a more rigorous scientific foundation. They also stress the need to integrate monitoring activities and data across the province, so that the government can use the information to understand and manage cumulative effects.

The results expected from the joint plan are:

- improved data for characterizing the state of the environment in the oil sands area
- enhanced understanding of the cumulative impacts on the environment from oil sands development
- integrated monitoring program that includes water, air, land and biodiversity elements

The joint plan describes the following key commitments by the governments of Alberta and Canada:

- develop a sustainable arrangement to fund monitoring of environmental impacts from oil sands development
- integrate monitoring arrangements into a single, government-led program
- engage industry, scientists, Aboriginal Peoples and other stakeholders on the content of the joint plan and on mechanisms to incorporate their advice on an ongoing basis
- incorporate traditional ecological knowledge and train and involve members of local communities in monitoring activities
- develop and apply standardized quality assurance and quality control procedures and standard operating protocols to ensure consistency and the ability to integrate data
- provide information to the public in a timely, standardized and coordinated manner
- report annually on the status of implementation
- adapt monitoring to reflect experience gained from the initial work and discussions with industry and stakeholders

The plan identifies projects for the enhanced monitoring of air, water, wildlife and biodiversity¹⁴ for each of the three years. In 2012–2013 the department was responsible, solely or jointly with the Canadian government or independent monitoring organizations, for delivering 20 of the 75 projects identified for the plan's first year. The Canadian government and monitoring organizations were to deliver the remaining projects.

¹² Dowdeswell et al. 2010, Royal Society of Canada 2010, Federal Oil Sands Advisory Panel 2010, Alberta Environmental Monitoring Panel 2011, Alberta Environmental Monitoring Working Group 2012.

¹³ Traditional ecological knowledge describes aboriginal, indigenous, or other forms of traditional knowledge regarding sustainability of local resources.

¹⁴ In the joint plan, biodiversity also includes projects related to land disturbance monitoring.

Legislation¹⁵ provides the Minister of Environment and Sustainable Resources Development a formula to allocate costs to oil sands operators and the authority to collect fees. The two governments agreed to set operator fees at an annual maximum of \$50 million for the duration of the joint plan.

Information from the department stated that in the first year, operators paid a total of \$35 million for expenses incurred by the department, the Canadian government and monitoring organizations for delivering projects from the joint plan. The department's share of these expenses was \$1 million.

The joint plan identifies the following roles and accountability for the program:

- two government co-chairs, who are accountable for all aspects of the monitoring program
- two co-directors, who are accountable for plan implementation and project management and for providing direction to component leads
- two co-leads each for the air, water, wildlife and biodiversity component areas, to jointly carry out co-director decisions to develop and implement scientifically defensible monitoring plans with their component teams and stakeholders

The two governments committed to reporting annually on their progress in carrying out the plan. In June 2014 the governments released the first public report on their progress during the first year of implementation—March 2012 to March 2013.

Criteria: the standards we used for our audit

Public reporting on the joint plan should meet the following principles:

- Focus on key commitments and significant performance information.
- Provide context for the reporting. Link to department and provincial level goals.
- Look forward as well as back. Explain significant variances between planned and actual results; outline lessons learned, intended follow-up actions and strategies.
- Explain key risks and capacity considerations. Discuss factors that affect the team's ability to meet goals and expectations.
- Integrate non-financial information with key related financial information. Explain links between activities, outcomes, results and priority initiatives and relate costs to results achieved.
- Present information that is accurate, complete and balanced.
- Communicate in a concise, understandable, timely and accessible way.
- Identify significant changes from any related prior reporting or cross-reference to other publicly reported material.

Our audit findings

KEY FINDINGS

- The plan's 2012–2013 annual report was released 15 months after the year ended.
- The report lacked information on overall status of implementation.
- Status of key commitments and individual projects was not clear.
- Key information was missing. Reported information contained inaccuracies and was incomplete.
- Information sharing between the governments was insufficient.

First public report not timely

The 2012–2013 report was released in June 2014, 15 months after the March 31, 2013 year end. This was nine months after the department's target date of August 2013. The lack of timeliness made the report less relevant. Key events occurred after the first year ended and before the release of the first

¹⁵ *Oil Sands Environmental Monitoring Program Regulation*, AR 226/2013.

annual report (for example, establishment of AEMERA and withdrawal of key aboriginal groups¹⁶ from the joint plan). Despite the significance of these events to the joint plan implementation and to Albertans, the report did not mention them because it only covered the period that ended on March 31, 2013.

The department stated that complexities in working jointly with the Canadian government contributed to the delay. One of the difficulties was the lack of timely release of data by government scientists.

In February 2014 the two governments issued a protocol requiring that the public release of data:

- not be delayed for any reason other than quality of the data
- always precede the reporting and analysis of results

To provide timelier reporting, the two governments plan to release their second public report in two phases. Reporting on the status of key commitments was scheduled for September 2014 and a separate report on the status of individual projects—based on the scientific data and its analysis—for December 2014.

First public report not transparent

The report was not clear on whether the implementation was on track overall. It did not clearly identify the status of all projects the joint plan targeted for implementation in 2012–2013.

Some projects were clearly identified as completed. For others, the report described activities carried out but was not always clear on whether the project was completed or not. The department told us that the two governments had insufficient capacity to implement all projects they expected to deliver in 2012–2013. This suggests there likely were projects that were not completed; however, the report did not clearly identify them as incomplete.

Reporting on the status of key commitments was not clear. For example, the section on development of standardized quality control and assurance procedures listed accomplishments but did not clearly state whether implementation was on track and what remained to be done.

The report disclosed the amounts the two governments spent and stated that industry directly funded monitoring by independent organizations. However, it did not report the total amount spent in 2012–2013 by all parties on monitoring that was in addition to that already carried out by or on behalf of Canada and Alberta. The department stated that the 2013–2014 report will include total costs for enhanced monitoring in the second year.

First public report contained inaccuracies

In a sample of projects the department was delivering in 2012–2013, we found two instances where reported information was inaccurate or incomplete. In one case, a biodiversity monitoring project was supposed to assess three species. We reviewed evidence indicating that the department, working with one of the monitoring organizations, assessed two out of the three species. Further follow up with the department found that they did not assess the third species because they did not have the necessary funding. However, the report simply stated that the project had been completed.

In another case, the report stated that a project to produce air pollutant maps through remote sensing had been completed and that additional work was being done in 2012–2013 to improve air quality maps in the oil sands. However, evidence indicated that this additional work began in May 2013. We also found one instance where the report was misleading on work completed for a project related to

¹⁶ Athabasca Chipewyan First Nation, Mikisew Cree First Nation, Fort McKay First Nation, Chipewyan Prairie Dene First Nation, Fort McMurray First Nation and Fort McKay Metis withdrew from the Joint Oil Sands Monitoring Program before May 2014.

acid-sensitive lakes. It suggested that an inter-comparison of the data sampled from the lakes was done. We found that data was collected but the comparison of data has not been completed.

The department stated that the Canadian government drafted the 2012–2013 report based on input from component leads and monitoring organizations. Alberta director and component leads reviewed the report for accuracy and completeness. Based on the inaccuracies our audit detected, we conclude that this review was ineffective.

Insufficient information sharing between the governments

Generally, the department could not comment on the accuracy of information in the report related to projects the Canadian government delivered. This lack of information indicates that regular communication between the two governments on the status of projects was insufficient. It is our view that each government should be aware of the status of projects, including those being delivered by others.

The department stated that it lacked capacity in 2012–2013 to stay current on the status of all projects. Starting in 2014–2015, the department is requiring quarterly updates on projects from the Government of Canada. Our audit did not test this process.

Implications and risks if recommendation not implemented

Without timely, accurate and transparent public reporting, Albertans will not know if the government is meeting its commitments under the joint plan and whether the implementation of the enhanced monitoring in the oil sands is on track.

Planning and monitoring

RECOMMENDATION 2: IMPROVE PLANNING AND MONITORING

We recommend that the Alberta Environmental Monitoring, Evaluation and Reporting Agency:

- implement effective processes for monitoring project status
- develop and implement work plans, with roles and responsibilities and timelines and deliverables, for implementing all key commitments under the joint plan
- clarify what needs to be done to implement any joint plan projects and commitments remaining after March 2015

Background

The Alberta and Canada governments jointly prepared annual work plans detailing projects, entities responsible for them, and budgets. Responsible entities—Government of Alberta, Government of Canada and independent monitoring organizations—agreed to complete more detailed planning documents such as project plans.

In the joint plan the two governments commit to engaging stakeholders, including Aboriginal Peoples, industry, independent scientists and monitoring organizations on the implementation plan and its activities. Starting in 2013, the governments established three processes to obtain and incorporate stakeholder input into work plans:

- stakeholder meetings
- component advisory committees
- transition working group (industry)

Criteria: the standards for our audit

The department should have sufficient and appropriate evidence to support its reported results. This evidence should include:

- work plans for implementing its responsibilities, including:
 - identification of roles and responsibilities
 - clear and concrete deliverables, timelines and required resources
 - consideration of input from stakeholders (including industry, scientists, Aboriginal Peoples and provincial stakeholders)
 - consideration of traditional ecological knowledge
 - process to monitor progress and adjust the plans to new information
- work plans for coordinating with other departments, agencies and the federal government to prevent ineffective, inefficient and duplicate efforts in their joint monitoring of the oil sands

Our audit findings**KEY FINDINGS**

- Most projects we tested lacked project plans or had plans without key information such as clearly defined deliverables and timelines.
- There was insufficient evidence that the department regularly monitored progress of projects.
- There was no monitoring of projects delivered by independent organizations and no review for accuracy and completeness of project information these organizations submitted for inclusion in the annual report.
- There was insufficient evidence to support reported project status.
- There were no detailed work plans for implementing joint plan commitments.
- AEMERA needs to determine what is outstanding from the joint plan at March 2015.

Projects

In 2012–2013 the department lacked good project management, which increased the risk of improper or delayed project completion.

We found four projects, which Alberta was solely or jointly responsible for delivering in 2012–2013, that were not included in the work plan for that year. We could not trace several biodiversity projects from the joint plan, delivered by a regional monitoring organization, to the 2012–2013 work plan.

Most projects in our sample either did not have a project plan or had a plan that lacked key information such as deliverables, timelines and resources. Without clearly defined deliverables, it is not clear what needs to be done to complete the project; therefore, monitoring progress is not possible.

We found that evidence for the project status stated in the annual report was often insufficient. One project planned to align the Regional Aquatic Monitoring Program for fish with the joint plan. The department provided meeting minutes indicating that it discussed alignment of fish programs with the Canadian government and Regional Aquatic Monitoring Program as evidence of monitoring. However, there was no evidence that the alignment was completed. The report stated the project was completed. Another project planned to add three monitoring sites, including one on the MacKay River. The project was reported as completed but evidence was insufficient that a station was added to MacKay River during 2012–2013. Neither of these two projects had a project plan.

Component leads told us that they regularly discussed the progress of projects with project managers but did not document these discussions. It is our view that the department should document significant information and decisions about projects, such as when project implementation is not on track or

deviates from the plan. For example, the department should have documented its decision to assess two rather than three species in one of its biodiversity projects.

In the joint plan, the two governments agreed to directly manage all aspects of the monitoring program, including monitoring by independent organizations. However, in 2012–2013 neither government monitored the progress of projects the independent organizations were delivering. Therefore, they did not ensure that the organizations carried out projects as required by the joint plan. Also, there was no review of the accuracy and completeness of the project information these organizations submitted for inclusion in the report. The department stated that it lacked the authority from 2012 through 2014 to monitor projects the independent organizations were delivering because the organizations received funding directly from oil sands operators. Operators paid the organizations for monitoring to fulfill regulatory conditions in their approvals, and permits and licenses, most of which also supported the joint plan.

The department's planning and monitoring processes improved in 2014–2015.¹⁷ The department developed a project plan template—one that requires deliverables, timelines and resources—that all projects must have in place before they receive funding. The department told us that, starting in 2014–2015, component advisory committees are responsible for regular monitoring of progress of all projects against deliverables from project plans. Our audit did not test these new processes.

Commitments

The annual work plans identified projects and the organizations responsible for their delivery. However, it was not clear whether projects in the work plans were also contributing to implementing joint commitments.¹⁸ The department did not have separate work plans in 2012–2013 and 2013–2014 showing how it would implement these commitments. At the conclusion of our audit the department shared work plans it completed in March 2014 for implementing the commitments. Developing concrete plans at the inception of the program would have increased the likelihood of appropriate and timely implementation.

There is a risk that the two governments will not fully implement all their joint plan projects and commitments by March 31, 2015. It is important that AEMERA determines what remains to be completed from the joint plan at its conclusion and assess further actions.

Stakeholder input

In the joint plan, the two governments committed to adapting plans and activities to reflect project experience and stakeholder input. A formal mechanism for tracking and considering input from all stakeholders was not in place in 2012–2013. Beginning in 2013–2014, the two governments used semi-annual stakeholder meetings, component advisory committees and regular meetings with industry to obtain stakeholder input. The department told us that AEMERA now has a process to track and respond to input from these meetings. Our audit did not test all these processes. We observed two instances where the department revised its 2014–2015 plans, to incorporate input from the 2013 stakeholder meetings.

¹⁷ As of April 2014, the Alberta Environmental Monitoring, Evaluation and Reporting Agency took over responsibility for implementing the Government of Alberta's commitments under the joint plan.

¹⁸ Page 26 of this report lists the joint plan commitments by the governments of Alberta and Canada.

Implications and risks if recommendation not implemented

Without effective project management, the governments of Alberta and Canada could fail to carry out their plan for monitoring the environmental impacts of oil sands development. This may jeopardize AEMERA's ability to monitor cumulative effects of oil sands development and report to Albertans on the condition of Alberta's environment in the oil sands and when impacts on the environment exceed accepted limits.

Health—Crown’s Right of Recovery of Healthcare Costs from Motor Vehicle Accidents

SUMMARY

What we examined

Background—The *Crown’s Right of Recovery Act* allows the government to recover healthcare costs that it incurs as a result of personal injuries suffered by Alberta residents¹ due to the wrongful act or omission of a third party. This right of recovery includes injuries caused by motor vehicle accidents (MVA). Most of the recovery regarding motor vehicle accidents comes from an amount called the aggregate assessment,² paid by automobile insurers. Each calendar year, the Minister of Health sets the aggregate assessment based on a cost estimate prepared by the Department of Health and other information received by the department. The department uses estimated healthcare costs because the calculation is done on an aggregate basis. To do this estimate, the department calculates the costs using primarily methodology from a dated Institute of Health Economics study.³ The Department of Treasury Board and Finance then collects the aggregate assessment from insurance companies.

The rest of the recovery from motor vehicle accidents comes from individual claims against parties causing motor vehicle accidents, where the wrongdoer does not have an insurer who contributed to the aggregate assessment. This includes claims where the wrongdoer’s insurer is from out of province. The government pursues those claims for healthcare costs it has incurred.

Objective of audit—To assess if the Department of Health has adequate processes to recover the government’s healthcare costs for motor vehicle accidents.

Scope of audit—We:

- tested a sample of individual claims for the 2012–2013 year
- tested the calculations of a sample of the cost estimates prepared to support the aggregate assessments up to and including the 2013 aggregate assessment
- reviewed other relevant documentation that the department used to support the aggregate assessment amounts

¹ For the purposes of this report, residents are defined as eligible residents of Alberta who have Alberta Health Care Insurance Plan coverage. The department’s website, <http://www.health.alberta.ca/AHCIP/registration-requirements.html>, explains the requirements for eligibility.

² Section 22(2) of *The Crown’s Right of Recovery Act* indicates the aggregate assessment is: “the minister’s estimate for that calendar year of the Crown’s cost of health services for personal injuries suffered by recipients as a result of the wrongful acts or omissions of wrongdoers in the use or operation of automobiles for which the wrongdoers were insured under motor vehicle liability policies when the injuries were caused.” Section 1(1)(i) defines recipient as “a person who receives health services for personal injuries.”

³ The methodology was developed as part of a 2003 study of motor vehicle accident costs done by Philip Jacobs and Doug Lier - *The Provincial Health Care Costs of Motor Vehicle Accidents for Third Party Liability in Alberta* (<http://www.ihe.ca/documents/2003-05paper.pdf>).

We did not test Treasury Board and Finance's processes to collect the aggregate assessment.

What we found

The aggregate assessment is set below the healthcare cost estimate the department calculates. The department has a process to establish the aggregate assessment. However, it sets the aggregate assessment below the estimate it calculates using the study methodology. The difference⁴ over 10 years (calendar years 2004–2013) as estimated by the department was \$165 million (\$826 million collected vs. \$991 million estimated costs).

Management advised us that the department has two competing objectives it is trying to balance. It wants to recover the healthcare costs incurred but at the same time the department wants to support a government priority of having reasonable automobile insurance rates. Because the second objective is a government priority, not the department's priority, this adds additional complexity to the process of setting the aggregate assessment.

Before preparing the final documentation to support the amount of the aggregate assessment set, the department consults with Treasury Board and Finance, the Insurance Bureau of Canada, automobile insurers and the Automobile Insurance Rate Board. The documentation describes the consultations, the amount of the healthcare cost estimate and the proposed aggregate assessment. It also indicates the effect that the proposed adjustment to the aggregate assessment may have on automobile insurance rates. But it does not describe the criteria for how the government measures what a reasonable automobile insurance rate is. For most of the years we examined, it does not describe the amount of the rates that would result from setting the aggregate assessment at different amounts, including one which is consistent with the cost it calculates using the study methodology. Nor does it explain the effect of other factors that could influence rates. Because this information is not included, the documentation doesn't explain why the amount proposed for the aggregate assessment is the appropriate amount that should be charged.

The department has also not publicly explained why it does not collect the full amount of the estimated healthcare costs or the effect it wants the aggregate assessment to have on automobile insurance rates.

Key factors affecting cost are not updated or complete. Some key factors in the calculation used to estimate healthcare costs for the aggregate assessment are updated each year. But the department lacks a process to assess if other key factors affecting cost (established in the 2003 study) are still relevant.

The study also did not include all the costs noted in the applicable legislation. Because each year's calculation updates the study's calculation, later years also do not include all costs contemplated under legislation that may be recovered.

In 2007 the department prepared an analysis of the advantages and disadvantages to using the study methodology as the basis for determining the cost estimate. The analysis did not consider

⁴ After the study was done, the department made two changes to the methodology. The department adjusted the rate used to calculate the capital cost surcharge and deducted an amount for motor vehicle accidents that the department was made aware of and where recovery was pursued on a claim-by-claim basis. The difference reported in this report reflects these changes as if they had been applied in prior years.

when or how the methodology should be updated or the cost involved. The department has not done a further analysis to determine the best way to update its cost estimates.

What needs to be done

The department needs to:

- publicly state its objectives in setting the aggregate assessment and report the extent to which the aggregate assessment recovers the department’s calculation of healthcare costs caused by motor vehicle accidents—See page 37.
- obtain additional information to demonstrate that the amount proposed for the aggregate assessment is the appropriate amount that should be charged given the competing objectives—See page 37.
- review the methodology it uses in the calculation of the aggregate assessment and put a process in place to periodically check whether the estimate calculated is a reasonable approximation of the Crown’s associated healthcare costs—See page 38.

Why this is important to Albertans

As the Minister of Health said in 2009, the *Crown’s Right of Recovery Act* is important legislation because “Alberta taxpayers should not be responsible for healthcare costs resulting from wrongful acts or omissions.”⁵

While the department believes it has achieved the appropriate balance, it may be setting the aggregate assessment too low or too high. The department also lacks a process to check whether the cost estimate calculation used in setting the aggregate assessment is a reasonable approximation of the Crown’s associated healthcare costs.

AUDIT OBJECTIVES AND SCOPE

The objective of our audit was to assess if the department has adequate processes in place to recover the Crown’s healthcare costs caused by motor vehicle accidents.

We examined the processes to recover healthcare costs through the aggregate assessment and individual claims. We tested a sample of individual claims for the 2012–2013 year and also tested the calculations of a sample of the cost estimates prepared to support the aggregate assessments up to and including the 2013 aggregate assessment. We reviewed other relevant documentation that the department used to support the amount of the aggregate assessment but did not test Treasury Board and Finance’s processes to collect the aggregate assessment. We substantially completed our audit on August 27, 2014 and did so in accordance with the *Auditor General Act* and the standards for assurance engagements set by the Chartered Professional Accountants.

Background

Before 1996, the department recovered only the hospitalization costs for Alberta residents who were injured due to the negligence of a wrongdoer. In 1996, the *Hospitals Act* was amended⁶ to allow the department to recover for the costs of other health services. In addition claim-by-claim recovery was eliminated for motor vehicle accidents where the wrongdoer was insured by an Alberta motor vehicle liability policy. Instead, the department was able to collect its estimate of

⁵ Alberta Hansard, May 11, 2009.

⁶ RSA 1980 CH-11 as amended by the *Health Statutes Amendment Act*, 1996 CH 22

the cost of healthcare services arising from motor vehicle accidents directly from insurers through the aggregate assessment. Where the wrongdoer was not insured by an insurer who contributed to the aggregate assessment, claim-by-claim recovery was still possible.

The *Crown's Right of Recovery Act* became law in 2012. The Crown's right to recover its healthcare costs from motor vehicle accidents, as well as the costs resulting from other types of accidents, was removed from the *Hospitals Act* and put in this Act. When the bill for the Act was introduced in the legislature in 2009, the Minister of Health said this law was important because, "Alberta taxpayers should not be responsible for healthcare costs resulting from wrongful acts or omissions."⁷

Our criteria for this audit are based on the department's responsibilities and applicable legislation.

FINDINGS AND RECOMMENDATIONS

Reporting the objectives of collecting revenue and preparing supporting rationale

Background

The *Crown's Right of Recovery Act*⁸ says that the aggregate assessment is "the minister's estimate for that calendar year of the Crown's cost of health services for personal injuries suffered by recipients as a result of the wrongful acts or omissions of wrongdoers in the use or operation of automobiles for which the wrongdoers were insured under motor vehicle liability policies when the injuries were caused."

In making this estimate the *Crown's Right of Recovery Regulation*⁹ allows the minister to take into account information prepared by the department, actuarial reports or other information received.

The Act also provides¹⁰ that in establishing the aggregate assessment, the minister is to:

- provide the proposed aggregate assessment to automobile insurers
- select a person to hear representations from insurers and provide a report to the minister if there are representations
- consider the report before establishing the figure

For the calendar year 2013, the amount of the department's calculation for MVA costs, using the study methodology, was \$133 million. However, the minister set the aggregate assessment at \$100 million. The department's cumulative calculation of MVA costs using the study methodology for calendar years 2004 to 2013 was \$991 million. The total aggregate assessment for the same time was \$826 million—a \$165 million difference.¹¹

⁷ Alberta Hansard, May 11, 2009.

⁸ Section 22(2)

⁹ Section 7b) *Crown's Right of Recovery Regulation*

¹⁰ Section 23

¹¹ After the study was done, the department made two changes to the methodology. The difference reported in this report reflects these changes as if they had been applied in prior years.

RECOMMENDATION 3: CLARIFY OBJECTIVES OF COLLECTING REVENUE AND PREPARE SUPPORTING RATIONALE

We recommend that the Department of Health:

- publicly articulate its objectives in setting the aggregate assessment
- report the extent to which the aggregate assessment recovers the department's calculation of healthcare costs caused by motor vehicle accidents

We also recommend that the Department of Health obtain additional information to demonstrate that the amount proposed for the aggregate assessment is the appropriate amount that should be charged given the competing objectives.

Criteria: the standards for our audit

The department should have processes to publicly report:

- its objectives for recovering healthcare costs caused by motor vehicle accidents
- the extent to which it estimates it is recovering these costs

The department should demonstrate that the amount proposed for the aggregate assessment is the appropriate amount that should be charged given the competing objectives.

Our audit findings**KEY FINDINGS**

The Department of Health:

- has not publicly stated its objectives in setting the aggregate assessment
- does not publicly report the difference between its calculation of healthcare costs of motor vehicle accidents and the aggregate assessment set
- does not consistently obtain all relevant information to support that the aggregate assessment proposed is the appropriate amount that should be charged given its competing objectives

When setting the aggregate assessment, the department has two competing objectives it is trying to balance. It wants to recover the healthcare costs incurred but at the same time it wants to support a government priority of having reasonable automobile insurance rates.

Since 2004, based on recommendations from the department, the minister has set the aggregate assessment on average at 83% of its calculation of healthcare costs using primarily the study methodology.

The first criterion is partly met because each year, the department discloses the amount of third-party recoveries in Schedule 1 of its financial statements. It also discloses general information on the aggregate assessment on its website. The criterion is not fully met because the department does not provide information to the public in either place about how its aggregate assessment differs from the estimate of healthcare costs of motor vehicle accidents using primarily the study methodology or why it sets the aggregate assessment lower than this calculation.

Each year, the department provides information for the minister on what the aggregate assessment should be. As part of its process, the department consults with Treasury Board and Finance, automobile insurers, the Insurance Bureau of Canada and the Automobile Insurance Rate Board. The department discloses the feedback received, its estimate of healthcare costs using primarily the methodology in the study, and the proposed final aggregate assessment. The documentation also indicates the estimated effect that the proposed adjustment to the

aggregate assessment may have on insurance rates. However, the documentation does not describe the criteria for determining how the government measures what a reasonable insurance rate is, what a reasonable rate is estimated to be, and the effect of any other factors in addition to the aggregate assessment which may cause the rate to change. For most of the years we examined, the documentation also did not indicate what the rate would be if the department collected the amount calculated using primarily the study methodology or the resulting rates of different levels of the aggregate assessment other than the proposed level.

Implications and risks if recommendation not implemented

Unless the department describes its objectives, external stakeholders will not have a standard against which to analyze the effectiveness of the setting of the dollar amount for the aggregate assessment.

Without obtaining additional information, the department can't demonstrate whether the proposed aggregate assessment is appropriate. It may be appropriate or it may be too low or too high.

Calculating the aggregate assessment

Background

The department begins its process for preparing the aggregate assessment by calculating the healthcare costs related to MVAs each year primarily using the methodology and cost data included in the study. After the study was done the department made two changes to the methodology.

The department updates the estimate of costs by calculating an adjustment factor. The adjustment factor includes the annual change in bodily injury claims, the change in severity and the change in cost of providing healthcare services.

After the initial calculation is done, the department consults with Treasury Board and Finance and then proposes an amount for the aggregate assessment. It gives the proposed assessment to the Insurance Bureau of Canada and automobile insurers and also gets feedback from a representative from the Bureau and from the Automobile Insurance Rate Board. The minister then sets the aggregate assessment in a Ministerial Order and advises the IBC and the automobile insurers of the amount set. The Minister of Treasury Board and Finance informs insurance companies of the amount they have to pay and collects it for the Department of Health.

RECOMMENDATION 4: CALCULATING THE AGGREGATE ASSESSMENT

We recommend that the Department of Health review the methodology it uses in the calculation of the aggregate assessment and put a process in place to periodically check whether the estimate calculated is a reasonable approximation of the Crown's associated healthcare costs.

Criteria: the standards for our audit

The department should have processes to:

- ensure the applicable legislation is followed
- monitor that objectives are being met—This includes a process to determine if the methodology used to prepare the calculation of MVA costs is a reasonable approximation of the Crown’s associated healthcare costs and a process to assess the best way to update its cost estimates.

Our audit findings**KEY FINDINGS**

The department:

- lacks a process to assess if all key factors affecting cost from the study continue to be relevant.
- prepares its estimate using a model from a 2003 study. The study did not include all the costs indicated in the applicable legislation.
- has not determined the best way to update its cost estimates.

The first criterion is met. The department is following the procedure in the Act to establish the aggregate assessment.

The second criterion is partly met as some key factors used in the calculation are updated every year. For example, the department includes each year’s change in bodily injury claims and the severity of accidents each year. It also updates the calculation for the change in the average cost of physician services and the inflation rate change to the ward rates. However, it lacks a process to assess if other key factors affecting cost from the study continue to reflect current actual results. These include assumptions concerning contributory negligence and weightings applied to different categories of injuries and costs.

Since the department’s initial cost estimate each year is an updated version of the study costs, it only includes the types of costs that were included in the study. The study considered most healthcare costs indicated in the applicable legislation but not homecare costs, community mental health costs, or physiotherapy costs for providers outside of the ministry. The study was silent on whether public health costs were included. The study also noted that long-term care costs were not included. The department has not done an analysis of whether it is possible to include an estimate of these costs in the calculation of MVA costs.

In 2007 the department included an analysis of the advantages and disadvantages to using the study methodology as the basis for determining the cost estimate. The analysis concluded that the study represented the most accurate data available. The analysis did not consider when or how the methodology should be updated or the cost involved. The department has not done a further analysis to determine the best way to update its cost estimates.

Implications and risks if recommendation not implemented

The estimate of healthcare costs that supports the aggregate assessment may not be a reasonable approximation of the Crown’s associated healthcare costs.

Service Alberta—IT Disaster Recovery Program

SUMMARY

On July 11, 2012, a fire in the Shaw Court building in Calgary rendered the data centre located in the building unusable. As a result, many organizations that relied on IT services from this data centre were unable to carry on their normal operations. Among those affected were oil companies, radio stations, and Government of Alberta entities. Although all the government entities using that data centre had disaster recovery plans,¹ they were still unable to provide all the programs and services they expected to within expected times.

Alberta Health Services was unable to access the electronic patient health records in order to provide the necessary healthcare services—i.e., electronically order lab or other diagnostic tests, electronically chart results or notations, and electronically order medications. ATB Financial was unable to provide customer care through its call centre. ATB's online banking, electronic fund transfers and ability to accept some loan applications were also unavailable for up to three days after the incident. Government services such as driver's licenses, land titles, and birth, death and marriage documents were also unavailable.

During and after the Shaw Court fire no coordinated group within government was able to clearly state to Albertans:

- what went wrong
- what was being done to return IT applications to service
- that the government had a clear plan to recover the most critical applications, based on risk and cost, and that it might mean some IT applications may not be available

What we found

It is now two years since the fire at the Shaw Court building. The individual government entities we assessed have better disaster recovery capabilities as a result of identifying and fixing weaknesses in previous disaster recovery plans. However, if a similar incident occurred today, the government would still be unable to say it knows what the most critical government-wide IT applications are, or that it has well-designed and tested plans and the needed resources to recover them within targeted times.

¹ The Alberta Emergency Management Agency defines disaster recovery as the strategies and plans for recovering and restoring government's technological infrastructure and capabilities after a serious interruption and disaster recovery preparedness or plans as the activities associated with continuing availability and restoration of IT infrastructure.

What needs to be done

The Government of Alberta needs to:

- identify its critical programs and services government-wide, and the IT applications that support them
- make government-wide decisions of needed recovery times for critical IT applications and the order they should be recovered based on need, risk and cost
- ensure that the critical IT applications have well-designed and tested recovery plans, and the resources needed to recover them within those targeted recovery times

Why this is important to Albertans

Albertans expect and rely on government departments, agencies, boards and commissions to provide programs and services. Many of the services unavailable in July 2012 were inconveniences or caused a loss of revenue to the government or other companies in Alberta. However, the sudden absence of some programs and services increased the risk to the safety and well-being of Albertans. To ensure critical programs and services are available when needed, the government should have an effective process to make government-wide decisions on what IT applications must be recovered and when. These decisions should be based on need, risk and reasonable costs. This may mean that during or after a disaster some government programs and services are available sooner than others.

AUDIT OBJECTIVE AND SCOPE

Our audit objective was to determine if the Government of Alberta and its agencies, boards and commissions now have effective systems and processes to:

- identify all of the IT applications in government and the IT applications needed to provide critical programs and services to Albertans
- determine the targeted times for recovering critical IT applications during or after a disaster, based on need, risk and reasonable cost
- ensure there are well-designed and tested recovery plans and the necessary resources to recover critical IT applications throughout the government within targeted recovery times

We selected three of the government entities that were adversely affected by the July 2012 fire in the Shaw Court data centre. These were Alberta Health Services, ATB Financial and the Department of Service Alberta. Service Alberta's inability to provide services impacted other departments that rely on those services. We assessed the work they have completed since July 2012 to fix the weaknesses in their disaster recovery capabilities.

Timing and extent of audit work and auditor responsibilities

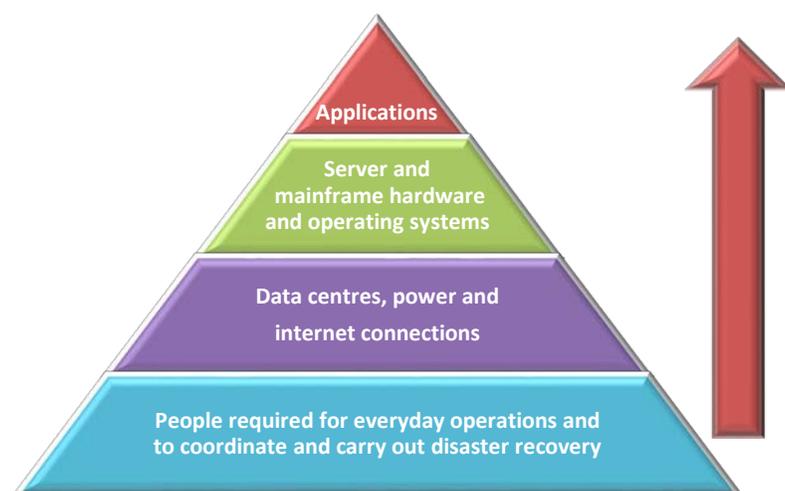
We conducted our field work between January 2014 and July 2014. We substantially completed our audit on July 30, 2014. Our audit was conducted in accordance with the *Auditor General Act* and the standards for assurance engagements set by the Chartered Professional Accountants of Canada.

BACKGROUND

Information technology has become an indispensable component in the delivery of programs and services to Albertans. Government ministries and their agencies, boards and commissions increasingly rely on IT to deliver programs and services Albertans expect and rely on more efficiently, effectively, and economically. A March 2013 project initiated by Service Alberta identified 120 critical and 166 vital IT systems² in government departments.

Effective IT disaster recovery involves preparing for major service disruptions before they happen. IT disaster recovery plans usually use business impact or IT risk assessments to prioritize the recovery of critical systems. This helps ensure that critical business information systems are up and running as quickly as possible after a disaster, thereby minimizing disruptions in business activities and services.

To recover from a disaster or significant disruption in service, the data centre environment (for example, electrical power, air cooling and network connectivity to other locations) must be operational and safe before the IT infrastructure³ can be returned to service. Once the three essential layers of disaster recovery – people, data centres and hardware – are available and operational, then the IT applications can be re-installed or restored to operation.



There are many different groups involved in disaster recovery efforts; for example, data centre owners, IT groups, applications owners and users. Therefore, it is important to know what to do and when to do it, and in what order it must be done to effectively recover IT applications after a disaster. Effective and clear communication and knowledge of the disaster recovery plans is essential to ensure services are returned to normal as soon as possible. However, this is further complicated within government when data centres and the IT infrastructure within them are owned or administered by different departments or third party service providers.

² The Alberta Emergency Management Agency defines critical systems as those needing to be recovered within 24 hours and vital systems as those needing to be recovered within 72 hours.

³ Computers hosting IT applications or data and the networks that link them together.

FINDINGS AND RECOMMENDATIONS

After the July 2012 disaster the three entities we assessed reviewed what happened, to determine what went wrong and what they needed to improve. Each organization's review identified areas for improving their IT disaster recovery capabilities. All three entities also identified their business critical IT applications and the times they needed to be recovered within to provide critical programs and services. All three entities also developed plans to remediate the weaknesses in their disaster recovery abilities.

Findings at AHS and ATB

Alberta Health Services and ATB both rely on IT to provide efficient and effective programs and services to their stakeholders. The loss of some IT functionality during the July 2012 disaster reaffirms the need for AHS and ATB to ensure critical IT applications are available when and where needed.

AHS is still consolidating the IT infrastructure and applications from the 12 individual health organizations that preceded AHS's formation in 2009. In workshops with its various clinical, business and IT groups, AHS identified their 19 critical applications and the IT infrastructure they need to provide their programs and services. AHS also identified the targeted recover times those systems must be restored and returned to operation within.

We confirmed there are approved plans to obtain the IT infrastructure needed to allow AHS to meet its targeted recovery times. IT disaster recovery plans are also being incorporated into its province-wide IT strategy to consolidate and improve the functionality and availability of those 19 applications. However, without the needed IT infrastructure and disaster recovery plans AHS would currently be unable to recover its critical IT applications within its own targeted recovery times.

We are not making a recommendation to Alberta Health Services at this time, as it is actively consolidating and improving its IT infrastructure so it can meet the targeted recovery times for its 19 critical systems. AHS will provide us with a detailed plan and timelines to implement its IT infrastructure and then to develop and test its disaster recovery plans. We will follow up with AHS in one year to ensure it has met its disaster recovery preparedness deadlines.

ATB updated and broadened its IT disaster recovery plans. These plans include business critical IT applications that did not previously have formal disaster recovery plans. ATB also developed individual technical recovery plans for each of its business critical IT applications.

We are not making a recommendation to ATB at this time, as it is relocating its IT infrastructure out of the Shaw Court data centre and into a new data centre. ATB will test parts of its technical recovery capabilities during the relocation and plans to conduct a full IT disaster recovery test within 12 months of its data centre relocation. We will follow up with ATB next year to ensure that it fully tested its disaster recovery plans

Findings at the Department of Service Alberta

The Department of Service Alberta has two distinct IT groups within it. One group is responsible for administering and providing IT applications for services that Albertans use such as land titles, driver's licenses and birth, death and marriage related documents. The other group, Service Modernization, is responsible for providing core IT infrastructure and applications used by most departments and some of their agencies, boards and commissions.

Service Modernization has improved its disaster recovery plans and capabilities for the core IT infrastructure services it provides to other government departments and organizations. We confirmed that it updated and tested its disaster recovery and technical recovery plans. Those actions also fulfilled a recommendation we made to Service Alberta in 2009.

IT disaster recovery throughout government

RECOMMENDATION 5: IMPROVE RECOVERY OF CRITICAL INFORMATION TECHNOLOGY APPLICATIONS

We recommend that the Department of Service Alberta, with support from the Deputy Ministers' Council:

- identify the most critical IT applications throughout all government entities
- identify the times, after a disaster, that critical IT applications must be recovered
- ensure that there are tested plans and adequate resources to recover critical IT applications within those times

Criteria

The Government of Alberta should have effective systems and processes to:

- perform or obtain business impact or risk assessments for IT applications from all ministries, including their agencies, boards and commissions
- define the targeted recovery times needed for each IT application based on need, risk and cost
- ensure there are adequate plans and resources to recover IT applications within the targeted times
- inform Albertans, in the event of a disaster, that the most critical IT applications are being recovered according to tested plans and within targeted times

Our audit findings

KEY FINDINGS

There is no one group within the Government of Alberta that has the authority to:

- identify the most critical IT applications throughout government and define the targeted times they need to be recovered after a disaster
- ensure those critical IT applications have well-designed and tested recovery plans and the necessary resources to recover critical IT applications within targeted recovery times
- ensure there are clearly defined communication and coordination procedures for recovering IT infrastructure and applications during a disaster
- inform Albertans in the event of another disaster that the most critical IT applications, based on need, risk and reasonable costs, are being recovered according to defined and tested plans

The Alberta Emergency Management Agency is responsible for ensuring that all departments have updated business continuity plans.⁴ As a part of this process AEMA provides business impact assessment templates that departments must complete and return to AEMA. These business impact assessments require departments, but not their agencies, boards or commissions, to identify their critical and vital IT applications. Critical and vital applications must be recovered within 24 and 72 hours respectively. Some departments or their agencies, boards or commissions may have IT applications that need to be recovered in less than 24 hours, but there are currently no requirements to identify them.

⁴ Business continuity is the process of identifying how business operations will continue under adverse conditions such as when critical and supporting technology is not available.

The Service Modernization group has tested its ability to restore its core IT infrastructure and has done so in less than 24 hours. However, the recovery of IT applications is the responsibility of each department and their agencies, boards and commissions. Government organizations using Service Modernization's core IT infrastructure must wait for it to finish the recovery of its core services before they can start the recovery of their IT applications.

The recovery of IT applications is then performed by the department itself or with help from Service Modernization. The recovery of IT applications is done on a best effort basis meaning that there is no formal process as to which IT applications are recovered or assurance that IT applications will or can be recovered within needed recovery times.

Service Modernization has developed disaster recovery standards and templates and communicated them to other departments. But no one ensures that departments or their agencies, boards and commissions properly use them or have the planning and resources in place to ensure critical IT applications are available when needed. Further, there is a lack of ability for departments to test their disaster recovery capabilities to recover their IT applications with Service Modernization's core IT infrastructure.

Many different government groups are involved in recovering and restoring critical IT applications during or after a disaster. We did not find defined communication and coordination protocols between these different groups for disaster recovery. Further, there is a lack of a government-wide process or comprehensive plan to determine what are the most critical IT applications to the government and Albertans and to ensure they are available when needed.

This is where we found what we consider to be the biggest risk to the government. Each department and its agencies, boards and commissions, are responsible for ensuring they can recover and restore their own IT applications. Some departments and their agencies rely on Service Modernization or other departments for all or some of their IT infrastructure and disaster recovery capabilities. Other departments and most agencies, boards and commissions use third parties or have their own disaster recovery capabilities.

We found that there is no one group or entity within government with the authority to ensure that critical IT applications the government and Albertans rely on can be recovered within targeted times during or after a disaster. There is no central oversight to:

- identify and rank the importance of programs and services throughout government and the IT infrastructure and applications that support them
- ensure that IT applications supporting critical programs and services have well-designed and tested disaster recovery plans, and the necessary resources so they can be restored when needed
- make decisions and provide assurance that resources for disaster recovery are allocated appropriately
- provide assurance that disaster recovery processes are followed during a disaster

Implications and risks if not implemented

The government may not know what IT infrastructure and applications support critical government programs and services. Therefore, the government may spend more resources than needed in some areas and not enough in others. This also means that the government cannot assure Albertans that:

- it is correctly allocating disaster recovery resources for the right IT infrastructure and applications throughout government
- in the event of another disaster, that IT infrastructure and applications, based on need, risk and cost, are being recovered according to tested plans and within the targeted times

Treasury Board and Finance—Collection of Outstanding Corporate Taxes

SUMMARY

Why we did this audit

The Department of Treasury Board and Finance has chosen to administer Alberta's corporate taxes through its Tax and Revenue Administration (TRA) division, as opposed to the Canada Revenue Agency, which administers corporate taxes for other provinces except Quebec. CRA pays other provinces the amount of provincial taxes assessed, irrespective of whether it ultimately collects these amounts from corporations. Thus, CRA bears the credit risk if corporations do not pay their taxes. In return, CRA keeps any interest earned and penalties on provincial income taxes that corporations owe. In contrast, the department retains the interest and penalties on Alberta's corporate taxes, but it also bears the credit risk.

As a result, we assessed whether the department has effective and efficient systems to collect outstanding corporate taxes in a timely manner, because it becomes more difficult and expensive to collect accounts the longer they remain outstanding. TRA focuses its resources on collecting high-risk and high-value receivables, but must also collect smaller amounts so as to enforce compliance consistently. Thus, any improvement in its ability to collect outstanding taxes efficiently within a reasonable time affects the province's cash flows.

What we found

The department has adequate systems to collect corporate taxes, but these systems need improvement to deal with the increasing number of outstanding taxes. TRA recently updated its information system to improve the way compliance officers manage files. It also added compliance officers to deal with increased caseloads.

However, we identified the following matters that the department should resolve:

- Several key policies and procedures are outdated, not comprehensive enough or do not exist to ensure compliance officers take consistent collection actions. TRA management also identified this issue but has not made its resolution a priority. We identified other gaps; for example, the lack of policies and procedures for assessing a taxpayer's ability to pay may allow compliance officers to treat taxpayers differently.
- New staff are trained when they start and work closely with a senior compliance officer for three months. Much of the training focuses on how to use the computer systems and to perform certain collection actions. Staff also consult with each other continuously about how to deal with collection files. However, the department does not have a comprehensive and ongoing training program after the three-month period for collection staff. Training materials are also not comprehensive and current.
- TRA expects each compliance officer to close a targeted number of files per month and collectively aims to collect a targeted amount annually. However, it does not have adequate internal and external performance measures and targets to assess the timeliness and effectiveness of collections. Management also does not analyze the collection results to assess whether various collection activities are working or not. Nor does it publicly report the effectiveness of its collections program.

- TRA management reviews monthly reports about the total number of outstanding files, their value, how long they have been overdue as well as the number of files in objection, assigned to compliance officers and unassigned and new files expected. The reports do not summarize key information such as the risk levels assigned to files, status of collection actions (for example, legal or payment arrangements) or the grouping of values (for example, accounts under or over \$1,000, \$10,000) in collection. Different collection strategies are required for different types of files. Without this information, management may not be using or developing appropriate collection strategies to deal with the increasing workload.

What should be done

The department should:

- update and maintain its tax collection policies and procedures
- improve its program for training staff in using its policies and procedures
- develop adequate performance measures to assess the timeliness and effectiveness of collections, and publicly report on its collection activities
- update its management information and periodically analyze the files to identify emerging issues and develop strategies to deal with backlog of files submitted for write-off and low value accounts

Why this is important to Albertans

Corporate taxes are a large source of government revenue. While most corporations pay what they owe promptly when they file a return, some do not. In such cases, the department must collect outstanding amounts effectively and efficiently, while also treating corporations consistently. To reassure Albertans that all corporations are paying the taxes they owe, the department must also evaluate and report on whether its tax collection program is working.

AUDIT OBJECTIVES AND SCOPE

Our audit objective was to determine if the department has effective and efficient systems to collect corporate taxes owed in a timely manner. Our audit focused on the collection of corporate income taxes, except where there is an outstanding objection by a corporation to the tax assessment.¹

We interviewed compliance officers, reviewed tax collection policies and procedures, and tested a sample of collection files. We reviewed industry best practices for collections and interviewed staff from CRA, and the Department of Service Alberta responsible for crown debt collections.

We conducted our field work from February 2014 to August 2014. We substantially completed our audit on August 15, 2014. We conducted our audit in accordance with the Auditor General Act and the standards for assurance engagements set by the Chartered Professional Accountants of Canada.

¹ For tax year-ends after May 27, 2013, the department may collect 50 per cent of taxes from large corporations that dispute their assessments. This does not apply to tax year-ends before this date. Legislation previously prevented the department from collecting on those amounts from corporations until after the dispute had been resolved.

Background

Department responsibilities

TRA administers tax and related programs under Alberta's *Corporate Income Tax, Fuel Tax, Tobacco Tax* and *Tourism Levy Acts*. The division has four branches:

- tax services
- audit
- revenue operations
- strategic and client services

Historical corporate tax information

Revenues from corporate income taxes have increased over the last three years. The amount that corporations owe in overdue taxes, penalties and interest has increased even more, along with the amounts the department expects it will not be able to collect from corporations.

Year	Total corporate tax revenue (millions)	Interest and penalties (millions)	Corporate taxes owed at March 31 (millions)	Value of tax assessments under objection (millions)	Allowance for doubtful accounts (millions)	Allowance as % of outstanding receivable	Written off (millions)
2013–2014	\$ 5,358	\$ 128	\$ 885	\$ 557	\$ 377 ²	42.6%	\$ 43
2012–2013	4,713	42	741	414	248	33.5%	63
2011–2012	3,621	57	733	463	123	16.8%	2

Source: Ministry annual reports and internal department documents

Corporations may owe taxes related to one or multiple tax year-ends. The number of corporations that owe corporate taxes increased from 37,458 (related to 47,487 tax year-ends) in 2010 to 45,596 (related to 60,392 tax year-ends) in 2014. At March 31, 2014 there are 364 corporations objecting to \$557 million (related to 851 tax year-ends) in taxes, penalties and interest assessed. Legislation³ limits the department's options for collecting these disputed amounts.

The length of time that corporate taxes, penalties and interest have been overdue at March 31, 2014 were:

Age	Total outstanding at March 31, 2014 (millions)	Value of tax assessments under objection (millions)	Remaining balance where collection actions can be taken (millions)
Less than one year	\$ 327	\$ 166	\$ 161
1 – 2 years	152	131	21
2 – 3 years	76	37	39
3 – 4 years	55	33	22
4 – 5 years	19	7	12
Over 5 years	256	183	73
Total	885	557	328

Source: Department internal documents

² The department has been improving its methodology to calculate the allowance for doubtful accounts over the last three years.

³ *Alberta Corporate Tax Act* (Section 60), for tax year-ends after May 27, 2013, allows the department to collect 50 per cent of taxes from large corporations that dispute their assessments. This does not apply to tax year-ends before this date.

The collections group includes a manager, three group leads, four senior compliance officers, and 16 compliance officers. Compliance officers generally have a set workload of 320 files that they work on at a time. Files relate to a corporation who may owe taxes on one or multiple tax year-ends. Compliance officers work to collect the total balance outstanding. TRA expects compliance officer to close 79 files per month.

How Alberta's tax collection system works

Corporations with taxable income over \$500,000 are required to pay monthly installments based on an estimate of their annual corporate taxes. TRA assesses the Alberta corporate taxes once corporations file their annual tax returns. All corporations must also file annual tax returns with and pay installments to the CRA. The department may also reassess the taxes based on objections and appeals, information received from corporations, CRA or from audits it conducts. Corporations must pay outstanding balances within two or three months of their tax year-ends. Most corporations pay their taxes on time, but some do not.

Taxpayers have 90 days from the assessment or reassessment date to object. Generally, legislation prevents TRA from forcing payment before the 90 days except when it can determine and convince a court that ultimate collection is in jeopardy if TRA delays collection actions. For tax year-ends after May 27, 2013, the department may collect 50 per cent of the assessed taxes for large corporations that object to their assessments. This is similar to CRA's practices.

Corporations that file an objection to the tax assessment sometimes pay their taxes to avoid any penalties and interest. Once the objection is concluded their payment applies to any outstanding taxes and the balance results in a refund from either the government or an amount that corporations still owe to the government.

For medium- and high-risk accounts, supervisors assign files to a compliance officer immediately after assessment/reassessment to start collection activities. They send letters or call the taxpayer, but usually cannot start enforcement actions until the 90-day objection period has passed.

For low-risk files above a certain threshold, TRA automatically sends a letter 35 days after the date of notice of assessment and a second letter if the balance remains outstanding after another 30 days. Supervisors may assign the files to a compliance officer after another 25 days to start collection activities. This assignment depends on the compliance officer's workload.

TRA tries to collect the full balance owing or arrange for payment in full within a certain period. When it is not possible to arrange a payment, TRA can take legal action in accordance with the *Alberta Corporate Tax Act*. Legal actions include, but are not limited to:

- garnisheeing bank accounts
- setting off the debt against other government payments
- putting a lien on a taxpayer's assets
- seizing assets

FINDINGS AND RECOMMENDATIONS

Documented policies, procedures and training

Background

Clearly documented and well-understood policies and procedures are an important part of an internal control system. These documents should articulate management's expectations and direct compliance officers in their day-to-day activities to achieve a desired result. They should also lead to consistent administration of tax collections. Combined with relevant and ongoing training, policies and procedures equip compliance officers with direction and guidance when they exercise professional judgment in complex situations.

One of TRA's goals is to ensure compliance officers take a consistent and uniform approach with all taxpayers. This can only be achieved with comprehensive, current and clearly documented policies and procedures and relevant and timely training.

RECOMMENDATION 6: MAINTAIN POLICIES AND PROCEDURES AND TRAIN STAFF

We recommend that the Department of Treasury Board and Finance:

- update and maintain its policies and procedures for tax compliance officers
- review its training program to ensure it provides relevant and ongoing training to tax compliance officers

Criteria: the standards we used for our audit

The department should provide tax compliance officers with appropriate and comprehensive policies and procedures and train staff to undertake collection activities consistently.

Our audit findings

KEY FINDINGS

- Several collection policies and procedures are outdated or do not exist for certain collection actions.
- Compliance officers do not consistently use risk assessments to prioritize their caseload.
- Staff are trained when they start, but there is no formal ongoing training program.

Clearly documented policies and procedures—TRA's collection policies and procedures are available to tax compliance officers on the division's internal website. Managers and supervisors discuss changes in staff meetings or send emails to put changes into practice immediately. However, the formal policies and procedures are not updated nor comprehensive. As a result, there is an increased risk that tax compliance officers may take an inconsistent approach to collections.

This approach to collections policies and procedures does not:

- provide new employees with current and complete requirements for collection actions
- provide collections staff with ongoing guidance on what the division requires

Management identified these matters but asserted that their day-to-day business tends to take priority over updating their policies and procedures. However, we also identified additional areas where TRA lacks policies and procedures such as assessing the financial viability of taxpayers when considering a payment arrangement or the steps that a tax compliance officer must complete before submitting a corporate tax file for write-off. Senior compliance officers sometimes have to send files back to compliance officers because they did not perform all the necessary steps.

The Department of Service Alberta's Crown debt collections division maintains detailed process flow-charts for handling collection files and legal processes for collections. TRA should talk to Service Alberta about sharing experiences and approaches to collections.

Furthermore, the department recently updated its information system to assess the risk of collectability of tax files based on various factors such as payment history and amount outstanding. The information system assigns files a low-, medium- and high-risk ranking. There is no guidance for tax compliance officers to prioritize files for collection action. Compliance officers do not consistently use the risk levels for prioritizing their workload, but instead determine collection priority on a case-by-case basis, using their own judgment. This approach results in inconsistent practices. While this may be appropriate given the nature of the files, clearly defining the expectations regarding how these risk levels should be used will help tax compliance officers to prioritize files.

Training—Compliance officers receive three months of training when they start work. The training focuses on how to use TRA's computer systems to manage the files assigned to them, how to obtain information for collection actions, for example by searching for assets. It also covers how to do certain basic collection actions. Senior compliance officers assist new staff during this time. Staff also consults with each other continuously about how to deal with collection files.

While TRA has provided some ad hoc training to compliance officers, it does not have a comprehensive training program for continuous learning and staff development. Considering that tax collection is a complex subject, there is scope for continuous learning; management should consider regular courses and training on new trends and best practices.

Implications and risks if recommendation not implemented

Without documented policies, procedures and adequate training, compliance officers will not execute their duties the same way, leading to TRA treating taxpayers inconsistently. Opportunities to collect taxes may be lost when compliance officers do not have clear policies, procedures and training.

Performance measures and reporting

Background

To demonstrate that TRA is achieving its results in a cost-effective and efficient way, it must have sufficient performance measures and targets to evaluate, assess and report the performance of collections. This includes external measures to demonstrate accountability for the results achieved, as well as more detailed internal measures to manage resources toward achieving the desired results. These serve as communication, motivational and decision making tools. When there are significant variances from targets, management needs to explain what factors, including external factors, impacted results. When targets are not met, management needs to adjust and develop cost-effective strategies to achieve the desired results.

RECOMMENDATION 7: DEVELOP INTERNAL AND EXTERNAL PERFORMANCE MEASURES AND TARGETS

We recommend that the Department of Treasury Board and Finance develop comprehensive performance measures and targets for tax collections and determine which to report publicly.

Criteria: the standards we used for our audit

The department should evaluate and report whether the tax collection program is achieving its goals and objectives. This includes measuring and reporting the cost of tax collections and publicly reporting the results of its collection activities.

Our audit findings

KEY FINDINGS

- The department lacks adequate performance measures to evaluate collection activities.
- Results based budgeting analysis on the benefit of Alberta administering its corporate taxes omitted write-off costs for uncollectable accounts.

Performance measures and reporting—TRA aims to collect \$100 million of outstanding taxes annually through collection activities. The department improved the disclosures in its financial statements by providing an aging of the outstanding corporate income taxes assessed and the amount under objection. It also reports the amounts written off during the year, as the *Financial Administration Act*⁴ requires.

However, the department has not established adequate performance measures and targets to monitor and assess the timeliness and effectiveness of its collections efforts. The department also does not report publicly on the success of its collection activities.

An international tax benchmarking study⁵ involving ten countries, including Canada, highlighted eight measures to assess the timeliness and efficiency of debt collection. For example, the CRA reports in its annual report to parliament a comprehensive set of performance measures, targets, results and analysis of its programs, including collection activities. The CRA aims to have less than 18 per cent of the outstanding balance it can pursue, being older than five years. Its actual result for 2013 was 14.4 per cent. TRA does not have these type of measures.

The department also reported in its result based budgeting analysis that the benefit to the province of administering its own corporate tax collection system was \$457 million in penalties and interest from 2009 to 2012. However, the department bears the cost of write-offs but omitted this from its evaluation. During that time, the department did not focus their resources and efforts to write-off accounts, resulting in a very small number of files and value of write-offs. This also resulted in a large backlog of files that it had identified for write-off but did not. During the last two years, the department started to focus on write-offs and wrote off \$108 million. At March 31, 2014, it also estimated that it might be unable to collect a further \$378 million.

Staff workload measures—TRA expects each compliance officer to close 79 files per month. Supervisors monitor this regularly to allocate new files to compliance officers. They also consider the time that certain files remain outstanding and work with compliance officers to resolve any long outstanding files.

Staff close on average 102 files per month; one staff member closes 207 files on average per month. Management has not documented its evaluation, reasons and risks for not updating the expectation for compliance officers to close 79 files per month.

Implications and risks if recommendation not implemented

Without comprehensive measures and targets and public reporting, the department cannot demonstrate that its collection program is efficient and effective. In addition, management and staff may not be held accountable for results.

⁴ Section 23

⁵ <http://www.hmrc.gov.uk/research/benchmarking.pdf>

Management information and monitoring

Background

TRA uses a number of collection activities such as sending letters, making phone calls and taking various enforcement actions such as registering liens, garnisheeing outstanding taxes from corporations' bank accounts or other sources according to the *Alberta Corporate Tax Act*. To be effective, management should monitor and analyze the status of collection files and the results of its collection activities, so they can focus on actions with the best results or develop alternate strategies for actions that are less effective. Focusing resources on the highest risk and value amounts must be balanced with avoiding the perception that compliance is not required for lower risk and value files.

RECOMMENDATION 8: IMPROVE MANAGEMENT INFORMATION AND ANALYZE DATA PERIODICALLY

We recommend that the Department of Treasury Board and Finance:

- update its management reports to include additional information on the status of tax collection files and the success of its various collection activities
- periodically analyze the characteristics of the corporate taxes outstanding to identify potential changes to legislation, policies and collections strategies
- deal with the backlog of files submitted for write-off and low value accounts

Criteria: the standards we used for our audit

The department should evaluate and report whether the collection program is achieving its goals and objectives. This includes:

- reporting on the state and general collectability of overdue taxes, including amounts written off, forgiven or otherwise adjusted
- evaluating the results to identify lessons learned to improve future collection strategies and activities
- having appropriate information technology systems and management information to support the collection process

Our audit findings

KEY FINDINGS

- Management reviews a monthly report on collections, but the report lacks key information to monitor collection activities.
- TRA does not analyze receivables sufficiently to identify potential trends.
- Information systems need improvement to track the status of collection activities.

TRA management reviews a monthly report that includes information on the total number and value of outstanding assessments based on tax year-ends, how long they have been outstanding, value in objections, assigned to compliance officers and unassigned items. The report also includes the number of new tax assessments with outstanding taxes opened during the month, expected future assessments and closed through collection and write-offs.

Management does not periodically analyze the collection inventory to identify potential trends and issues that will help identify potential changes required to policies and collection activities. They can also improve the reports. Examples of key summary level information for reports or analysis are:

- how much is collected through each collection activity. The report shows how much TRA collected in total but this information is not broken down by collection action. Resources are limited, and management wants to maximize the return on investment. By knowing which collection action brings the highest returns, management can focus their attention on actions with the best results or identify possible changes to legislation, policies, procedures and training for collection actions that may not be effective.
- grouping of outstanding amounts and number of files—At March 31, 2014, compliance officers could pursue 45,594 files, of which 29,351 files (64 per cent) were for amounts smaller than \$1,000. A total of 7,395 files were for balances where the taxpayer paid the taxes due but not any interest and penalties. The department has not evaluated the potential to use the Department of Service Alberta's crown debt collections or other third party collection agencies to collect the high volume of accounts with low balances. While small value amounts may be uneconomical to collect, without the information management may conclude more resources are required to deal with the increasing workload.
- collection activity status such as agreement to pay, liens, request to pay or various legal actions for assigned files—Different collection activities require different approaches, resources and skills. For example, TRA does not track how many files have an agreement from taxpayers to pay their taxes. This information will allow management to determine whether the terms compliance officers agree to are complying with TRA policies, whether taxpayers are adhering to agreements, and, if not, that compliance officers are taking appropriate and timely action.
- risk level of assigned and unassigned files to determine if resources are appropriately allocated to where the return is the greatest—For example, 416 high-risk files have not been assigned to collection officers, but the reasons and length they have been unassigned is not reported.
- number of corporations that owe taxes—Staff workloads are based on a corporation, irrespective whether the corporation owes taxes related to one or multiple tax year-ends. The reports include summary information based on the number of tax year-ends but not unique corporations. Management may not identify the appropriate resource needs without the information. At March 31, 2014, 45,594 corporations owed taxes related to 59,541 tax-year-ends.
- number and value of files submitted for write-off and how long files are awaiting a senior compliance officer or group lead review—There were 2,498 files related to 5,069 tax year-ends totaling \$121 million at March 31, 2014, awaiting a senior compliance officer and supervisor's review. Some files took up to 10 years to write off after it was initially submitted for write-off. Some files have been outstanding for 25 years since TRA issued the assessment or reassessment.

Implications and risks if recommendation not implemented

Without relevant management information and analysis, the department may not use its resources and available collection tools in an effective and efficient manner, and it may not identify alternative strategies to deal with outstanding taxes and non-compliance.

Various Departments — Contracting

Introduction

On April 7, 2014 we were asked by an MLA to investigate the circumstances surrounding contracts the Government of Alberta awarded to 1689986 Alberta Ltd. (operating as Navigator Ltd.) for communications services. We indicated that we would examine these contracts to assess whether the departments' contracting policies have been followed.

Audit objectives and scope

The objective of our audits was to determine whether the departments of Executive Council, Health and Municipal Affairs followed their contract policies and whether their decisions to sole source contracts with Navigator Ltd. were adequately supported.

We noted during our work that the three departments all have different contracting policies for procuring services. We intend to follow up with the government to explore why departments are using different contracting policies for procuring services.

We examined four contracts entered into between the Department of Health and Navigator Ltd. in the 2012 and 2013 fiscal years. We also reviewed the supporting documentation and interviewed individuals that either were currently at the department or previously had been at the department and were involved with these contracts. We substantially completed our audit at the Department of Health on August 27, 2014.

We also examined two contracts related to work on the southern Alberta flood—one contract between the Department of Municipal Affairs and Navigator Ltd., and another between the Department of Executive Council and Navigator Ltd. We reviewed the departments' supporting documentation and interviewed individuals from the departments who were involved in the awarding and administration of these contracts. We substantially completed our audit at the departments on September 12, 2014.

As our audits were focused on the departments' compliance with their contracting policies when awarding and managing these contracts, we relied on the departments' supporting documentation and information obtained through interviewing management and staff of the respective departments. We found no evidence that Navigator Ltd. had any role in how these contracts were awarded or managed by the departments.

Our audit work was conducted in accordance with the *Auditor General Act* and the standards for assurance engagements set by the Chartered Professional Accountants of Canada.

FINDINGS AND RECOMMENDATIONS

Department of Health

Background

Subject to certain exceptions, the department's contract policy¹ requires contracts for services \$75,000 or greater, or contracts for goods \$10,000 or greater, to be awarded on a competitive bid basis. The department may permit contracts to be sole sourced if in accordance with the requirements of the

¹ Alberta Health and Wellness Contract Policy, revised November 2011, Section 2.5.

Agreement on Internal Trade (AIT), Trade, Investment and Labour Mobility Agreement (TILMA), New West Partnership Trade Agreement (NWPTA) and Agreement on Government Procurement (GPA).

The department's policy also requires contracts to be awarded based on a competitive process for procurement of services less than \$75,000, "unless circumstances warrant a sole source contract."

When sole sourcing, the policy requires staff to evaluate this decision on a case by case basis and to document the reasons. The policy also indicates that "contracts should not be prepared, designed or structured to avoid the department contract policy or" the department's "obligations under NWPTA, TILMA, AIT and GPA, for example by:

- issuing a series of contracts that relate to the same project and awarded to the same contractor;
- issuing a series of amendments that result in the total contract amount being \$75,000 or greater; and
- understating contract amounts and then amending the contract in the future."

Contract policy

RECOMMENDATION 9: IMPROVE CONTRACT POLICY AND DEMONSTRATE COMPLIANCE

We recommend that the Department of Health:

- upgrade its contract policy to ensure its branches consider and document whether or not a project is a phase of an overall project requiring a competitive bid
- ensure the contract policy describes the information that should be documented to support sole sourcing
- improve its processes to demonstrate it complies with its contract policy

Criteria: the standards for our audit

The department should have processes that demonstrate it complies with its contract policy.

The department should provide sufficient rationale in its request to contract form or in the contract file to support sole sourcing decisions.

Our audit findings

KEY FINDINGS

- The department did not consistently follow its policy when entering into these contracts.
- The department did not clearly document why sole sourcing was appropriate and in compliance with its policy.

The department entered into the following contracts with Navigator Ltd. in the 2012 and 2013 fiscal years.

Date and Term of Contract	Description of Contract ²	Contracted Amount	Invoiced Amount
November 28, 2011 to December 30, 2011	Services include stakeholder consultation through focus groups (12 groups in 4 communities) and qualitative research related to stakeholder perception of Alberta's healthcare system in its current state and the preferred future state of the healthcare system.	\$74,400	\$74,400
December 19, 2011 to January 31, 2012	Services include a communications strategy (based on the stakeholder consultation and qualitative research), a detailed environmental scan of media coverage and also the identification of strategic objectives and key considerations for the duration of the communication plan.	\$40,000	\$40,000
March 5, 2012 to May 31, 2012 (contract was terminated effective March 31, 2012)	Services include the development of a strategic communications plan, and providing advice, key messages, and speaking notes with respect to ongoing negotiations with the Alberta Medical Association regarding physician compensation, as well as physician issues related to the public inquiry into queue jumping. Services also include weekly news scan and updates to the strategic communications plan.	\$67,500	\$31,437
June 1, 2012 to September 28, 2012	Services include development of a strategic communications plan, and provision of communication advice, message mapping and media analysis with respect to the key priorities of the department: primary health care, continuing care, mental health and wellness. Includes weekly news scan and regular updates to the strategic communications plan.	\$74,000	\$73,600

The first criterion was not met in the following cases:

- a) Sole sourcing of contracts—The department did not indicate on its request to contract forms that it was applying an exception under the trade agreements to having a competitive process as the contracts were each under the trade agreements' thresholds. The department's view is that as work progressed on each contract, further work was defined at that time that led the department to determine the need for additional work. However, that is not described in the contract documentation for the last three contracts. When we consider the timing of the last three contracts, the nature of the services provided, and the dollar amounts involved, the services performed by these contracts could reasonably be viewed as phases of an overall project to obtain communications advice and planning for the issues affecting health care.

² The descriptions are from the department's Request to Contract forms and from the contracts.

The department's Contract Review Committee noted, on the request to contract form for the third contract, that the vendor had received sole sourced contracts in the past. The legal services reviewer noted on the contract summary routing form for the fourth contract, that "if there are multiple contracts with the same vendor for the same work" there is a "risk of the department being in violation of trade agreements if another vendor was successful in having this characterized as contract splitting." The contract request form noted that a recommendation had been made to go through an RFP process for future requirements.

The department does not have a process that requires individual branches to document on the contract request form whether additional contracts would likely result from the contract being considered.

- b) Date work commenced—The department's contract management unit noted for the first three contracts and the legal services reviewer for the fourth contract, that the contracts were not in compliance with the contract policy because they were signed after the start dates of the contracts. The policy requires that a contract must be signed by both parties prior to starting work under the contract unless there is an emergency situation and approval is obtained from the assistant deputy minister. There was no documentation indicating that the approval was received before work started and that the circumstances constituted an emergency situation.

The department's Contract Review Committee is responsible for providing quality assurance, ensuring that contracts provide value and that risks are mitigated to tolerable levels. A CRC review is required for contracts that are \$50,000 or greater. The contracts can start before the CRC review is done if there is an emergency situation and approval is obtained from the assistant deputy minister. Three of the contracts had contract amounts of greater than \$50,000 and were reviewed by the CRC after the start date of the contract. Having the review after the work starts diminishes the effectiveness of the review.

The second criterion was not met.

The contract policy requires that branches maintain a written record in the contract file of all contracting activities and decisions. This includes the justification to contract. The policy also indicates mandatory documentation but does not specify that the following should be documented to support sole sourcing decisions:

- a) How the contractor was identified and a description of the unique skills that the contractor has—The department told us that direction first came from the minister's office to use Navigator Ltd. as the contractor. Both the department and the minister told us the contractor was selected because of its experience with physician compensation and major health system reform issues in another province. The only documentation consisted of emails from the minister to the contractor. In the first email the minister indicated the department would provide information as to where Navigator Ltd. should send the invoice. In the second email, he indicated that the department might wait to do the second contract pending the completion of the first contract. There was no description on the contract request form or in the contract file for the first contract as to how the contractor was identified including whether or not other contractors were considered and if not why not. None of the request for contract forms identified why the expertise the contractor had was considered to be unique. The department told us that they didn't have experience or resources to perform all of the tasks required in the contracts and also asserted that this was true of the Public Affairs Bureau at the time. However, there was no documentation for any of the contracts indicating the reasons why staff in the department or elsewhere in the government could not perform the services.

- b) How the branches determined the contract fee is a reasonable amount—There was no documentation for the four Navigator Ltd. contracts on how the branches determined that the amount to be paid was reasonable.

As part of our audit we also examined whether the department had evidence to support that work had been done. The department provided some evidence that work had been done. At the conclusion of the contracts, staff are required to complete a contract evaluation form. In all cases the contract evaluation form indicated that the services had been received. The department also provided us with copy of the reports produced for the first, second and fourth contracts. For the third contract, we were advised that the outputs in the form of communications advice, planning and support were provided and would have been reflected in communications products related to the AMA negotiations. The contract was terminated early as a result of the government reaching an agreement in principle for physician compensation with the AMA.

Implications and risks if recommendation not implemented

The department may not be able to demonstrate that it is in compliance with its contract policy and applicable trade agreements or that the fees paid represent reasonable amounts for the services provided.

FINDINGS AND RECOMMENDATIONS

Departments of Executive Council and Municipal Affairs

Background

The Department of Municipal Affairs' contract policy states that the norm for awarding contracts is through a competitive process in which a minimum of three quotes must be sought. Sole sourcing is an alternative that is available when there is appropriate justification. The policy requires sole sourced contracts for services \$5,000 or greater to be supported by a documented rationale. The policy goes on to state that the contracting file should contain all documents—from supporting the original decision to contract through to the final evaluation upon completion.

The Department of Executive Council's contract policy states that competitive tendering is recommended when the cost of the services is over \$25,000. The department's policy states that sole sourcing can be considered for services under \$75,000, if one or more of the following conditions apply:

- the service provider has prior knowledge of the department's business and changing service providers will interrupt continuity and stability of services
- there is an absence of competitors
- the service is required urgently

The policy requires the department to document its rationale for not seeking competitive bids for sole sourced contracts exceeding \$25,000.

Further, both departments must ensure contracts comply with obligations under applicable trade agreements. For example, the AIT, TILMA, NWPTA and GPA contain specific requirements for sole sourcing when the value of a sole sourced contract exceeds a certain threshold. The trade agreements also outline exemptions that are available in place of using a competitive bid process—i.e., when an unforeseeable situation of urgency exists and the services cannot be obtained in time by means of an open procurement process.

After the June 2013 flood in southern Alberta, the government declared a disaster in southern Alberta and a state of emergency in High River. Premier Redford established the Flood Recovery Task Force to lead flood response and recovery efforts. The chief assistant deputy minister responsible for the task force reported to the deputy ministers of Municipal Affairs and Executive Council. The Public Affairs Bureau, a division within Executive Council, provided communications staff to support the task force.

RECOMMENDATION 10: IMPROVE COMPLIANCE WITH CONTRACTING POLICIES

We recommend that the Departments of Municipal Affairs and Executive Council:

- document the rationale for contracting services and selecting vendors when entering into sole sourced contracts
- follow proper contract administration and evaluation processes
- update their contracting policies to deal with situations where one department arranges for a contractor to perform services for another department

Criteria: the standards for our audit

The Departments of Municipal Affairs and Executive Council should comply with their contracting policies.

Our audit findings

KEY FINDINGS

- For the \$240,000 contract, the departments did not adequately document the rationale for contracting the services and selecting the vendor.
- The departments did not have a written contract in place for the \$240,000 contract that detailed the deliverables and the associated costs until three days before the termination date of the contract.
- The departments did not complete contractor evaluations for either contract.

The Government of Alberta entered into the following flood-related contracts with Navigator Ltd.

Department	Term of Contract	Description of Contract	Contracted Amount	Invoiced Amount
Municipal Affairs/ Executive Council	July 18, 2013 to October 31, 2013	Provide strategic communication and related services and advice, as well as communication strategy for the flood mitigation symposium and logistical planning for the event, and communications strategy for the provincial recognition program.	\$240,000 plus expenses up to \$10,000	\$240,000 plus \$7,116 in expenses
Executive Council	August 26, 2013 to September 30, 2013	Conduct focus groups in Alberta on government's response and recovery efforts related to southern Alberta flooding.	\$73,200	\$73,200

\$240,000 contract

Decision to contract—The Department of Municipal Affairs was unable to provide adequate documentation that explained why these services were contracted and why Navigator Ltd. had the qualifications necessary to perform this work. We found no evidence that the department had attempted to contact or determine whether other vendors were adequately qualified to provide the services.

The task force requested continuity of the communications resources that were assigned to the task force. In response to this request, the Office of the Premier's director of communications arranged for Navigator Ltd. to assist the task force. The Office of the Premier engaged Navigator Ltd. but did not prepare a contract or ultimately sign the contract.

Contract administration—The department did not have in place a written contract that established the contract deliverables, a timetable for the deliverables and a price when the work began. We were also unable to find evidence that the department benchmarked the proposed hourly rates in the contract to determine whether they were reasonable. The department signed the contract on October 28, 2013, three days before the termination date of the contract.

We verified with the departments that the contractor delivered a communications road map, flood mitigation communications strategy and work related to the flood symposium. However, the contract, although not executed before work commenced, required the contractor to submit weekly written status reports indicating tasks completed and timelines for completing remaining tasks. The department was unable to provide these reports to us. The department did not complete an evaluation of the contractor's performance as part of its contract closing out processes.

When one group arranges contractors for another group that receives the arrangement, it needs to be clear who is responsible for contract administration. In this case, the Office of the Premier engaged Navigator Ltd. The contractor's staff worked with Public Affairs Bureau staff who were part of the task force. However, neither the task force nor the Public Affairs Bureau were prepared to sign the contract because they had not specifically been involved in engaging Navigator Ltd. In the end, the Department of Municipal Affairs signed the contract.

\$73,200 contract

Decision to contract—The Department of Executive Council told us it sole sourced the \$73,200 contract with Navigator Ltd. because it was already doing flood related work for the task force. However, when we considered the nature, timing and oversight of the work along with the original contract proposals from Navigator Ltd., these two contracts could reasonably be viewed as phases of an overall flood related communication project. The department's decision in August 2013 to sole source and select Navigator Ltd. to conduct focus groups was inconsequential as the decision had already been made in July 2013 to use Navigator Ltd.

Contract administration—The contract required Navigator Ltd. to conduct eight focus groups in four Alberta cities at a cost of \$73,200. In their review of the proposed contract, department staff questioned the cost of the contract as they thought it was high compared to past contracts that had similar methodologies with similar number of locations and focus groups. Although department staff questioned the cost of the contract in the documentation we examined, the cost of the contract was not further negotiated or changed. The department was unable to provide us with documentation to demonstrate how it concluded that the contracted amount was reasonable.

The department did not complete an evaluation of the contractor after the work was completed. It is good practice to conduct post-contract evaluations to consider whether the intended outcomes were achieved, the quality of the services and contractor performance. Evaluations also provide the necessary information so that the next contract manager can decide whether the department should engage the contractor.

Implications and risks if recommendation not implemented

Good contracting policies are designed to ensure the procurement of services is competitive, fair and cost-effective and results in the right services delivered at the right place and at the right time. To not follow policy is to risk substandard performance by not receiving the best value for money.



Stand-alone Systems Auditing — Follow-up Audits

REPORT OF THE AUDITOR GENERAL OF ALBERTA

October 2014

Environment and Sustainable Resource Development—Natural Resources Conservation Board—Confined Feeding Operations Follow-up

SUMMARY

In 2004 we audited the Natural Resources Conservation Board's processes for monitoring confined feeding operations. We recommended that NRCB rank its compliance and enforcement activities based on environmental risk and manage odour and nuisance complaints more efficiently. Our 2007 follow-up audit concluded that NRCB implemented the odour and nuisance part of the recommendation. We repeated the compliance and enforcement part of the recommendation.

Our 2011 follow-up audit concluded that NRCB still had not fully implemented the recommendation to rank its compliance and enforcement activities based on environmental risk. We also made a new recommendation that NRCB assess whether its current compliance approach is adequate to proactively manage surface water risks. Our 2013 follow-up audit found that NRCB had not fully implemented these two recommendations.

This fourth follow-up audit of NRCB's monitoring of confined feeding operations (CFOs) and their impact on groundwater and surface water concluded that the two outstanding recommendations have been implemented.

Why this is important to Albertans

Alberta has about 2,000 CFOs. Livestock manure from CFOs can contaminate groundwater and surface water. The *Agricultural Operation Practices Act*¹ and its regulations set out legislative requirements for CFOs to operate in an environmentally sustainable way. NRCB is responsible for monitoring and enforcing CFO operators' compliance with the Act, to ensure they do not harm the environment.

AUDIT OBJECTIVES AND SCOPE

Our audit objective was to determine if NRCB had implemented the two outstanding recommendations from our July 2013 report.²

We conducted our field work from June to August 2014 and substantially completed our audit on August 19, 2014. Our audit was conducted in accordance with the *Auditor General Act* and the standards for

¹ Chapter A-7, RSA 2000

² *Report of the Auditor General of Alberta—July 2013*, page 125.

Background

Confined feeding operations are enclosed areas where operators confine livestock for the purpose of growing, finishing or breeding them.

NRCB assumed responsibility for administering the Act in 2002.³ The board enforces CFOs' compliance with the Act through permits and compliance monitoring processes. NRCB follows different processes for managing groundwater⁴ and surface water⁵ risks.

While the NRCB evaluates both groundwater and surface water risks before allowing new and expanding CFOs to operate, its compliance monitoring of existing CFOs has focused on groundwater risk.

Groundwater

NRCB uses a risk-based approach to monitor conditions at CFOs that are a potential risk to groundwater. It regularly monitors groundwater conditions at these CFOs through the following programs:

- Risk based compliance monitoring—This type of monitoring applies to CFOs built before 2002 that have earthen manure storage and are in high groundwater vulnerability areas.⁶ NRCB annually inspects all CFOs with potential high risk to groundwater and inspects a sample of medium and low risk CFOs.
- Leak detection monitoring—This applies to CFOs with leak detection monitoring conditions in their permits.⁷ NRCB reviews monitoring results from groundwater samples that operators collect and submit to a lab and inspects CFOs if results indicate potential leaks into groundwater.
- Water well monitoring—Some NRCB permits require CFOs to do annual water well sampling.⁸ NRCB reviews water well analysis results operators obtain from a third party, and inspects CFOs if results indicate potential leakage into water wells.

Our 2013 audit found that NRCB had not documented its requirements for monitoring CFOs with leak detection and water well monitoring conditions in their permits. As a result, NRCB's monitoring of CFOs was not always timely and key actions and decisions were not always documented.

Surface water

NRCB relies primarily on complaints to identify surface water risks. Our 2013 audit concluded that NRCB lacked evidence that this approach is appropriately managing surface water risks.

³ Before 2002, municipalities regulated CFOs under municipal requirements. Over half of Alberta's CFOs were built before 2002. These CFOs are deemed to have a permit under the Act and do not have to upgrade their facilities to meet its requirements unless the facility poses a risk to the environment, as determined by NRCB.

⁴ Groundwater is water located beneath the earth's surface in solid pore spaces and in the fractures of rock formations.

⁵ Surface water is water collecting on the ground or in a stream, river, lake, wetland or ocean.

⁶ 170 confined feeding operations meet these criteria.

⁷ 50 confined feeding operations have leak detection requirements in their permits.

⁸ 200 operations have water well monitoring requirements in their permits.

FINDINGS

Groundwater risks: Rank compliance and enforcement activities based on risk—implemented

In May 2013, NRCB implemented an internal policy for monitoring groundwater risk at CFOs, and procedures for how staff should collect and document data and respond to complaints.

In September 2013, NRCB implemented a process to ensure its staff comply with its new policy. Our testing concluded that this process—which was carried out from September 2013 to June 2014—was effective.

Surface water risks: Demonstrate compliance approach is adequate—implemented

In May 2013, NRCB implemented a policy requiring its staff to collect surface water data during their site visits at CFOs, under the risk based compliance, leak detection and water well reporting programs. Previously, NRCB collected surface water data only when responding to a water related complaint or before issuing an operating permit. The same compliance review process NRCB used for groundwater was also used to ensure internal compliance with its surface water data collection requirements.

In May 2013, NRCB implemented processes to annually analyze the surface water data it collects at CFOs. NRCB's analysis of the 2013 data concluded that no change in the current approach to managing surface water risks is warranted. Our examination found that the data supported this conclusion.

At the conclusion of our audit, NRCB was in the process of changing to an electronic database. Once that move is complete, NRCB plans to use quarterly exception reports to monitor that its staff continue to carry out and document groundwater and surface water compliance activities in accordance with internal policies. NRCB committed to providing evidence to the auditor general that the new process has been implemented.

Health and Alberta Health Services — Seniors Care in Long-term Care Facilities Follow-up

SUMMARY

Thousands of Albertans live in long-term care facilities. They deserve to be as healthy and happy as possible in a setting that maintains their dignity and their connections with others. Achieving that goal is a complex and highly sensitive task, perhaps the most sensitive in the provincial healthcare system.

These persons are best served by a system designed around them, not around buildings or administrative bodies. It should be a system of patient centred care dedicated to meeting each individual's needs.

The province has 170 long-term care facilities containing more than 14,000 beds. They serve a constantly changing population with constantly changing needs. For many individuals, long-term care is actually transitional, end-of-life care. The numbers, the sensitivity of the task, and the many differences between individuals and the places where they are cared for combine to produce risk.

We reported in 2005 that the Alberta government and its health agencies lacked much of the information they needed to manage the risk.¹ Nor were all the right tools available to ensure that long-term care operated efficiently and with the best regard for people's health and dignity.

The Department of Health and Alberta Health Services have made strong improvements since then. They now have significantly more information on service quality and financial performance. This assists their planning for and management of Alberta's long-term care system.

AHS and the department have also established patient care based funding. This is an important mechanism that directs funding toward individuals' needs. It enables AHS to determine care needs and monitor outcomes for each resident, and it allows AHS to assess the performance of each facility. AHS recently reviewed its patient care based funding model and published its results in the fall of 2013.² The review concluded the model has a solid foundation,³ although some improvement is needed.

We examined whether all these changes now provide for adequate oversight of long-term care in Alberta. We found strong movement in the right direction.

A further step is necessary. The improvements of the last decade have tended to concentrate in the areas of process and administration.

What is needed now is more attention to ensuring delivery of proper care every day to every individual in the 170 facilities. Health system managers need to know what really happens on a day-to-day basis in

¹ Under our 2005 publications, see the standalone Seniors Care report, the supplementary Frequently Asked Questions document, and the summary of our work on Seniors Care in the *Annual Report of the Auditor General of Alberta: 2004–2005*, pages 53–69.

² *The Alberta Health Services patient/care-based funding model for long-term care: A review and analysis*. September 2013, <http://www.albertahealthservices.ca/Publications/ahs-pub-ltc-pcbf.pdf>

³ *Ibid.*, pp. 41–42.

each home. Families deserve assurance that their loved ones are receiving proper care. The people living in the facilities deserve dignity and the best health possible.

For the families, long-term care is not an issue of organizing work and allocating resources. They have simple and direct questions. Will our parents be fed properly and at reasonable times? Will they be kept clean rather than left for long periods in their own wastes? Will they have people to talk to rather than being left alone for hours, drugged by sedatives? Will they receive prompt medical treatment whenever necessary?

For the residents, long-term care may come down to an even simpler test: Am I reasonably happy here?

The phrase “long-term care resident” has become somewhat misleading. Today, long-term care is largely short-term care for seniors who are too frail and too ill to be cared for in the community. Many die within two years of admission to a long-term care facility. The goal of care for most residents is to best manage their existing health conditions and prevent avoidable deterioration while maintaining their quality of life as well as possible.

The care needs of a typical resident have increased significantly over the last several decades. This happened partly because Alberta has emphasized development of home care and supportive living services. People with fewer care needs tend to use those services, leaving the more challenging cases to long-term care facilities.

Avoiding hospitalization is a key objective of long-term care. Among residents with complex care needs, even a brief hospitalization can result in a rapid deterioration of cognitive and physical condition. The acute care system is designed for treating acute or episodic conditions. It is not designed to best meet the unique and complex care needs of seniors. The strong push to move seniors quickly out of hospital beds and into long-term care beds is not just about saving money — it is about saving lives.

Although medical interventions and medications play an important role, the success of care depends largely on help with the seemingly simple activities of daily living. For example, proper bathing, management of continence, body rotation and foot care are critical for preventing sores and skin ulcers, which can often lead to severe health complications and death. Proper cognitive stimulation, daily interaction, social activities and communication are important for preventing and managing depression. Help with these basic activities of daily living prevents seemingly minor health issues that can easily snowball into rapid health deterioration and even untimely death.

Our 2005 audit identified absence of a consistent provincial system to inspect long-term care facilities, lack of standardized facility reporting requirements, lack of information to assess effectiveness of services provided by facilities, and inadequate financial information to make funding decisions around long-term care service delivery.⁴

Some of the entities we audited in 2005 no longer exist and their responsibilities have been transferred to other organizations. There were also important changes in how the government funds and monitors long-term care service delivery. Those important system changes have produced better management.

The risk underlying our 2005 recommendations is still relevant today, however.

Because the wording of our 2005 recommendations does not reflect the current situation in provincial long-term care service delivery, we replace the four outstanding recommendations to AHS and the

⁴ Under our 2005 publications, see the stand-alone seniors care report, the supplementary frequently asked questions document, and the summary of our work on Seniors Care in the *Annual Report of the Auditor General of Alberta: 2004–2005*, pages 53–69.

department with three new recommendations.⁵ This approach allows us to highlight significant improvements achieved by AHS and the department, and focus on the most important challenges still present in the long-term care system in Alberta in today's environment.

The long-term care system now has good mechanisms in place to say what should happen in each home and with each individual. It does not have good mechanisms to verify that daily care for each individual is carried out as planned.

Our audit found fragmented responsibility. It found unnecessary duplication of monitoring. It found that the Department of Health and AHS now have the information, but are not yet using it to assess performance and report on the results. Making this performance information public would go a long way toward enhancing trust in the system.

Our recommendations in this report aim at eliminating the visibility barrier that remains between plan and delivery, between intention and results.

It is important to note that we do not claim to have found specific shortcomings in care for specific individuals. We aim to help prevent shortcomings. This report recommends ways in which managers and agencies can be more aware of the daily experience of individuals in their care. Better knowledge can help assure delivery of proper care, and help achieve continuous improvement.

In short, while the long-term care system has been significantly improved since 2005, it can and should be improved further.

What we examined

Our overarching objective was to conclude whether improvements made by the department and AHS resulted in a system that provides adequate provincial oversight for health service delivery in long-term care facilities.

This follow-up audit focused on service delivery in long-term care facilities, and did not include home care or supportive living. Over the years, we followed up on individual recommendations. However, this was the first time our follow up looked at all outstanding recommendations, and did so in the context of the big picture of provincial long-term care system.

What we found

The department and AHS have gathered strong momentum and are moving in the right direction. They have:

- considerably improved the availability and consistency of facility cost data and resident care outcomes data
- introduced key provincial performance monitoring processes
- implemented a care funding model that takes Alberta a step closer to having a patient-centred model of long-term care service delivery

However, long-term care residents cannot yet obtain the full benefit of these improvements because a number of important deficiencies remain in the design and implementation of provincial systems to monitor and manage performance of long-term care in Alberta. We identified a number of areas where improvement is needed, but the following three are a priority:

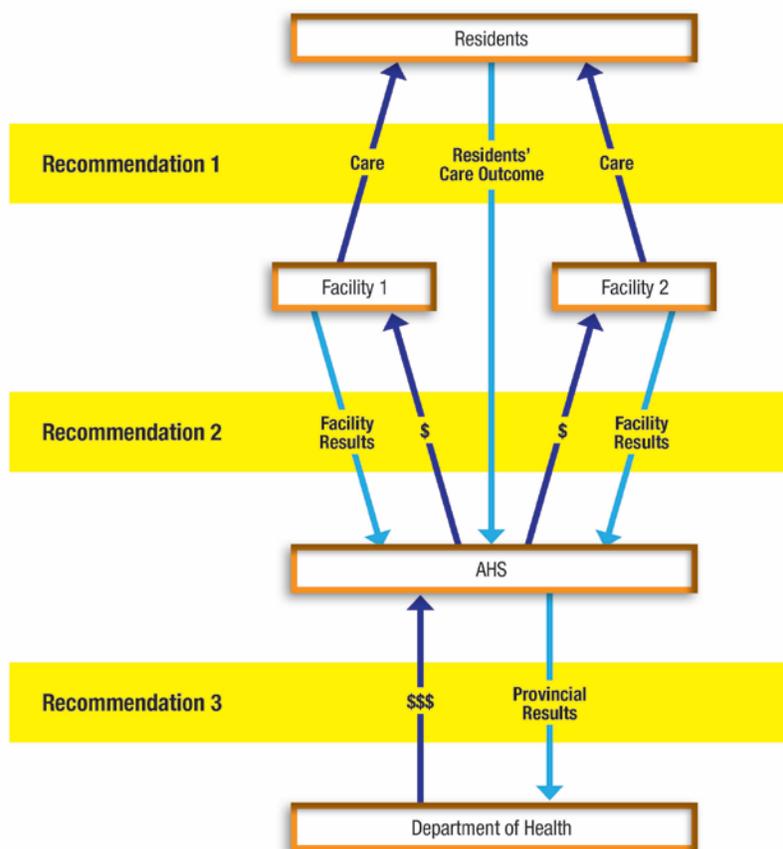
1. AHS needs to improve its compliance monitoring by developing a process to periodically verify that long-term care facilities consistently implement care plans of individual residents.

⁵ For the list of the four outstanding 2005 recommendations, see Appendix A.

2. AHS needs to clearly define which program area is responsible for managing the overall performance of facilities over time, develop a formal process to periodically assess performance of facilities and take standardized compliance action based on the level of risk to residents.
3. The Department of Health needs to clearly define and separate its monitoring role and responsibilities from those of AHS, and improve public reporting on the results achieved for the funds provided.

The diagram below shows how these three areas and the respective recommendations appear in the context of the provincial long-term care service delivery system.

Long-term care service delivery in Alberta



AHS and the department now have comprehensive data on the unique care needs of every long-term care resident in the province. This data allows them to:

- fund long-term care facilities based on the unique care needs of individual Albertans who live there
- manage performance of individual facilities based on care results they achieve with the residents
- assess current and projected long-term care needs of the province and plan for the future
- report results of this work publicly

At the heart of these improvements is the new patient care based funding model. This model is designed to fund facilities based on the unique care needs of individual residents, and hold facilities accountable for results achieved in the care of these people. AHS has identified a number of technical areas where the model needs to improve and is working to fix them. However, the fundamental design of the patient care based funding model is consistent with the provincial government's move to results based budgeting and program delivery and is aligned with the principles outlined in the *Results-based Budgeting Act*.⁶

During our visits to a number of long-term care facilities we did not observe instances where there was an immediate and significant risk to safety of residents. However, we must note that these visits were arranged as part of the AHS's facility audits, which were announced to the facilities at least eight weeks in advance.

What needs to be done

We made two recommendations to Alberta Health Services and one to the Department of Health.

Recommendation 11: Monitoring care at the resident level

We recommend that AHS improve the design of its current monitoring activities. AHS should:

- develop a system to periodically verify that facilities provide residents with an adequate number and level of staff, every day of their operation
- develop a system to periodically verify that facilities deliver the right care every day by implementing individual resident care plans and meeting basic needs of residents

Recommendation 12: Managing performance of long-term care facilities

We recommend that AHS improve its system to monitor and manage performance of long-term care facilities. AHS should:

- clearly define which program area within AHS is responsible for managing the performance of individual facilities
- establish a formal mechanism to use all available compliance data to review periodically the overall performance of each facility, and initiate proactive compliance action with facilities based on the level of risk to health and safety of residents
- establish a formal mechanism to escalate compliance action for higher risk facilities

Recommendation 13: Oversight at the provincial level

We recommend that the Department of Health:

- clearly define and separate its role and responsibilities from those of AHS in monitoring and managing long-term care service delivery
- improve public reporting on what results the provincial long-term care system is expected to achieve and whether it is achieving them
- finish the review of the continuing care health service standards
- implement a mechanism for timely analysis and action on the accommodation cost data

⁶ *Alberta Results-based Budgeting Act*, <http://www.qp.alberta.ca/documents/Acts/R17P5.pdf>

Why this is important to Albertans

The importance of long-term care goes beyond the \$910 million that the province has spent on it last year alone. If long-term care delivery isn't done right, it can have significant negative impact on the cost and capacity of the rest of the healthcare system. More importantly, without good systems to support long-term care delivery, some Albertans may not have an opportunity to spend their final years in the best possible health.

AUDIT OBJECTIVE AND SCOPE

Our overarching objective was to conclude whether improvements made by the department and AHS resulted in a system that provides adequate provincial oversight of health service delivery in long-term care facilities.

The audit focused on services delivered at long-term care facilities. Services offered by AHS through homecare and supportive living settings were outside the scope of this audit. We will consider including homecare and supportive living services in our future audit work.

As part of our work we visited all five zones of AHS, reviewed relevant internal documentation of the department and AHS, and interviewed management and staff from various program areas at both entities. We accompanied AHS staff on their inspection visits to seven facilities and closely observed the inspection process. We participated in AHS's interviews with facility management and frontline staff, residents and their families.

We met with the Alberta Continuing Care Association and the Alberta Senior Citizens' Housing Association, and examined relevant documents published by other organizations, such as the Health Quality Council of Alberta.

The scope of our work did not include the mechanism AHS follows for placing residents in these facilities.

Although we relied on the data in department and AHS databases, and offer our conclusions on how both entities use that data, we did not directly verify the accuracy and completeness of individual records.

We conducted our field work between January and May of 2014. We substantially completed our audit on July 14, 2014. Our audit was conducted in accordance with the *Auditor General Act* and the standards for assurance engagements set by the Chartered Professional Accountants of Canada.

BACKGROUND

Following are the key concepts, processes and organizations involved in long-term care service delivery in Alberta. We start with those that matter the most.

Care delivery at the individual resident level

Every program and process we discuss in this report serves a single function—to make sure that individual residents receive the daily care they need. All monitoring processes, funding models, contracting arrangements, staffing, education and training, performance measures and reporting, standards, legislation—everything—exists to make the following two things happen.

1. Unique care needs of every resident must be met. The current system requires that for every long-term care resident in the province:
 - a formal comprehensive assessment of care needs must be done and updated every three months
 - a care plan must be prepared based on the identified care needs, and updated every three months or with a significant change.
 - staff must follow the care plan as they provide daily care to each resident
2. Basic needs of every resident must be met. These basic needs are not explicitly defined in legislation and are not detailed in any standards of care. These basic human needs may be simple, yet are fundamental for maintaining residents' physical and mental health, and their human dignity. Help with basic personal grooming every morning, timely help with toileting to avoid incontinence, assistance with taking medications, timely clothing change when soiled, help with feeding, timely response to residents' bed calls, basic human interaction to avoid loneliness and depression, and physical stimulation to maintain mobility are all examples of such basic needs.

Following are the key elements of care delivery at the individual resident level.

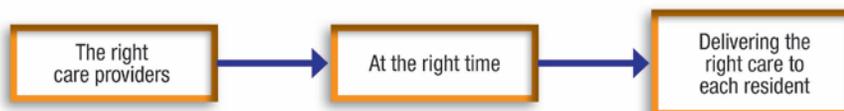
Care delivery at the individual resident level



Care delivery at the facility level

To deliver care to their residents, long-term care facilities bring together hardware (the building, supplies, equipment, etc.) and people (care providers and support staff). Of the two, people are far more important. Every information source we came into contact with echoed the view that staffing is the cornerstone of good resident care. The right people can deliver outstanding care even in a substandard facility, while residents in a state-of-the-art building will almost invariably suffer poor outcomes if staffing isn't done right. To get the staffing right, facilities need to ensure that the right staff are available at the right time, and deliver the right care to the residents.

Staffing requirements for proper resident care



While good staff scheduling alone does not guarantee good care outcomes, it is a necessary condition for successful care. During our work we considered whether the provincial systems, individually or jointly, can provide assurance that long-term care facilities have the right care providers, at the right place and time, and doing the right thing.

Provincial system to manage performance across individual facilities

Standardized quarterly assessments of residents' needs and the patient care based funding model are at the heart of AHS's ability to ensure that facilities achieve expected results as they provide care to individual residents. Although monitoring a facility's compliance with care standards and with general contracting arrangements is important, these activities primarily tell AHS whether the facility has the required processes in place. These activities tell much less about the care outcomes of individual residents. To provide a resident centred model of care, AHS needs to know the care needs of the people it places in long-term care facilities, fund facilities based on current needs of those residents, and know the subsequent care outcomes for individual residents.

Care standards and contracting arrangements are important in outlining the overall legal framework and responsibilities of the entities, and in setting certain universal minimum expectations for what services facilities are to provide. For example, it is important for AHS to know whether facilities have internal mechanisms to resolve resident complaints, systems to provide infection prevention and control training to their staff, and have business continuity plans in place. However, by their very nature, standards and contracts are too broad to set expectations for the unique and frequently changing care needs of individual residents. The patient care based funding mechanism and the reporting systems that support it allow AHS to set funding levels for each facility, and to monitor care outcomes at the resident level. All long-term care facilities in the province are now funded through this mechanism and electronically submit standardized clinical and financial data into central databases of AHS and the department.

In the past, a common approach to delivering care was for the funding entity to enter into contracts with facilities, fund them based on the reported cost of service, and expect the facilities to report on quality of the service provided. This approach has a number of weaknesses:

- Without knowing the exact care needs of individual residents, the department cannot make informed decisions on whether the total amount of funding for long-term care in Alberta is adequate.
- Resident centred care must be supported with resident centred funding. In other words, funding must follow the resident and change with his or her care needs. Without knowing the exact care needs of individual residents, AHS cannot ensure that facility funding is fair and adequate.
- Without a validated standardized resident assessment instrument, AHS cannot assess care results achieved by individual facilities and compare their performance to other facilities in the province.

AHS and the department have a number of mechanisms to monitor long-term care delivery in Alberta. These mechanisms, individually and jointly, need to provide AHS and the department with assurance that facilities achieve the desired resident care outcomes while meeting applicable legislation, standards and contract conditions. For a description of these monitoring mechanisms and our detailed findings, see Appendix B.

Roles and responsibilities in long-term care delivery

Facility operators

As at March 31, 2014, there were 170 long-term care facilities in Alberta, offering 14,370 beds. There are three types of facilities: for profit and not for profit facilities contracted by AHS, and facilities that AHS owns and operates. All three facility types are funded using the same formula and have to meet the same expectations. The table below summarizes these numbers by the three types of facility operator.⁷

Operator Type	Number of LTC Facilities	Percentage of LTC Facilities	Number of LTC Beds/Spaces	Percentage of LTC Residents
For Profit	45	26%	5,239	36%
Not for Profit	41	24%	4,540	32%
Operated by AHS	84	49%	4,591	32%
Total	170		14,370	

Public facilities owned and operated by AHS

AHS facilities tend to be smaller than for profit and not for profit sites, and are predominantly located in rural areas. These facilities are often either part of a regional hospital, or are a smaller local acute care facility converted for long-term care use. In some rural areas there are not enough long-term care residents to attract a contracted service provider and AHS uses its facilities to maintain an operational presence there. For these reasons, the per-resident cost of operating AHS's long-term care facilities tends to be higher than that of for profit and not for profit sites.

While AHS facilities are funded through the same formula as contracted sites, there is an important difference in their governance and oversight. As part of AHS's organizational structure, AHS facilities have direct lines of accountability from facility management to zone operations management and from there to AHS's provincial executive leadership. Their staff members are employees of AHS and they are connected into AHS's corporate and clinical information systems.

Not for profit service providers

These are typically philanthropic or faith based organizations that deliver long-term care services under contract with AHS. In addition to care funding provided by AHS and accommodation fees charged to their residents, these providers may also obtain some additional funding by engaging in charitable events and activities. Although some operators are quite successful in their fundraising efforts, this is usually not a major source of funding.

For profit providers

These privately operated and publicly funded facilities deliver long-term care services under contract with AHS. Most of these facilities are located in urban centres and tend to be larger sites with more residents.

⁷ This information was provided by AHS and reflects the number of facilities and beds as of June 30, 2014. The numbers may be different if obtained at a different point in time.

AHS

AHS is responsible for the delivery of long-term care services in the province. It pays for the care provided to all long-term care residents in Alberta, and is accountable for their health outcomes. AHS delivers long-term care services at its own facilities, and through contracts with private and not for profit service providers. AHS places residents at facilities through its centralized placement mechanism.

Department of Health

The department is responsible to oversee and report on the overall performance of the continuing care system. It leads strategy development, develops and proposes changes to legislation, regulations and applicable standards. It sets maximum daily amounts that facility operators may charge their residents for accommodation services. It also regulates (through registration and inspections) the accommodation services the facilities provide, and gives financial support to qualifying low income residents.

The department is responsible to oversee the AHS budget, including the allocation of healthcare funding to be spent on long-term care in the province. With the exception of managing central information systems and some compliance monitoring activities, the department is not directly involved in long-term care service delivery.

Funding model for long-term care in Alberta

There are two separate sources of revenue for long-term care facilities: accommodation charges that facilities collect directly from residents and health service funding AHS provides to facilities. During this audit we heard strong views regarding problems with long-term care funding in Alberta. We also observed much controversy on this topic in the popular media. We observed that there was some confusion — even among some of the people who work in the long-term care system — in differentiating between accommodation services and healthcare services as a source of funding problems. In this section we will attempt to explain the two separate sources of funding for long-term care facilities.

Accommodation charges

The Department of Health sets the maximum daily amount that long-term care facilities are allowed to charge their residents for accommodation and related services. AHS is not involved in funding or monitoring compliance with the accommodation standards. Facilities charge accommodation fees directly to their residents. Low income residents may be eligible for subsidies under the Alberta Seniors Benefit program.⁸ In 2013–2014, residents of long-term care facilities paid about \$285 million for the cost of accommodation and related services.⁹

In May 2014 the department announced increases in current maximum accommodation charges in long-term care.¹⁰

	Daily Charges			
	2013	July 2014	July 2015	July 2016
Private room	\$58.70	\$60.45	\$62.25	\$64.10
Semi-private	\$50.80	\$52.30	\$53.85	\$55.45
Standard	\$48.15	\$49.60	\$51.10	\$52.65

⁸ For more information on the Alberta Seniors Benefit program, see <http://www.health.alberta.ca/seniors/seniors-benefit-program.html>

⁹ The estimate is based on the financial data provided by the Department of Health.

¹⁰ <http://alberta.ca/release.cfm?xID=36452DA76A3E5-C9B1-C301-7F7EB7156D19EB9F>

The department expects accommodation charges to cover the cost of providing room and board, including housekeeping services, staff wages, utilities and routine building maintenance. In other words, accommodation charges are intended to cover the types of costs one would incur when running a hotel. These charges are not intended to cover healthcare costs, which are paid for by AHS.

Healthcare funding—AHS’s patient care based funding model

Allocation of care funding to individual facilities and ongoing performance monitoring are the responsibility of the AHS. In 2013–2014, AHS provided over \$910 million in healthcare funding to long-term care facilities, primarily through the patient care based funding model.

AHS uses the patient care based funding model to fund every facility based on the relative level of acuity and care needs of its residents. The model relies on data collected through the use of a standardized resident needs assessment instrument developed by interRAI—an international collaborative that has developed a number of continuing care assessment instruments broadly recognized and accepted around the world.¹¹ Over 30 countries have adopted standards of measurement for continuing care services developed by interRAI, including the United States, Australia, New Zealand, France and Germany.

Nursing staff at long-term care facilities assess each resident using interRAI upon admission and every three months thereafter. Facilities electronically submit each resident’s assessment data to the department. AHS has full access to this data for the entire province and uses it to:

- determine the level of health service funding each facility will receive—AHS analyzes the data for all residents at each facility to determine each facility’s relative acuity level (each facility’s case mix index). For example, if a facility’s case mix index is 10 per cent above the provincial average, the level of funding provided to that facility will be proportionately higher.
- monitor the care outcomes of residents over time and monitor certain aspects of service quality at each facility, by AHS zone and provincially

Patient care based funding is primarily an allocation mechanism. It simply allows AHS to allocate the existing pool of long-term care funding to facilities based on their relative acuity levels. The total funding available for long-term care in the province is set through AHS’s budget, which is reviewed by the Department of Health and approved by the minister.

Healthcare funding—Hours of care provided

AHS’s funding allocations to facilities come with specific expectations for the hours of care to be provided, and the level of care provider to be used.¹² The *Nursing Homes Operation Regulation* under the *Nursing Homes Act* sets the minimum level of care at 1.9 paid care hours per resident per day.¹³ On average, AHS funds the facilities for 3.6 paid hours of care per resident per day.¹⁴ In addition to the average of 3.6 hours of care, AHS also provides facilities with funding for about 0.4 paid hours per day for services of occupational, recreational and physiotherapists, social workers, psychologists and other specialized service providers. AHS expects the actual hours worked by care providers to be less than the hours funded. The difference is explained by administrative responsibilities, vacations and sick time. Nevertheless, AHS expects the actual hours worked to be no less than 75 per cent of the facilities’ funded hours by each type of staff.

¹¹ For more information on interRAI, see <http://www.interrai.org/>

¹² When we discuss levels or types of care providers, we are referring to the following three categories: registered nurses, licensed practical nurses and health care aides.

¹³ *Nursing Homes Operation Regulation*, Section 14(5) http://www.qp.alberta.ca/documents/Regs/1985_258.pdf

¹⁴ According to the data provided by AHS and the department.

With each facility funding allocation, AHS sets specific expectations for the number of hours to be worked by the following four categories of care providers:

- **Registered Nurses**—Registered nurses typically hold a four-year Bachelor’s degree from an approved program and are responsible for daily care delivery at the facility and for overseeing the work of licensed practical nurses and health care aides. The regulations require that every long-term care facility has at least one registered nurse on duty at all times, or at least on call if an on duty registered nurse is not available.¹⁵ This requirement is the same for smaller 20-bed facilities as well as for large sites that may have 100 residents or more. At least 22 per cent of all paid care hours must be provided by registered nurses.¹⁶
- **Licensed Practical Nurses**—Licensed practical nurses typically hold a two-year diploma from an approved program. Their scope of work is narrower than that of registered nurses.
- **Healthcare Aides**—Healthcare aides must hold at least a high school diploma and complete an approved training program. Healthcare aides provide most of the routine daily care to residents, such as help with feeding, grooming, moving about and changing clothing. Healthcare aides provide the largest portion of the funded paid hours and they spend the most time in direct contact with residents. On several occasions during our facility visits, healthcare aides were referred to as a nurse’s eyes and ears at the facility.
- **Other specialized healthcare providers**—Occupational therapists, recreational therapists, physiotherapists, social workers, psychologists and other specialists provide care to residents with specialized needs. In the past, services of these professionals were sometimes seen as a non-essential “nice to have” add-on at a long-term care facility. Today they are increasingly recognized as a critical component of care. Proper cognitive stimulation, physical exercise, proper personal medical equipment will all help residents maintain health, independence, dignity and the overall quality of life.

Key information systems

Jointly, Alberta Continuing Care Information System (ACCIS) and Financial Information Reporting Management System (FIRMS) are the pillars that support allocation of funding based on care needs of individual residents. AHS uses these IT systems to determine the level of care needs across the province. They truly enable consistent, results based performance management at the level of care outcomes for individual residents, and at the level of results achieved by each facility, within zones of AHS and at the provincial level.

Alberta Continuing Care Information System

ACCIS was developed by the Department of Health. It is a complex and sophisticated central information system that contains interRAI assessment data for long-term care residents in Alberta. ACCIS allows AHS to know the care needs of the residents at each facility in order to fund the facilities based on those needs. ACCIS also allows AHS to monitor health outcomes of residents at each facility over time, which is key to assessing the overall performance of each facility. The department and AHS also use the data in ACCIS to monitor overall trends in the level of care needs among long-term care residents in Alberta.

Each long-term care facility has to submit resident assessment results directly into ACCIS at least monthly. ACCIS functionality allows the department, AHS and facility staff to generate a number of standardized reports on activity levels at individual facilities, by facility operator and by AHS zone. Each facility has access to the data of its residents; access is restricted based on roles and responsibilities of individual staff.

¹⁵ *Nursing Homes Operation Regulation*, Section 14(1) http://www.qp.alberta.ca/documents/Regs/1985_258.pdf

¹⁶ *Ibid*, Section 14(6).

Financial Information Reporting Management System

FIRMS was developed by the Department of Health and is a central information system that contains operating cost data for individual long-term care facilities in Alberta. This database contains historical and current data on costs of operating for profit and not for profit long-term care facilities.

The data on the cost of operating AHS facilities is managed through AHS's internal financial systems, but AHS is expected to begin reporting into FIRMS later in 2014. Together, FIRMS and ACCIS provide the data necessary to operate AHS's patient care based funding model. This data is fundamental for enabling the department and AHS to determine and compare long-term care results achieved for the funds invested not only at the provincial level, but by AHS zone, and by individual facility. The data contained in FIRMS also allows the department to monitor the cost of accommodation and of healthcare service delivery in long-term care facilities, in order to ensure that provincial finding and maximum accommodation charges are sufficient to meet the long-term care needs of Albertans.

FINDINGS AND RECOMMENDATIONS

Background

Management at each long-term care facility is responsible for delivering day-to-day care. This applies equally to contracted facilities and to those operated directly by AHS. Each facility receives a funding allocation from AHS for provision of health services to residents based on their assessed needs and in accordance with their individual care plans.

As a funder, AHS needs to ensure that facilities distribute the funded care hours in a way that provides residents with the right number and the level of care providers at all times of the day and every day of the week. AHS also needs to obtain reasonable assurance that facilities properly assess the needs of residents and consistently deliver care in accordance with individual resident care plans. AHS needs to systematically verify that these things happen to determine whether resident care outcomes achieved by facilities are the best they can be with the resources invested. The data produced by such verification is also necessary for AHS to determine the root cause of the problem in cases when resident care outcomes fall below expectations.

AHS can obtain the assurance it needs through a number of direct and indirect monitoring techniques without becoming involved in daily management of individual facilities. For example, through unannounced inspection visits AHS inspectors could directly verify that an adequate number of staff are present on a given shift, and review a sample of shifts from the facility's staff schedule to ensure that the facility management properly distributes care provider hours between different times of day and on every day of the week. Through sampling of individual resident cases and in-depth analysis of their care histories, AHS inspectors could directly verify that facilities systematically implement individual care plans of residents.

RECOMMENDATION 11: MONITORING CARE AT THE RESIDENT LEVEL

We recommend that Alberta Health Services improve the design of its current monitoring activities.

AHS should:

- develop a system to periodically verify that facilities provide residents with an adequate number and level of staff, every day of their operation
- develop a system to periodically verify that facilities deliver the right care every day by implementing individual resident care plans and meeting basic needs of residents

Criteria: the standards for our audit

AHS should have systems to ensure that for every long-term care resident in the province:

- a formal, comprehensive assessment of care needs must be done and updated every three months
- a care plan must be prepared based on the identified care needs, and updated every three months or with a significant change
- a care plan must be implemented and reflected in daily care a resident receives
- basic needs of every resident must be met, even if such needs are not explicitly mentioned in the care plan

AHS should have systems to ensure that facilities provide their residents with the right number and level of staff, at the right time of day and the week.

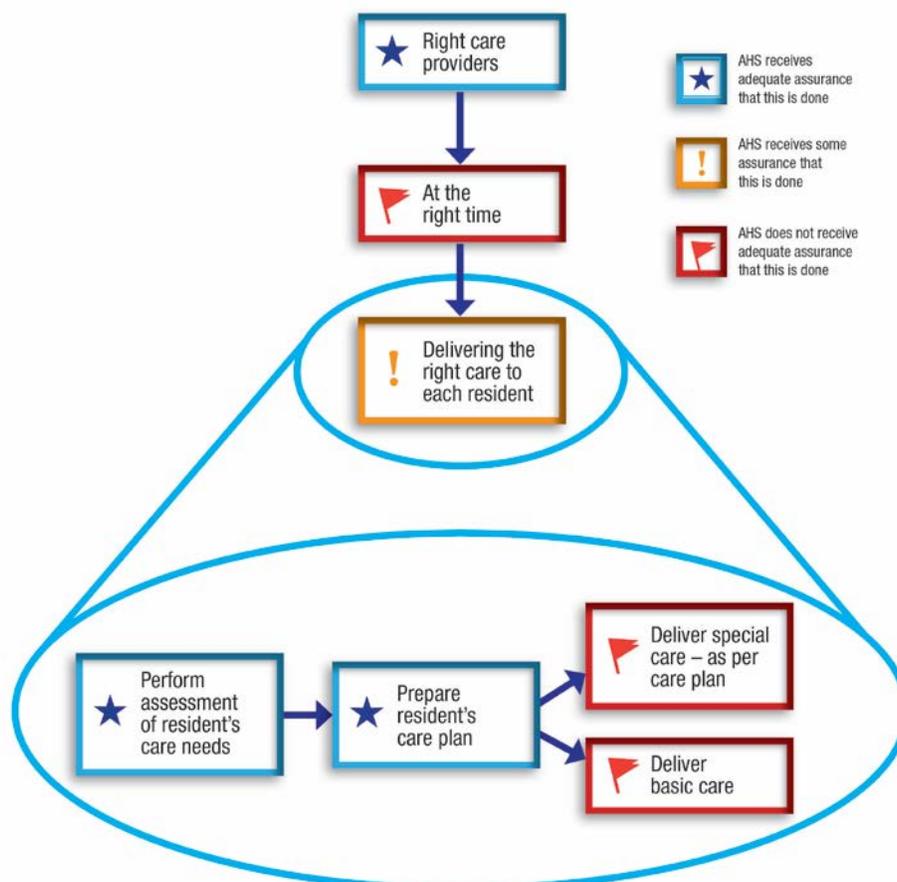
Our audit findings**KEY FINDINGS**

- Overall, AHS has an adequate system to ensure that facilities hire the number and the mix of staff they were funded to provide.
- AHS does not have an adequate mechanism to periodically verify that daily scheduling of staff is adequate to meet the care needs of the residents on every shift.
- One important validation component is missing in the provincial monitoring system – AHS does not obtain sufficient assurance that facilities implement individual resident care plans, and meet basic and fundamental daily needs of residents.
- AHS has provincial monitoring processes to:
 - confirm that facilities formally assess care needs of individual residents
 - check to ensure that these resident assessments are accurate
 - check that facilities prepare individual care plans for their residents

Overall, AHS has an adequate system to ensure that facilities hire the number and the mix of staff they were funded to provide. However, AHS does not have an adequate mechanism to periodically verify that daily scheduling of staff across shifts is adequate to meet the daily care needs of the residents.

AHS has some systems to verify that facility staff assess the care needs of every resident and prepare customised personal care plans. However, AHS does not have an adequate system to verify that facilities daily implement personal care plans of individual residents. The diagram below shows the elements of performance monitoring at the care delivery level, and highlights the areas where we found weaknesses.

Elements of performance monitoring at the care delivery level



Providing the right staff

Rather than setting a single provincial minimum staffing ratio for all facilities, AHS's patient care based funding model allows it to set staffing level requirements for each individual facility based on the unique care needs of residents who live there. Because AHS knows the care needs of individual residents from interRAI assessment data submitted by each facility, the funding allocations are based on treatment needs of those residents. When AHS determines the level of funding a facility will receive, it also explicitly sets a minimum number of hours, by staff level, the facility must employ during the upcoming year.

AHS and the department have developed and are ready to implement a system to monitor whether facilities hire the number and the ratio of staff they are funded to provide. Starting in the fall of 2014 AHS plans to begin generating quarterly reports showing variance in funded versus worked hours by staff level for every facility.

In the past, there was no requirement to independently verify the worked hours data facilities submitted. In June 2014, the department and AHS introduced a new requirement that all worked hours and resident care management expenditures submitted by the facilities must be audited.

Scheduling the right staff at the right time

AHS does not have an adequate system to verify how facilities allocate the staff hours they are funded to provide. Availability of an adequate number and the right level of staff on each shift is critical for ensuring that basic daily care needs of residents are met and their individual care plans are implemented. The only way to directly verify that facilities properly distribute funded care hours is through periodic review of facility staffing schedules and through unannounced facility visits—neither of which is performed, as discussed further under this recommendation.

While the worked hours data reported by facilities allows AHS to calculate a facility's average number of worked hours by each three month period, it does not show how facilities distribute those hours between day and night shifts, and between different days of the week. This is important because staffing needs vary significantly with time of day and a simple three-month average does not reflect those differences. Some facilities and AHS staff we interviewed indicated that some facilities face challenges scheduling the right staffing mix on weekends and holidays, particularly with respect to ensuring availability of senior nursing staff.

We saw a good practice during our zone visits that AHS should consider adopting more broadly. In some instances, local financial support staff of AHS reviewed a facility's staffing schedule to check that it was consistent with the funding level. Of particular benefit, these checks were done on staffing schedules for the upcoming year, allowing management to fix the scheduling problem before the care was provided. Specifically, when some AHS financial support staff noted changes in a facility's funding level and expected hours of care to be provided in the upcoming year, they performed a basic check to see if the corresponding change in the facility's master schedule had been made. We saw this done only for facilities operated by AHS. If contracted facilities perform similar checks, AHS is not systematically informed of their results.

Delivering the right care

Overall, there are provincial monitoring processes that enable AHS to:

- confirm that facilities formally assess care needs of individual residents
- check that these resident assessments are accurate
- check that facilities prepare individual care plans for their residents

However, provincial monitoring activities are missing an important validation component—they do not provide AHS with sufficient assurance that facilities deliver care to their residents in accordance with individual resident care plans, and that facilities daily meet basic needs of their residents.

Facility inspectors of AHS and the department visit individual facilities and have access to detailed records of residents. However, the stated objective of these inspection programs and their very design do not focus on verifying either the implementation of individual resident care plans or adequate distribution of care provider hours in a facility's staffing schedule.

The objective of both entities' inspection processes is to verify that facilities have key policies and procedures in place, as required by the Alberta Continuing Care Health Service Standards. As a result, the inspections are designed largely as a desktop exercise; inspectors spend the majority of their time going over policy binders to check that facilities have the required processes and procedures in place, to verify compliance with the standards. The inspection process also includes resident chart reviews to verify that the required documents are on file. It is not designed to systematically conclude that the daily care provided to those residents matches their identified needs. For example, the process requires inspectors to check that each resident has a care plan on file, but the process is not designed to verify that facilities implement care plans of their residents. For detailed findings for these and other monitoring activities of AHS and the department, see Appendix B.

Throughout our work we noted a strong emphasis within AHS on building relationships with and supporting facilities—even among AHS inspectors. This philosophy is appropriate for daily management of operations, but might also reduce the effectiveness of a compliance assurance function. AHS needs to clearly separate the compliance assurance role from the work it does to support and educate facility staff.

Completion and accuracy of resident needs assessments

AHS has good assurance that every resident receives a needs assessment, because facility funding is based on their submitted resident assessments and operators have an incentive to ensure that assessments are timely. Through ACCIS, AHS and the department have access to assessment data on every resident in the province and continuously monitor to make sure that facilities prepare and submit resident assessments every three months.

To validate accuracy of resident assessments submitted by facilities, AHS has a risk focused and well-designed accuracy validation mechanism. However, the way this mechanism is funded does not ensure proper support and stability for such a critical monitoring task. AHS has a small team of highly experienced healthcare workers (about 3.9 full time equivalent) whose job is to sift through ACCIS data looking for red flags in resident assessments submitted by facilities, visit those facilities and do a deep dive into files and history of several residents to verify that the facility correctly assessed and recorded the level of acuity and care needs of those residents. However, the critical monitoring work performed by this team is funded by a temporary grant from the department, which ends in March 2015. This validation work is critical because AHS uses the data from resident needs assessments to determine the level of funding facilities receive, and to subsequently assess each facility's results. No other provincial function performs this validation, or penetrates care history of individual residents to such a great depth.

Implications and risks if recommendation not implemented

Without a system to monitor whether facilities implement care plans for individual residents, AHS cannot ensure that the unique care needs of each Albertan who lives in a long-term care facility are being met. Without a system to monitor that facilities provide adequate numbers and level of staff at different times of day and on different days of the week, AHS cannot ensure that residents it places at long-term care facilities are safe and have access to the right care at all times.

Background

There are a number of ways for AHS to monitor performance of long-term care facilities. Reactive episodic monitoring includes such approaches as critical incident response and follow up on complaints, which often focus on a specific negative event involving a particular resident. Ongoing proactive monitoring includes such approaches as periodic inspections and standardized reporting requirements. These approaches aim to collect performance information through direct observation and standardized reporting by the facilities. The purpose is to identify and eliminate problems before they lead to negative health outcomes or serious incidents.

In Alberta, multiple entities are involved in monitoring performance of long-term care facilities. Several provincial and municipal entities directly inspect long-term care facilities for compliance with various legislative requirements, standards and codes. Residents, their families and facility staff can voice their concerns to numerous entities and program areas. See Appendix B for the list of monitoring activities and entities with the most direct involvement with long-term care facilities. Individually, these programs and entities are able to monitor only certain individual areas of activity at the facilities. To obtain a complete picture of each facility's overall performance, the data generated by all these programs and entities needs to be brought together.

RECOMMENDATION 12: MANAGING PERFORMANCE OF LONG-TERM CARE FACILITIES

We recommend that Alberta Health Services improve its system to monitor and manage performance of long-term care facilities. AHS should:

- clearly define which program area within AHS is responsible for managing performance of individual facilities
- establish a formal mechanism to use all available compliance data to review periodically the overall performance of each facility, and initiate proactive compliance action with facilities based on the level of risk to health and safety of residents
- establish a formal mechanism to escalate compliance action for higher risk facilities

Criteria: the standards for our audit

AHS should have systems to:

- monitor facility compliance with applicable care standards and reporting requirements to determine whether facilities consistently meet care needs of individual residents
- bring together all long-term care data available from sources within and outside of AHS to formally assess the overall performance of each facility
- take formal proactive compliance action with facilities that do not meet AHS's service delivery expectations

Our audit findings**KEY FINDINGS**

- The Department of Health and AHS have significantly improved the availability and consistency of data on performance of individual long-term care facilities across the province.
- The full benefit of these improvements has not yet been achieved because weaknesses exist in the design of AHS's system for monitoring and managing performance of individual facilities. In particular:
 - It is not clear which program area or function within AHS has the responsibility and the authority to manage the overall performance of individual facilities.
 - AHS does not have a formal process to review periodically all relevant facility data available from various functions within AHS and the department in order to assess each facility's overall performance and risk profile.
 - AHS does not have a standardized set of compliance tools to escalate its compliance response based on the level of risk involved.
- There are deficiencies in design and/or implementation of individual performance monitoring activities of AHS.

Significant improvements achieved since 2005

The department and AHS have achieved significant improvement in availability and consistency of critical performance data for long-term care services across the province. The two entities have accomplished this by developing and implementing a number of important provincial performance monitoring mechanisms. In 2005 we noted that the department and regional health authorities had little data on long-term care service quality, resident outcomes, and financial performance of individual facilities.

There was no provincial mechanism to inspect long-term care facilities. By contrast, in 2014 AHS and the department obtain detailed financial information for individual facilities, and comprehensive care needs data for every long-term care resident in the province. Both the department and AHS now have provincial inspection programs.

AHS systems to manage performance of individual facilities

The full benefit of improvements discussed above has not been obtained because AHS has the following weaknesses in the design of its systems to manage performance of individual long-term care facilities.

Roles and responsibilities for managing performance of individual facilities

No single function or program area within AHS has the responsibility and the authority to assess the overall performance of each long-term care facility. We reviewed program documentation and interviewed management and staff from various functions within AHS and the department, including areas responsible for facility inspections, review of reportable incidents, follow up on resident/family complaints, processing and analysis of financial and service quality data. The overall message we received from each of these areas was the same—each function operates within its individual area of responsibility and individually generates a significant volume of performance data for its specific areas of activity. However, management and staff within each of these functions expect someone else to compile all available data and take action to manage the overall performance of individual facilities.

We heard a similar view when we interviewed managers and staff from a number of facilities across the province—facilities must meet requirements of multiple program areas within AHS and the department, but it is not clear which area is in charge, and who is the facility’s main contact to get decisions and action on critical matters.

It is up to AHS to determine which program area needs to have the responsibility and the authority to manage the overall performance of each long-term care facility. However, based on our analysis of the available performance data, this mechanism needs to be as close to the operational level as possible. Local AHS zone staff can become intimately familiar with a relatively small number of facilities in their respective geographic areas. A centralized team would not be able to accomplish this level of intimate familiarity for 170 facilities located in various communities across the province. However, these centralized functions have a key role in funneling key performance data for the local AHS staff, and ensuring consistency across the province.

System to assess performance and risk level of individual facilities

AHS does not have a system to compile all available data to monitor overall performance of individual facilities over time. There is also no process to proactively identify facilities with higher risk profile. In a way, what is missing is a periodic performance and risk review process, similar to multidisciplinary case conferencing for hospital patients, or the periodic performance appraisal process for employees in the workplace.

Although various AHS programs and functions are involved in long-term care, their involvement with individual facilities is often episodic and does not amount to a continuous performance management process. Much of this work is reactive in nature and is often centred on responding to specific negative events such as resident death or severe injury. The various functions may communicate with each other, but this is usually a point-in-time communication centred on resolution of specific situations rather than a continuous performance management process.

Analysis and distribution of performance information within AHS could improve. Some program areas within AHS produce separate high level summaries of their own data by zone and for the province, but do not analyze and trend information by individual facility and do not have a process to provide such facility level reports to local AHS operations staff or to facilities. Some program areas do not perform any formal analysis of their data.

Standard escalation process for higher risk sites

Even if AHS had a formal process to identify higher risk facilities, it does not have a set of formal compliance tools to deal with such facilities. AHS's current compliance response does not have formal compliance options between the extremes of "business as usual" and an emergency "all hands on deck" mode when extreme adverse events happen (for example, resident death). In extreme cases AHS could shut down the facility or take over its operation—relatively uncommon responses usually done in reaction to highly publicized adverse incidents. While a strong incident response is important, it is reactive in nature and is not a substitute for a proactive system to take formal action with higher risk facilities to prevent their residents from being hurt in the first place.

It isn't clear what standard consequences are available to AHS staff to deal with facilities with lax practices or how these consequences can be triggered. AHS could consider a variety of tools used by its own regulatory functions outside of continuing care and by various departments of provincial government. Fees and fines are clearly not a reasonable option in long-term care—the money can come only out of resident care or accommodation services. Alternatively, AHS could consider the following:

- Report facility inspection results publicly (as done by the Department of Health with results of accommodation inspections for long-term care and supportive living facilities, by Alberta government for its daycare inspections and AHS's own inspections of restaurants and food establishments).
- Categorize facilities by risk level and inspect them more frequently (as done for inspections of drinking water treatment facilities).
- Place higher risk facilities on a priority list to be monitored more closely and with more rigorous enforcement protocols. Clearly communicate to the facilities what results they need to achieve to be removed from the priority list.
- For facilities that persistently fail to improve, place an AHS worker on site (currently done only in one-off cases in response to highly publicized events).

Design and implementation of individual monitoring processes

We already mentioned that, since 2005, AHS and the department have introduced important improvements into their systems. However, during our work we identified a number of opportunities to improve design and implementation of some of these processes. For our detailed findings on these monitoring processes, please see Appendix B.

Implications and risks if recommendation not implemented

Without systems to monitor performance of individual facilities and take proactive compliance action based on risk, AHS cannot ensure that facilities achieve the expected care outcomes with the residents placed there by AHS.

Background

The Department of Health distributes healthcare funding in Alberta and has to report back to the Minister and Albertans on the system-wide results achieved. The department is not involved in direct healthcare delivery and funds other entities to provide healthcare services to Albertans. The department is responsible to provide system-wide oversight and ensure that AHS delivers the province-wide results expected for the annual investment of \$910 million in the provincial long-term care system. As a funder of AHS, the department's oversight and monitoring activities should focus on the management systems and the system-wide results achieved by AHS, and not on the activities of individual service providers contracted by AHS.

It is the department's responsibility to ensure that the total amount of care funding in the province is sufficient to meet the needs of Albertans. After the Minister of Health approves AHS's budget, AHS's job is to distribute the existing funding pool among facilities using its patient care based funding model. In other words, if the funding level is insufficient to meet the needs of Albertans, the best AHS can do is to distribute the shortfall evenly among the facilities.

The department sets maximum daily amounts that facilities can charge residents for accommodation and related services. It also regulates (through registration and inspections) the accommodation services provided by the facilities.¹⁷

Other responsibilities of the Department of Health include identifying and implementing necessary updates to standards under applicable health legislation and coordinating with other government and non-government entities to ensure alignment of strategies and services in areas where activities of other organizations may have an impact on long-term care service delivery in the province.

For example, the Seniors Lodge Program, administered by the Department of Municipal Affairs, provides accommodation services to about 9,700 mainly low-income seniors at 153 lodges across Alberta. The Department of Municipal Affairs has recently initiated a full review of the Seniors Lodge program, including a review of program objectives and performance expectations.¹⁸ The Department of Health and AHS have a vested interest in the future of this program because changes to its objectives may have significant impact on demand and utilization of homecare, supportive living and long-term care services delivered by AHS. According to the analytical model operated by AHS's continuing care services, the complexity and the acuity of healthcare needs of older Alberta are expected to increase over the next 20 years. As many as 40 per cent of the residents at some lodges already receive AHS-funded homecare services. In some rural communities, a senior's lodge is the only continuing care setting available. Both the department and AHS have representatives on the Seniors Lodge program review committee to ensure any future changes to the program are aligned with the provincial vision for continuing care service delivery.

RECOMMENDATION 13: OVERSIGHT AT THE PROVINCIAL LEVEL

We recommend that the Department of Health:

- clearly define and separate its role and responsibilities from those of AHS in monitoring and managing long-term care service delivery
- improve public reporting on what results the provincial long-term care system is expected to achieve and whether it is achieving them
- finish the review of the continuing care health service standards
- implement a mechanism for timely analysis and action on the accommodation cost data

¹⁷ For more information on regulatory activities of the Department of Health in the area of continuing care accommodation and related services, see <http://www.health.alberta.ca/services/continuing-care-forms.html>

¹⁸ For results of our follow-up audit on the two Seniors Lodge recommendations please see page 183 of this report.

Criteria: the standards for our audit

The Department of Health should have systems to:

- Ensure that roles and responsibilities of entities involved in the long-term care system are aligned for effective service planning, delivery, monitoring and oversight.
- Take timely and appropriate action on available cost and service quality data.
- Publicly report relevant information about performance of the provincial long-term care system, including results achieved for the funds invested.

Our audit findings**KEY FINDINGS**

- The department's current level of involvement in operational activities, particularly in facility inspections, goes beyond an oversight role. It overlaps with and erodes the authority of AHS, and creates confusion about who the facilities are accountable to for the care funding they receive from AHS.
- There is significant duplication of effort between the department and AHS in the area of inspection activities. The detailed facility review reports produced by Accreditation Canada are not used by either entity.
- The department has not acted in a timely manner in completing the review of the Continuing Care Health Service Standards.
- The department has not acted in a timely manner to respond to or report changes in the costs that facilities incur for providing accommodation and related services.
- A wealth of financial, service quality and compliance information is available now to the department and AHS, but the department does not ensure that this information is used to publicly report on the performance of the provincial long-term care system, including results achieved for the funds invested.

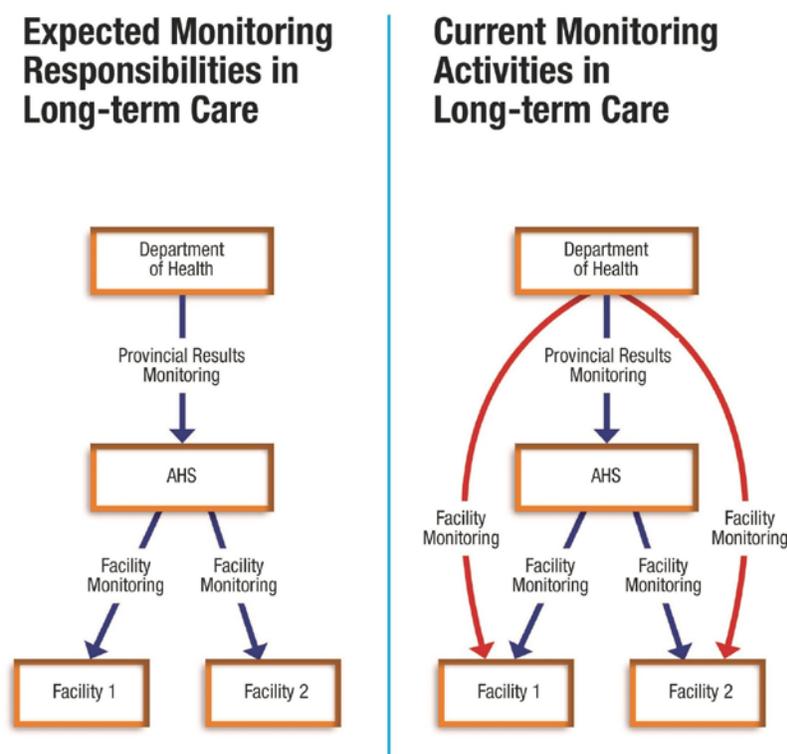
Unlike in 2005, when we noted complete lack of provincial systems to monitor and inspect individual facilities, in 2014 we saw the opposite—facilities are inspected by multiple entities against the same set of standards. While monitoring is much stronger than in 2005, lack of clear division of responsibilities and coordination results in a fragmented system, with lack of clear lines of accountability for the care outcomes of individual long-term care residents at each facility.

In addition to duplication of effort within the department and AHS, redundant monitoring activities are a significant resource drain for the facilities, which impacts the amount of care they can offer to the residents. During our visits to a sample of long-term care facilities across the province, we heard a strong and consistent view that there is significant duplication in inspection activities, and a lot of confusion about the respective roles of AHS and the department in monitoring and managing compliance. Management at every facility we visited stated that it takes a lot of their staff time to prepare for these inspections—time that could have been used to deliver care to the residents. Generally, facility staff we talked to recognized the importance of compliance monitoring. They were not necessarily asking for less monitoring, but for smarter and better coordinated monitoring. Several facility managers expressed frustration that various inspectors just look at the same set of policy binders over and over again, instead of observing the care of individual residents.

The department's involvement in operational monitoring of individual facilities

The extent of the department's current level of involvement in operational activities, particularly in the area of facility inspections, goes beyond an oversight role, overlaps with and erodes the authority of AHS, and creates confusion about who the facilities are accountable to for the care funding they receive from AHS.

The diagram below demonstrates our understanding of the department’s provincial oversight role. The second diagram shows the monitoring activities as they presently happen.



Inspection programs at AHS and the department

AHS and the department run redundant inspection programs to monitor facility compliance with the provincial Continuing Care Health Service Standards.¹⁹ AHS inspects each facility once every two years, and the department once every three years. Both organizations use virtually identical inspection criteria, aligned with sections of the provincial care standards. There is no coordination of inspection schedules. During our zone visits we were informed of multiple instances where AHS’s inspection teams would arrive at a facility only to learn that the department’s inspection team had either just finished their visit or was expected to arrive within a week.

Facility reviews by Accreditation Canada

The department and AHS require that every long-term care facility operator in Alberta must be accredited by one of the approved accreditation bodies.²⁰ However, neither AHS nor the department reviews the detailed facility accreditation reports provided by Accreditation Canada. Nor does either of them have a system to use this information in formally assessing facility performance. It is important to note that facilities can be accredited by Accreditation Canada even if they are missing a certain percentage of required organizational practices, with an expectation that the process gaps will be filled.

¹⁹ Alberta Continuing Care Health Service Standards <http://www.health.alberta.ca/documents/Continuing-Care-Standards-2008.pdf>

²⁰ In Alberta, it is the requirement of AHS and the department that all long-term care facilities obtain accreditation with an approved accrediting body. Accreditation Canada accredits the vast majority of facilities in the province.

Expected results and public reporting on performance

The department does not provide sufficient public reporting on the results it expects the provincial long-term care system to achieve, and whether it meets those expectations.

The data now available to the department and AHS are not fully used to set specific results expectations for the long-term care system in Alberta. The department and AHS have the data on care needs of Albertans over time, facility inspection results, trends in reportable incidents and resident/family complaints, trends in cost of care and hours of care per resident, as well as trends in cost of accommodation over time. AHS runs a comprehensive analytical model to project demand and utilization of continuing care services in the province 20 years into the future. The model offers detailed estimates of demand at the level of individual communities, and allows the department and AHS to estimate future utilization and cost of services under different scenarios of services delivery. We could not obtain a clear understanding of what scenario of service delivery the department wishes to pursue and how it will monitor and report progress.

The information generated by the department and AHS can help Albertans better understand key strengths and weaknesses of their continuing care system, and the root causes of the challenges that remain, and avoid confusion by providing some key facts about the actual cost of health care and accommodation in long-term care.

Timely action on key initiatives

The department's action has not been timely in two important areas.

Update of the Continuing Care Health Service Standards

The department initiated an update to the Standards about three years ago and still has not completed it. This has caused serious delays in the implementation of the facility inspection program by the AHS and contributed to a sense of uncertainty at the front line level.

Action on accommodation costs data

The department's action on the available accommodation costs data hasn't been timely. In May of 2014 the department announced an increase in maximum accommodation charges to bring them up closer to the actual costs reported by operators. However, the department's analysis of the accommodation data shows that the maximum accommodation charges have been below the reported costs for about three years. The department does not have a mechanism to perform periodic cost gap analysis and formally report the results.

Extended periods of below cost accommodation charges, followed by sharp adjustments disrupt the ability of facilities to budget and plan service delivery. Such rapid adjustments, particularly without sufficient financial disclosure, may also negatively impact public confidence in the provincial long-term care system.

Implications and risks if recommendation not implemented

There is significant risk that if operational facility level monitoring remains divided between the department and AHS, the overall monitoring system will be fragmented and weak, with lack of clear lines of accountability for the care outcomes of individual long-term care residents at each facility.

Timely action on key initiatives and public reporting of information are important for maintaining the momentum behind improvement and for maintaining public confidence in the provincial long-term care system.

RECOMMENDATIONS OUTSTANDING FROM OUR 2005 REPORT

Recommendation 6, page 58 (No. 2, page 31 of the stand-alone report)

To AHS "Improve the system for monitoring compliance of long-term care facilities with basic services standard."

Recommendation Unnumbered, page 61 (page 37 of the stand-alone report)

To AHS "Identify the information required from long-term care facilities to enable the department and AHS to monitor compliance with legislations."

Recommendation 7, page 59 (No. 3, page 34, and No. 4, page 35 of the stand-alone report)

The Department of Health and AHS "Assess the effectiveness of the services in long-term care facilities."

Recommendation 8, page 59 (No. 3, page 34, and No. 4, page 35 of the stand-alone report)

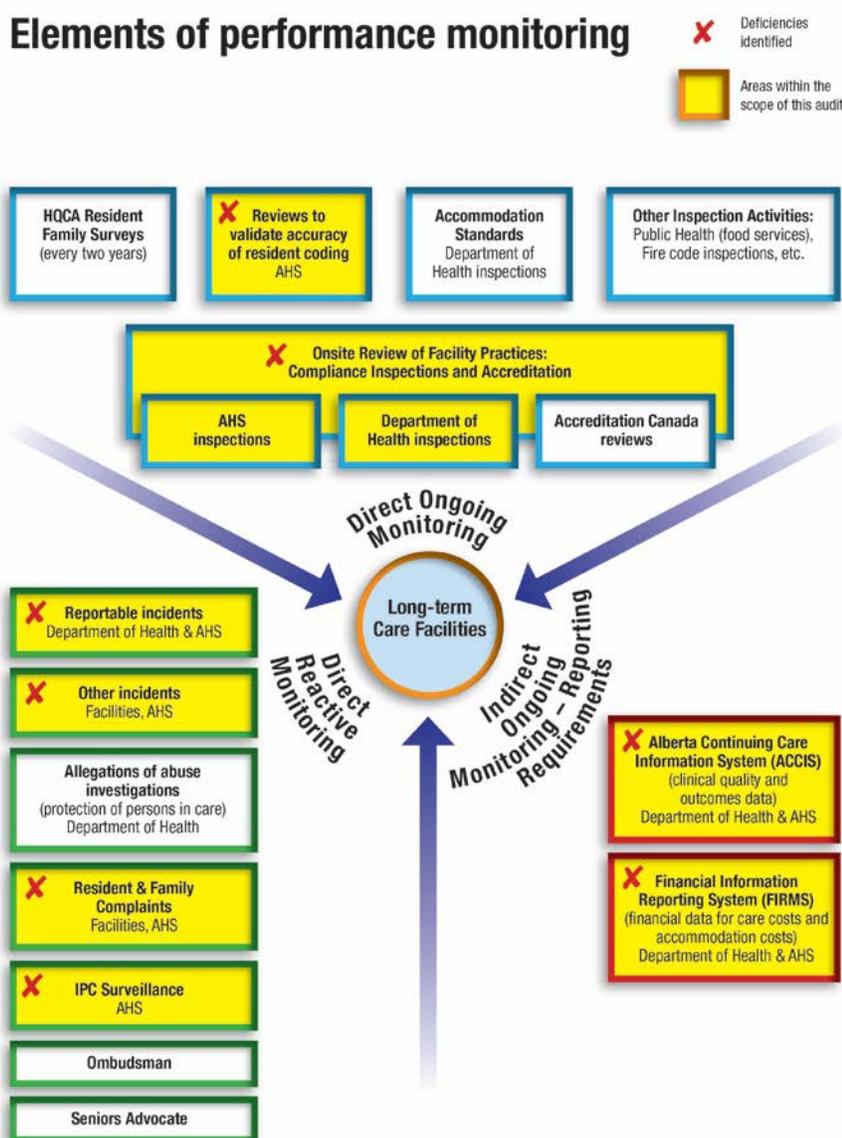
The Department of Health "Collect sufficient information about facility costs from AHS and long-term care facilities to make accommodation rate and funding decisions."

PROVINCIAL MONITORING PROCESSES

Provincial monitoring processes in long-term care broadly fall under three categories:

- direct ongoing monitoring through proactive inspections and observation of service delivery
- direct reactive monitoring through investigation of incidents, critical events and complaints
- indirect ongoing monitoring through reporting requirements

The diagram below shows key provincial monitoring processes for long-term care under each of the three categories and highlights the processes we examined during this follow-up audit, as well as those where we identified opportunities for improvement. Later in this appendix we provide a brief description of each monitoring process and our related findings.



Direct Ongoing Monitoring

Inspections by AHS and the department

Both AHS and the department have programs to inspect for facility compliance with the Continuing Care Health Service Standards, required policies and procedures. Facility inspectors of AHS and the department visit individual facilities and have access to detailed records of residents. However, the stated objective of these inspection programs and their very design do not allow AHS and the department to verify that facilities implement individual resident care plans and meet basic daily needs of their residents.

The objective of both inspection processes is to verify that facilities have key policies and procedures in place, as required by the Alberta Continuing Care Health Service Standards. As a result, the inspections are designed largely as a desktop exercise where inspectors spend majority of their time going over policy binders to check that facilities have the required processes and procedures in place. The inspection process includes resident chart reviews to verify that the required documents are on file, but is not well designed to systematically verify that what is written makes clinical sense or is being followed by staff daily. In other words, the process requires inspectors to check that each resident has a care plan on file, but the process is not designed to verify that facilities implement care plans of their residents.

For example:

- All inspections are announced at least eight weeks in advance. There are no systematic, unannounced facility visits to see care practices as they naturally occur. It is a common practice for facilities to prepare extensively for these inspections. Even with such preparation, the inspectors of AHS and the department identify a number of deficiencies.
- All site inspection visits are done Monday to Friday, during regular business hours. No inspections are done on evenings or weekends.
- AHS auditors in most zones rely on facility management to select resident charts to be reviewed. Methodologically, AHS auditors should control the sampling process. For example, ACCIS data can be used by AHS staff before the site visits to identify and sample higher risk resident charts. Inspectors typically review 10 per cent of resident charts during a facility visit.
- The chart reviews are designed to verify that the required documents are present on a resident's file, but we observed that the depth of these reviews does not allow inspectors to conclude on what actually happened to residents and why. For example, in the sample of charts AHS inspectors check that a care plan is present on a resident's file, but their review is not designed to perform sufficient level of work to conclude on whether the care plan is complete and detailed enough, and whether staff implement it daily.
- The design of inspection programs of AHS and the department specifically excludes the review of facility staffing schedules. Appropriate number and mix of staff are critical for facilities to meet basic needs of their residents, ensure their safety, and implement their individual care plans. There is no other monitoring process that allows AHS to verify adequacy of staffing mix and coverage on different days of the week and different times of day (for example, evening and night shifts, weekend shifts).

- During facility visits the inspectors spend a disproportionately large amount of their time in the boardroom going through policy binders. Site walkthrough inspections are relatively informal and brief. In some zones we observed that inspectors don't even go into the residents' rooms.
- The AHS's inspection checklist covers review of policy binders, resident charts and interviews. There are no checklists for a facility walkthrough, resident room inspection, medication room inspection, inspection of infection prevention equipment and activities throughout the facility, or a bathing room inspection.

Inspections data from AHS and the department are not analyzed to track and trend deficiencies identified during inspections. This would enable AHS to identify facilities with highest volumes of deficiencies, and facilities that repeatedly present with deficiencies in the same areas. AHS also does not analyze inspections data by zone or for the province, to identify overall trends in the nature of deficiencies and track the amount of time the facilities take to resolve their deficiencies. At some zones of AHS we observed a good practice where zone compliance staff do their own tracking, but these efforts are not coordinated across the organization and not centrally supported and monitored.

Facility reviews by Accreditation Canada

The department and AHS require that every long-term care facility operator in Alberta must be accredited by one of the approved accreditation bodies. However, neither AHS nor the department review the detailed facility accreditation reports provided by Accreditation Canada and they do not have a system to use this information in assessing facility performance. Accreditation Canada visits every non-AHS facility as part of its accreditation process, but only a sample of AHS facilities when it accredits AHS as an operator of multiple sites.

The accreditation reports are detailed 40 to 50 page documents that provide a comprehensive description of accreditation review findings, identify process gaps and highlight their relative importance. In many respects, Accreditation Canada reports are more detailed and comprehensive than inspection reports prepared by AHS and the department's inspection teams. Although the objective of the accreditation review process is ongoing quality improvement rather than compliance monitoring and enforcement, both the department and AHS miss an important opportunity to leverage the work done by Accreditation Canada while pursuing their own monitoring. Accreditation reviews are paid for by the facilities with care funding provided by AHS.

It is important to note that facilities can be accredited by Accreditation Canada even if they are missing a certain percentage of required organizational practices, with an expectation that the process gaps will be filled. To maintain their accreditation status with Accreditation Canada, facilities must undergo a detailed review of their practices, including a site visit, every four years.

Work done by Accreditation Canada at individual facilities serves a different purpose but is similar in nature to the work done by AHS and the department's inspection teams, which in many respects adds another layer of duplication. To meet criteria set by Accreditation Canada, facilities must have in place a set of required organizational practices for ongoing quality improvement. While the objective of accreditation activities is to facilitate continuous improvement and not monitor compliance with minimum standards, the accreditation requirements align closely with the expectations set out in the Alberta Continuing Care Standards, which are used as inspection criteria by AHS and the department.

AHS reviews to validate the accuracy of resident assessments

AHS has a system to validate the accuracy of resident assessments submitted by facilities. AHS has a small team of highly experienced healthcare workers whose job is to sift through ACCIS data looking for red flags in resident assessments submitted by facilities, visit those facilities and do a deep dive into files and history of several residents to verify that the facility correctly assessed the level of acuity and care needs of those residents.

There are about 3.9 of full-time equivalent staff doing this work for all long-term care facilities in the province. The work of this small team is funded by a grant from the department, which ends in March 2015. Such an arrangement does not ensure the support and stability needed to do this critical work. The data from resident needs assessments are used by AHS to determine the level of funding, and to assess care outcomes achieved by each facility. No other provincial function performs this validation, or penetrates care history of individual residents to such great depth.

HQCA Resident Family Surveys

Every two years the Health Quality Council of Alberta conducts a long-term care family experiences survey. The results of the 2011 survey are reported publicly on the HQCA website and include summary statistics at the provincial level. AHS received detailed results by facility. The HQCA indicated that the results of its 2013 survey will be made public in 2015.

Accommodation Standards

The Department of Health is responsible for approving individual facilities and monitoring their ongoing compliance with the accommodation standards. The department inspects facilities every year. These accommodation standards inspections are separate from the care standards inspections conducted by the department and AHS.

Other inspection activities

Facilities are also inspected by various other functions within and outside of AHS, such as inspections by public health officers of AHS and municipal fire code inspections.

Direct Reactive Monitoring

Review of incidents

The current model of long-term care service delivery identifies two types of incidents: reportable and non-reportable.

Reportable incidents

The facilities are required to report to the department and AHS any incidents that involve death or serious harm to a resident, or where a resident has gone missing for a period of time.²¹ The Department of Health provides facilities with the definition of a reportable incident, incident reporting forms and guidance on the reporting process.²² Once an incident report is received, AHS is responsible to perform appropriate follow up and resolution. The incident reports are received centrally by AHS and the department, and forwarded by AHS to its respective zone operations staff for follow up. There is no formal system within the zones or centrally to track incident follow up, how the issue was resolved or timeliness of the response.

²¹ The requirement to report is outlined in the Alberta Continuing Care Health Service Standards <http://www.health.alberta.ca/documents/Continuing-Care-Standards-2008.pdf>

²² As outlined in the Department of Health's Accommodation Standards and Licensing Information Guide <http://www.health.alberta.ca/documents/CC-Accommodation-Guide4-2013.pdf>

In March 2013 the department made changes to criteria for reporting resident falls. Incidents due to resident falls account for a major share of all incidents reported by facilities. In the past, facilities had to report all fall-related incidents. After March 2013, facilities only have to report fall-related incidents if the fall happened due to an error or omission in the provision of accommodation or health services. During our interviews with AHS zone staff, we heard concerns that in circumstances when a resident fall has not been witnessed, it may be difficult to determine if it was due to an error or omission in the delivery of care. As a result, it is less clear what fall-related incidents are reportable under the standards.

Non-reportable incidents

Under the standards, facilities are required to have an internal reporting mechanism for non-reportable incidents. AHS inspectors check that facilities have such a mechanism, but do not systematically analyze the results. Only one zone within AHS used to have a process to collect and analyze non-reportable incidents data from facilities. This process has now been discontinued.

Some non-reportable incident information is collected by AHS from its own facilities through the Risk Learning System—an internal reporting mechanism for identifying, tracking and resolving incidents and near misses. Contracted facilities do not presently report into RLS. AHS has informed us that in one of the zones it has started a pilot project where contracted facilities will begin submitting their non-reportable incident data into RLS.

Resident and family complaints

AHS has a centralized complaint resolution mechanism for the facilities it operates, but does not use it for contracted facilities.

Complaints regarding AHS facilities

Whenever a complaint is received for one of AHS's facilities, it is centrally logged by one of AHS's complaint resolution officers, who then contacts the AHS manager responsible for that facility. The complaint resolution officer follows up with the complainant to verify whether their concerns were resolved by the facility, and stays involved with the case until it is resolved to the satisfaction of the complainant, or AHS management decides that the concern cannot be resolved. The results are summarized by zone of AHS (but not by facility) and are reported internally within AHS. AHS operations staff indicated that such high level reporting shows the overall trends for the zones, but is not useful for assessing performance of individual facilities.

Complaints regarding contracted facilities

The AHS's centralized complaint resolution function does not process complaints from residents at contracted facilities. Whenever AHS's central complaint resolution function receives a complaint regarding residents at one of the contracted facilities, the complainants are systematically directed to raise their concerns directly with the facility. Only a small number of complaints from the contracted facilities are accepted and formally followed up by AHS on the exception basis.

Under the standards, all facilities are required to have an internal complaint resolution mechanism. AHS inspectors check that facilities have such a mechanism, but do not systematically analyze the results.

Infection prevention and control surveillance

For its own facilities, AHS records detailed information on individual cases of infection or colonization with antibiotic resistant organisms and influenza infections, analyzes and monitors trends, and manages

outbreaks using ProVSurv – a robust provincial infection prevention and control surveillance system.²³ This system, or equivalent, is not used for contracted facilities.

At one zone of AHS, local AHS staff created their own surveillance process to monitor individual instances of infection and colonization among residents of several contracted facilities located in that zone. We saw this as a good practice and an example of a good initiative taken by local AHS staff. However, to be fully effective, such initiatives need to be systematically identified, assessed and supported centrally by AHS.

Investigations of allegations of abuse

The *Protection for Persons in Care Act* (PPCA) requires all publicly funded health service providers to protect clients from abuse and prevent abuse from occurring.²⁴

The department conducts formal investigations into allegations of abuse and provides AHS with copies of the investigation reports.

Seniors advocate

We met with the Office of the Seniors Advocate, who informed us that his role is primarily to educate residents and their families and help them navigate through the system. The seniors advocate does not have a mandate to compel facilities or AHS to take action or provide detailed information related to concerns raised by residents.

Ombudsman

We met with the Alberta Ombudsman, who informed us that the Ombudsman's role is to ensure fair treatment through independent investigations, recommendations and education. The Ombudsman has the authority to investigate complaints related to decisions, actions and recommendations made by an employee of the provincial government, its agencies, boards and commissions, listed professional colleges and the Patient Concerns Resolution Process of Alberta Health Services.

For long-term care, and continuing care overall, the Ombudsman indicated he does not have the mandate to directly investigate concerns raised for facility residents regarding health services or the delivery of services by non-government employees. The Ombudsman is limited to investigating complaints related to AHS's Patient Concerns Resolution process. For example, the Ombudsman can examine whether AHS's complaint resolution officer has properly informed the complainant of the decision made by AHS, but would not examine the decision itself. The Ombudsman also does not have the mandate to compel facilities to provide resident records.

Indirect ongoing monitoring through reporting requirements

Alberta Continuing Care Information System

ACCIS was developed by the Department of Health and is a central information system that contains interRAI assessment data of long-term care residents in Alberta. ACCIS is a complex and sophisticated system that allows AHS to know the care needs of the residents at each facility in order to fund the facilities based on those needs. ACCIS also allows AHS to monitor health outcomes of residents at each facility over time, which is key to assessing the overall performance of each facility. The department and AHS also use the data in ACCIS to monitor the overall trends in the level of care needs among long-term care residents in Alberta.

²³ For description of ProVSurv, see our October 2013 audit report (pp. 17-48) on Infection Prevention and Control in Alberta hospitals. <http://www.oag.ab.ca/webfiles/reports/October2013Report.pdf>

²⁴ For the Department of Health's summary of the *Protection of Persons in Care Act* see <http://www.health.alberta.ca/services/PPC-Act-summary.html>

Although ACCIS provides a wealth of service quality and resident outcomes data, it is currently not being used to its full potential by AHS staff in the zones. Some of the AHS zone operations managers and staff we interviewed either are not aware that they can directly access the ACCIS data for the facilities in their geographic area, or simply do not use this data. A lot of standardized reports for each facility are already available directly out of ACCIS, and others are being developed by AHS. For example, AHS and the department are developing standardized risk-adjusted quarterly quality indicator reports which will allow assessing a facility's performance in relation to other facilities in the zone and in the province. AHS expects to implement this mechanism later in 2014.

Financial Information Reporting System

FIRMS was developed by the Department of Health and is a central information system that contains operating cost data for individual long-term care facilities in Alberta. This database contains historical and current data on costs of operating for profit and not for profit long-term care facilities. Data on the cost of operating AHS facilities are managed through AHS's internal financial systems, but AHS is expected to begin reporting into FIRMS later in 2014.

Together, FIRMS and ACCIS provide the data necessary to operate the patient care based funding model of AHS. This information is fundamental for enabling the department and AHS to determine and compare long-term care results achieved for the funds invested not only at the provincial level, but by zone of AHS, and by individual facility. The data contained in FIRMS also allow the department to monitor the cost of accommodation and of healthcare service delivery in long-term care facilities in order to ensure that provincial funding and maximum accommodation charges are sufficient to meet the long-term care needs of Albertans.

Financial data available in FIRMS are not yet systematically analyzed and provided to AHS operations staff and to facilities. AHS and the department are developing standardized quarterly reports showing variances between each facility's care hours funded by AHS and worked hours reported by the facility operator. These reports will allow AHS to verify that facilities deliver the total hours of care they are funded to provide. AHS expects to implement this mechanism later in 2014.

Financial and service quality data are not analyzed together to determine whether the desired resident outcomes have been achieved at an acceptable cost. At the time of our audit AHS was not developing a mechanism to perform such analysis.



Financial Statements and Performance Measures Auditing

REPORT OF THE AUDITOR GENERAL OF ALBERTA

October 2014

Financial Statements and Performance Measures

INTRODUCTION

Financial statements

The Government of Alberta prepares and makes public financial statements to provide information to Albertans about the province's financial performance. The Office of the Auditor General, under the *Auditor General Act*, audits the financial statements of the Province of Alberta, as well as every ministry, department, regulated fund and provincial agency.

An audit is the collection and evaluation of evidence about the fairness of financial statements. By obtaining this evidence, the auditor general is able to provide a high level of assurance to Albertans about whether the financial statements prepared by management are fairly presented and free from material misstatements. An audit includes assessing where errors (misstatements) could occur in the financial statements, testing management's internal control over financial information and performing additional audit procedures.

The audit, and the auditor's report, adds credibility to the financial statements by telling Albertans whether the financial statements are reasonable. This does not mean that the auditor general examines every transaction or guarantees that the financial statements are error-free. Millions of transactions are summarized into the province's financial statements. Audits, therefore, necessarily focus on areas of risk and on the places where errors that matter to users' understanding of the financial statements as a whole are likely to occur.

We issued unqualified independent auditor's reports on the financial statements for those entities we audited. We included an Emphasis of Matter paragraph in the auditor's report on the province's consolidated financial statements to emphasize the disclosure of the constructed budget in the province's consolidated financial statements; the audit report was unqualified with respect to that matter. For a list of the entities we audit, please refer to our 2014 Performance Report, located on page 244 of this report.

Performance measures

The Government of Alberta prepares and reports performance measures to provide information that allows Albertans to assess the government's overall performance, including performance relative towards goals in specific policy areas.

For ministries and some agencies, we complete review engagement procedures on selected non-financial measures of performance in the entity's annual report. We also audit selected measures in the annual progress report on the government's business plan, titled *Measuring Up*. We report on the reliability, understandability, comparability and completeness of the selected measures of performance. Our reviews and the audit are not designed to provide assurance on the relevance of the measures to users.

We completed the audit of 4 of the 18 performance measures included in Measuring Up for the year ended March 31, 2014. We issued an unqualified auditor's report on the measures selected for audit in Measuring Up.

We completed the review of 42 performance measures in 19 ministry and one agency annual report. Unqualified review reports were issued on the measures we reviewed.

Aboriginal Relations

SUMMARY

DEPARTMENT

Matters from the current audit

We recommend the Department of Aboriginal Relations improve its financial reporting estimation processes.

FINDINGS AND RECOMMENDATIONS

DEPARTMENT

Matters from the current audit

Estimation processes

Background

In preparing the ministry's financial reporting, department management must estimate the value of some balances for which complete information is not available at the time. Reasonable estimates require good judgment and strong estimation processes to gather, understand and analyze the best information available. Management must also retrospectively examine these estimates and adjust their value when better information becomes available. The process of reviewing and adjusting estimates should also help management identify ways to make more precise estimates in the future.

Historically, the department's valuation estimates are simple, with the exception of potential liabilities related to legal claims. For these complex estimates, the department relies on analysis from the Ministry of Justice.

During the year, the department was responsible for managing the province's recovery efforts on First Nations lands affected by the 2013 Alberta flooding. The department had to estimate expected total flood recovery costs related to First Nations and determine which costs were eligible for reimbursement from the Government of Canada under the Disaster Financial Assistance Arrangements (DFAA) guidelines or directly with Aboriginal Affairs and Northern Development Canada. The department's estimates were based in large part on the Department of Municipal Affairs' analysis of flood recovery costs elsewhere in the province.

RECOMMENDATION 14: IMPROVE ESTIMATION PROCESSES

We recommend that the Department of Aboriginal Relations improve its financial reporting processes to ensure its estimates are reliable and supportable.

Criteria: The standards for our audit

The department should have processes in place to obtain, understand and analyze information management uses to make valuation estimates in its financial reporting.

Our audit findings

KEY FINDINGS

- The department's processes to obtain, understand and analyze information to make reliable estimates are incomplete. For complex estimates, management relied solely on the work of specialists in other departments.
- The ministry's draft 2014 financial statements required material adjustments to estimates related to the 2013 Alberta flooding.

Management's ability to make reliable and supportable estimates was significantly weakened by the department's lack of formal estimation processes. The department did not have processes in place to assess the unique and complex nature of estimates such as those related to the 2013 Alberta flooding. Consequently, management had to make material adjustments to their estimates when they finalized the ministry's financial reporting.

The department did not have processes to ensure that managers had gathered all relevant information to make a reliable estimate. The department, the Department of Municipal Affairs and First Nations developed by April 2014 a project charter that defined the scope of flood recovery efforts on the Stoney Nakoda and Siksika First Nations. Although the document identified the entities' general responsibilities, it did not state how they would share information with each other.

During the year, a program area within the department received cost estimate information from the Department of Municipal Affairs and did its own substantial analysis on that information. However, we found two problems with the department's use of this information:

- Management in the program area that first received the information did not share the information itself, or their subsequent analysis of it, with the department's finance branch.
- Management did not adequately understand or seek to understand the information they received from the Department of Municipal Affairs. For example, management did not know that some First Nation homes to be rebuilt under the program were not eligible for full cost recovery under federal DFAA guidelines.

This complete understanding is important to ensure that management has accurate and complete information to support the estimate and to adjust it, if necessary, as new information becomes available. This understanding is also critical to the department's ability to identify that all amounts eligible for reimbursement are properly supported and recovered under federal programs.

The department did not clearly document its estimation methods and assumptions. Clear documentation helps formalize management's process on how the estimate was determined. That understanding in turn helps them to adjust their methods and change their assumptions when new information becomes available. The department relied heavily on the Department of Municipal Affairs as a specialist in compiling cost information and determining the methodology and assumptions for their estimates. Management did not have adequate processes to ensure they understood the key variables the Department of Municipal Affairs used, and whether the analysis provided could be relied on for the department's estimates. The department must have processes to understand and conclude it can apply a specialist's analysis as their own, based on a complete understanding of the best information available.

The department has no formal process to update estimates based on actual experience. Actual experience will either confirm or challenge management's assumptions for the original estimate.

Processes must be in place to:

- ensure the department gathers and verifies the information it relies on for estimates
- periodically reassess the reasonability and completeness of its financial reporting estimates and disclosures

Implications and risks if recommendation not implemented

Regardless of the complexity of the estimate to be made, management is at risk of making improper conclusions if processes are not in place to appropriately obtain, understand and analyze the information used to make estimates. This may materially impact the financial reporting that the ministry and outside users rely on in their decision making.

OUTSTANDING RECOMMENDATIONS

The following recommendations are outstanding and not yet ready for follow-up audits:

Formalize and communicate interpretation of eligible uses—July 2013, no. 1, p. 23

We recommend that the Department of Aboriginal Relations formalize and communicate its interpretation of eligible uses of funds.

Improve review process—July 2013, no. 2, p. 24

We recommend that the Department of Aboriginal Relations improve its processes to review and approve grant applications by:

- formalizing the additional review processes it developed for complex grant applications
- consistently obtaining sufficient information to support its assessment of grant applications

Monitor for and correct non-compliance—July 2013, no. 3, p. 26

We recommend that the Department of Aboriginal Relations improve monitoring processes by consistently ensuring First Nations comply with reporting requirements and acting to correct non-compliance with the grant agreement.

Agriculture and Rural Development

SUMMARY

DEPARTMENT

Matters from the current audit

There are no new recommendations to the Department of Agriculture and Rural Development in this report.

Matters from prior audits

The Department has implemented our:

- October 2012 recommendation to improve its risk management processes—see below
- November 2006 recommendation to improve its systems for reporting and dealing with allegations of employee misconduct—see page 114

AGRICULTURE FINANCIAL SERVICES CORPORATION

There are no new or outstanding recommendations.

ALBERTA LIVESTOCK AND MEAT AGENCY

There are no new or outstanding recommendations.

FINDINGS AND RECOMMENDATIONS

DEPARTMENT

Matters from prior audits

Enterprise risk management—implemented

Our audit findings

In 2012¹ we recommended that the department improve its risk management processes. The department implemented our recommendation by developing an enterprise risk management policy framework. The policy includes risk assessment, risk treatment, monitoring and review and communication.

The department also developed risk assessment templates to document and track risks and mitigation strategies.

With the implementation of the ERM framework, management is able to identify, assess, manage and monitor risks. Management produces a risk management report and submits it to the department's executive team semi-annually for their review.

¹ *Report of the Auditor General of Alberta—October 2012*, no. 12, page 85.

Systems for reporting and dealing with allegations of employee misconduct—implemented

Our audit findings

In 2006² we recommended that the department improve its systems for reporting and dealing with allegations of employee misconduct. The purpose of our recommendation was to ensure the department had a clear process for staff to report allegations of employee misconduct, as well as a well-understood process for investigating allegations.

In June 2013, the *Public Interest Disclosure (Whistleblower Protection) Act* was proclaimed. The Act provides Government of Alberta employees a clear process for disclosing concerns about wrongdoing, and provides protection from reprisal. It also covers procedures for the disclosure of wrongdoing and allegations by others of wrongdoing.

Management posted material on the department's website, along with links to other websites, which provides staff with:

- information on how to report wrongdoing
- wrongdoing disclosure forms
- the contact details of the designated officer who manages and investigates disclosures
- an employee fact sheet that provides sufficient details about the process of making a disclosure of wrongdoing

Management also has internal processes for disclosing concerns of employees' misconduct that do not fall under the scope of the *Public Interest Disclosure (Whistleblower Protection) Act*.

The department's adoption of the requirements of the Act, along with its internal processes, in our opinion, achieves the objective we recommended.

OUTSTANDING RECOMMENDATIONS

AGRICULTURE AND RURAL DEVELOPMENT AND HEALTH

The following recommendation is outstanding and not yet ready for a follow-up audit:

Food safety: Accountability—October 2013, no. 5, p. 59

(Originally October 2006, no. 12, p. 105; repeated as October 2009, no. 13, p. 114)

We again recommend that the Departments of Health and Agriculture and Rural Development improve reporting on food safety in Alberta. [This recommendation is being repeated to Health; ARD is making satisfactory progress.]

² Report of the Auditor General of Alberta—November 2006, no. 12, page 46.

AGRICULTURE AND RURAL DEVELOPMENT, HEALTH AND ALBERTA HEALTH SERVICES

The following recommendation is outstanding and not yet ready for a follow-up audit:

Food safety: Eliminating gaps in food safety inspection coverage—October 2009, no. 12, p. 111 (Originally October 2006, vol. 1, p. 102)

We again recommend that Alberta Health Services and the Departments of Health and Agriculture and Rural Development, working with federal regulators, eliminate the existing gaps in food safety coverage in Alberta. Gaps include:

- mobile butchers
- consistently administering the Meat Facility Standard
- coordinating inspections in the “non-federally registered” sector

Culture

SUMMARY

DEPARTMENT

There are no new or outstanding recommendations to the Department of Culture in this report.

Education

SUMMARY

DEPARTMENT

Matters from the current audit

There are no new or outstanding recommendations to the Department of Education in this report.

In accordance with Section 19(4) of the *Auditor General Act*, we report a summary of the results of school jurisdiction audited fiscal 2013 financial statements and management letters. Findings include the following:

- All 76 school jurisdictions transitioned to public sector accounting standards when preparing their fiscal 2013 financial statements.
- The net total unrestricted operating surplus and operating reserves increased to \$454 million from \$347 million in fiscal 2012 and \$339 million in fiscal 2011.¹ One jurisdiction had an accumulated operating deficit in fiscal 2013 which is less than the four jurisdictions in fiscal 2012 and three in fiscal 2011.
- The number of school jurisdictions that incurred annual operating deficits has decreased to 20 in fiscal 2013 from 30 with deficits in fiscal 2012 and 27 with deficits in fiscal 2011.
- The 106 recommendations issued to school jurisdictions by their auditors in fiscal 2013 are considerably fewer than the 184 recommendations in fiscal 2012 and 181 in fiscal 2011. Generally the type of recommendations made to school jurisdictions has been relatively consistent. However, large reductions were observed in the number of recommendations related to policies and procedures, purchasing and school generated funds. While this is a significant improvement, school jurisdiction trustees must continue to hold management of their jurisdiction accountable for improving identified weaknesses.

NORTHLAND SCHOOL DIVISION NO. 61

Matters from prior audits

The division implemented our October 2010 recommendation on obtaining an interest in land—see page 124

¹ The amounts for fiscal 2012 and 2011 are restated from those previously reported in the *Report of the Auditor General of Alberta—October 2013*, pages 80-84 (2012 - \$313 million, 2011 - \$320 million). The restatement is due to jurisdictions transitioning to public sector accounting standards from not-for-profit accounting standards in fiscal 2013. The difference is mainly the inclusion of school generated funds, previously reported as a liability, in operating reserves under public sector accounting standards.

FINDINGS AND RECOMMENDATIONS

DEPARTMENT

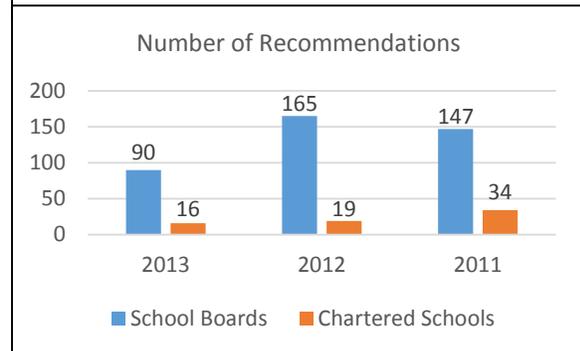
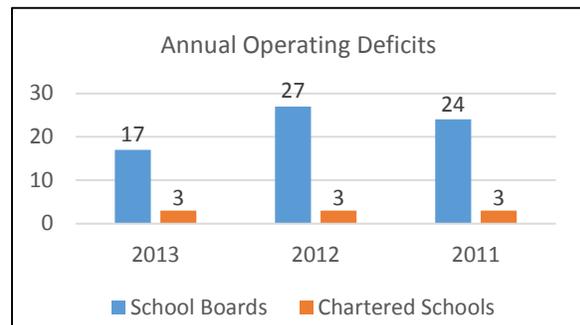
Matters from the current year

Summary of results—school jurisdiction audited financial statements and management letters

Summary

In accordance with Section 19(4) of the *Auditor General Act*, we report a summary of results of school jurisdiction audited financial statements and the management letters provided by their auditors for their fiscal year ended August 31, 2013. Results were compared to results observed for the fiscal years ended August 31, 2012 and 2011. Highlights are:

- All 76 school jurisdictions applied public sector accounting standards for the first time in preparing their fiscal 2013 financial statements.
- The number of schools that received a qualified audit opinion on their financial statements was three (2012 – three, 2011 – four).
- The net total unrestricted operating surplus and operating reserves increased to \$454 million (2012 – \$347 million, 2011 – \$339 million). One jurisdiction has an accumulated deficit (2012 – four, 2011 – three).
- The number of school jurisdictions that incurred annual operating deficits decreased to 20 (2012 – 30, 2011 – 27).
- The number of recommendations made to school jurisdictions by their auditors decreased to 106 (2012 – 184, 2011 – 181). While this is a significant improvement, school jurisdiction trustees need to hold management of their jurisdiction accountable for continuing to improve identified weaknesses.
- 36 jurisdictions had no recommendations (2012 – 24, 2011 – 21).
- There were neither significant changes in the type of recommendation made to jurisdictions nor significant increases in the number of jurisdictions receiving a particular recommendation. Significant reductions were observed in the number of jurisdictions that received recommendations related to policies and procedures, purchasing and school generated funds.



Background

We audited one of the school jurisdictions (Northland School Division No. 61). For all other school jurisdictions we examined the management letter of their auditors and the auditor's report on the financial statements. Those audits were not designed to assess all key systems of control and accountability. The auditors report to management on weaknesses that come to their attention when auditing the financial statements.

The composition of school jurisdictions by fiscal year follows.

	School Boards	Chartered Schools	Total
2013	63	13	76
2012	62	13	75
2011	64	13	77

Summary of results

Financial reporting

Under Section 151 of the *School Act*, school jurisdiction auditors must send management letters, auditor's reports and audited financial statements to the minister by November 30 of each year.

Auditor's reports—Three school jurisdictions (Almadina School Society, Calgary Arts Academy Society and Calgary Girls' School Society) received a qualified auditor's report on their fiscal 2013 financial statements (2012 – three, 2011 – four). Consistent with 2012 and 2011, the reports for these three chartered schools were qualified because the auditors were unable to verify the completeness of gifts, donations and fundraising revenue. In 2011 one school board received a qualification related to capital assets.

All school jurisdiction auditors reported that fiscal 2013 financial statements were presented applying public sector accounting standards.

Financial statements—Seventeen school boards and three charter schools incurred annual deficits from operations (2012 – 27 school boards and three charter schools, 2011 – 24 school boards and three chartered schools). The net annual operating surplus of all school jurisdictions combined was \$92 million (2012 – \$53 million surplus, 2011 – \$14 million surplus). Annual deficits from operations are acceptable to the department as long as jurisdictions have sufficient accumulated surpluses available to cover the shortfall.

Accumulated deficits from operations are not acceptable to the ministry. School jurisdictions with accumulated deficits from operations are expected to work with the ministry to eliminate the accumulated operating deficit. One school board has an accumulated deficit from operations as at August 31, 2013 (2012 – four, 2011 – three). No chartered school had an accumulated deficit from operations in the past three fiscal years.

The net total unrestricted surplus and operating reserves increased to \$454 million (2012 – \$347 million, 2011 – \$339 million) or 6.7% of the total operating expenses for jurisdictions in fiscal 2013. As reported in our school board budgeting follow-up system

audit,² the department monitors if a jurisdiction's total unrestricted surplus and operating reserves,³ as a percentage of total operating expenses, is within a reasonable range. The range applied by the department has been one to four per cent. It found that 61 jurisdictions were above and two jurisdictions were below this range as at August 31, 2013 (2012 – 51 jurisdictions above and four below the range, 2011 – 55 jurisdictions above and four below the range). We were unable to identify any analysis in the department's annual report of the reasonableness of the unrestricted surplus and operating reserve balances and the expected future performance improvements at jurisdictions from applying these funds.

The net book value of tangible capital assets at school jurisdictions is approximately \$5.1 billion as at August 31, 2013 (2012 – \$5.0 billion, 2011 – \$4.9 billion). These assets are funded through a combination of the school's unrestricted surplus, restricted grant funding, and debt. School jurisdictions funded approximately \$576 million or 11.3% of these assets from unrestricted surpluses (2012 – \$576 million, 2011 – \$566 million). School jurisdictions have also set aside capital reserves of \$136 million for future capital expenses (2012 – \$150 million, 2011 – \$117 million). We were unable to identify analysis in the department's annual report of the reasonableness of capital reserves relative to the department's future capital planning.

Management letter recommendations

There were a total of 106 recommendations made to school jurisdictions for fiscal 2013 (2012 – 184, 2011 – 181). Auditors for 36 school jurisdictions did not report any findings and recommendations to management (2012 – 24, 2011 – 21). These results demonstrate school jurisdictions' commitment to improving the overall strength of internal controls and the quality of their financial reporting. We encourage school jurisdiction trustees to hold management of their respective jurisdiction accountable to implement all process recommendations identified. The department contacts jurisdictions, where necessary, to encourage them to deal with the issues raised in the management letters, particularly recommendations repeated from prior years.

The following is a summary of the audit findings and recommendations reported to school jurisdictions by their auditors for the fiscal years ended August 31, 2013 and 2012.

We have grouped our summary of the findings into the following categories:

- financial reporting and governance
- internal control weaknesses
- information technology management

Users of this summary should keep in mind that the audits from which these findings came were not designed to assess all key control and accountability systems.

Financial reporting and governance recommendations

Accounting issues—Eight jurisdictions (including four of the fifteen reported in 2012) need to resolve accounting issues relating to capitalization versus expensing items, recognizing liabilities appropriately, revenue recognition and leases.

² *Report of the Auditor General of Alberta—February 2014*, pages 47-50.

³ For purposes of this analysis, operating reserves exclude school generated funds, as school trustees cannot apply discretion in use of these funds.

Board approval—Two jurisdictions (including none of the three reported in 2012) need to ensure that board minutes are appropriately approved.

Board oversight—One jurisdiction (including one of the three reported in 2012) needs to ensure that the board receives timely information in areas such as monthly or quarterly financial statements and progress on recommendations in the auditor’s management letter to maintain and strengthen overall stewardship and that the finance committee takes on a more proactive financial oversight role.

Budgetary process—Two jurisdictions (including one of the two reported in 2012) need to improve their budgetary processes.

Review of financial information—Twelve jurisdictions (including two of the eleven reported in 2012) need to improve their review and approval of financial information such as bank reconciliations, journal entries, monthly financial statements and variances between budget and actual expenditures.

Timeliness of recording financial information—Three jurisdictions (including none of the two reported in 2012) need to ensure accounting transactions for tangible capital assets and capital grant expenditures, accruals, receivables are recorded or financial statements are prepared on a regular and timely basis.

Personnel and staff shortages—One jurisdiction (including none of the two reported in 2012) needs to implement succession plans, cross-training for key financial positions and review the allocation of staff resources in the accounting function.

Internal control weakness recommendations

Cash management—Five jurisdictions (including none of the five reported in 2012) need to improve cash management processes and controls.

Tangible capital assets—Five jurisdictions (including none of the four reported in 2012) need to improve the recording and tracking of tangible capital assets.

Goods and services tax—Five jurisdictions (including one of the five reported in 2012) need to improve their processes for charging the appropriate amount of GST and for recording the accurate amount of GST paid and recoverable.

Payroll—Fifteen jurisdictions (including six of the eleven reported in 2012) need to improve controls over the accuracy of and access to payroll information.

Policies and procedures—Three jurisdictions (including zero of the twenty reported in 2012) need to implement, update or follow formal procedures and policies.

Purchases—Six jurisdictions (including four of the thirteen reported in 2012) need to improve controls over the purchase cycle such as the review and authorization processes over purchases and payments, employee sign off for goods received and retention of supporting documentation.

Segregation of duties—Six jurisdictions (including one of the two reported in 2012) need to segregate duties over authorization and recording of transactions or custody of and accounting for certain assets.

School-generated funds—Nine school jurisdictions (including seven of the twenty four reported in 2012) need to improve the processes used to collect, record, spend and report school generated funds.

Information technology management recommendations

Computer security—Two jurisdictions (including one of the five reported in 2012) need to improve computer security processes by having unique individual usernames and passwords, implementing a mandatory password change policy, having user access restricted for the appropriate information, and backing up data at an offsite location.

Change management—One jurisdiction (the only jurisdiction reported in 2012) needs to implement or enhance formal, documented policies and procedures for managing and testing changes to system and network software or hardware.

NORTHLAND SCHOOL DIVISION NO. 61

Matters from prior audits

Obtaining an interest in land—implemented

Our audit findings

The division implemented our October 2010⁴ recommendation to develop processes to ensure it obtains a valid legal interest in land before beginning construction of schools.

The official trustee approved Procedure 530 – Construction of Buildings on Third Party Land, on November 22, 2013, which establishes a process for ensuring that the division has an appropriate legal interest in third party lands before commencing construction of buildings on such lands. We observed this policy was applied in 2013 when the division obtained a 35-year lease agreement with the Gift Lake Métis Settlement before beginning construction of the school in Gift Lake.

OUTSTANDING RECOMMENDATIONS

NORTHLAND SCHOOL DIVISION NO. 61

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit:

Improving financial reporting—October 2010, no. 14, p. 134

We recommend that the Northland School Division No. 61 improve its financial reporting by:

- preparing and presenting quarterly financial information to the Official Trustee
- regularly reviewing and reconciling general ledger accounts
- preparing year-end financial statements promptly

⁴ Report of the Auditor General of Alberta—October 2010, no. 13, page 133.

Energy

SUMMARY

DEPARTMENT

Matters from the current audit

The Department of Energy should improve its financial reporting processes—see below

Matters from prior audits

The department has implemented an enterprise risk management system—see page 126

The department implemented a process to ensure bioenergy grant recipients comply with the terms of their grant agreements—see page 126

FINDINGS AND RECOMMENDATIONS

Matters from the current audit

Improve financial reporting processes

Background

The Department of Energy has a difficult financial reporting task. The provincial royalty system is predicated on self-reporting where the petroleum and natural gas industry is expected to understand the relevant energy legislation and comply with it. This can have an impact on the completeness of revenue when the petroleum and natural gas industry does not fully meet the legislative requirements and, for example, report inaccurate or incomplete data. Natural gas revenue is calculated based on allowable costs incurred by the royalty payers and production volumes that are reported to the department by royalty payers. The costs and volumes could vary significantly from that initially reported.

The department estimates what the costs, volumes and royalty rates for the fiscal year should be, based on statistical analysis of industry data. For projects from which bitumen royalty is paid and the project has reached payout, the royalty rate starts at 25% of net profits and increases to 40% of net profits depending on the average price of oil. Payout is defined at the first date at which the cumulative revenue of a project first equals the cumulative cost of the project. The department does not know the actual amount it will receive in royalties until months after the government's fiscal year end. But it must report an estimated amount for royalties when it reports on the government's finances for the fiscal year. Estimating these amounts requires using complex models. In addition, the department has introduced many incentive programs for which royalty adjustments are necessary.

RECOMMENDATION 15: IMPROVE FINANCIAL REPORTING PROCESSES

We recommend that the Department of Energy improve its processes to prepare department and ministry financial statements and supporting working papers.

Criteria: the standards for our audit

The department should have effective quality control processes to produce timely and accurate year-end financial statements and supporting working papers.

This requires:

- standard procedures to assist program areas in developing estimates for financial reporting
- thorough review of accruals and known amounts
- effective processes to review financial statements and supporting working papers before they are presented for audit
- Our audit findings

Our audit findings

KEY FINDINGS

The department's finance group:

- has not provided standard procedures to assist program areas in developing estimates for financial reporting
- is not doing a thorough review of accruals and known amounts
- is adjusting the financial statements for errors but not flowing the adjustments through to the supporting notes and schedules
- made multiple financial statements errors and provided us with many sets of draft financial statements to audit

During the audit, we identified many errors and inconsistencies in the financial statements. The program areas had an insufficient understanding of how to develop financial reporting estimates. The finance group did not effectively review the estimates it received from the program areas. We identified errors that overstated royalty revenue by \$32 million and net income by \$42 million, and understated liabilities by \$23 million. The notes to the financial statements understated royalty credits by \$40 million and overstated contractual obligations by \$36 million. These errors did not have an impact on the amount of royalty collected and were subsequently corrected by management.

Implications and risks if recommendation not implemented

Without effective processes to estimate and review amounts reported in the financial statements, the department cannot promptly and accurately report its financial results.

Matters from prior audits

Implement an enterprise risk management system—implemented

In 2013¹ we recommended that the department design and implement an effective enterprise risk management system (ERM) to ensure it identified, tracked and appropriately mitigated relevant risks.

The department implemented our recommendation by initiating a formal risk management process, which includes a variety of processes to continuously identify and manage significant issues and risks as they arise.

¹ Report of the Auditor General of Alberta—October 2013, no. 6, page 87.

Ensuring compliance with terms of bioenergy grant agreements—implemented

In 2012² we recommended that the department ensure that recipients under the Bioenergy Producer Credit Grant program comply with their grant agreements.

The department implemented our recommendation by obtaining outstanding annual reports from prior-year grant recipients and ensuring that all grant recipients are submitting the required reports as outlined in the grant agreements. We noted that the department has developed a process to follow up with grant recipients who fail to submit the required reports. Additionally, we did not identify any instance of non-compliance during our testing of bioenergy grants.

OUTSTANDING RECOMMENDATIONS

DEPARTMENT

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit:

Improving processes to recognize royalty revenue estimates in the financial statements
—October 2012, no. 15, p. 97
(Originally November 2011, no. 13, p. 89)

We again recommend that the Department of Energy improve its controls to ensure consistent application of methodology used to calculate bitumen royalty estimates.

² Report of the Auditor General of Alberta – October 2012, No. 14, page 96.

Environment and Sustainable Resource Development

SUMMARY

DEPARTMENT

Matters from current audit

ESRD—AEMERA—Joint Canada–Alberta Plan for Oil Sands Monitoring—see page 23

Matters from prior audit

The department has implemented our 2013 recommendation to improve its server patch management process—see below

NATURAL RESOURCES CONSERVATION BOARD

Matters from prior audit

ESRD—Natural Resources Conservation Board—Confined Feeding Operations Follow-up—see page 67

FINDINGS AND RECOMMENDATIONS

DEPARTMENT

Matters from prior audit

Security patch management of servers—implemented

Our audit findings

The department implemented our 2013 recommendation to improve its server patch management process.¹

The department:

- automated the installation of security and operating system patches
- developed a patch management policy and control procedure
- demonstrated that its critical business computer servers had been updated with the latest available security patches on a consistent and timely basis

¹ *Report of the Auditor General of Alberta—October 2013*, no. 10, page 113.

OUTSTANDING RECOMMENDATIONS

MINISTRY AND DEPARTMENT

The following recommendations are outstanding and not yet ready for follow-up audits:

Drinking water: Information systems—October 2006, no. 4, vol. 1, p. 52

We recommend that the Department of Environment and Sustainable Resource Development improve the information systems used to manage its drinking water businesses by:

- updating the Environmental Management System forms and improving reporting capacity
- coordinating regional, district, and personal information systems to avoid overlap and encourage best practice, and
- using data to improve program effectiveness and efficiency

Sand and gravel: Flat fee security deposit—October 2008, no. 41, p. 362

We recommend that the Department of Environment and Sustainable Resource Development assess the sufficiency of security deposits collected under agreements to complete reclamation requirements.

Climate change: Outsourced service providers—October 2009, p. 49

We recommend that the Department of Environment and Sustainable Resource Development develop controls to gain assurance that data hosted or processed by third parties is complete, accurate and secure. We also recommend that the Department of Environment and Sustainable Resource Development formalize its agreement with its service provider for the Alberta Emissions Offset Registry.

**Managing Alberta's water supply: Assessing compliance with the *Water Act*
—April 2010, no. 5, p. 68**

We recommend that the Department of Environment and Sustainable Resource Development ensure its controls provide adequate assurance that performance in the field by licence and approval holders as well as others complies with the *Water Act*.

Managing Alberta's water supply: Watershed planning and advisory councils grants and contracts—April 2010, no. 7, p. 73

We recommend that the Department of Environment and Sustainable Resource Development strengthen its control of grants and contracts with Watershed Planning and Advisory Councils.

**Climate change: Public reporting—October 2012, no. 10, p. 38
(Originally October 2008, no. 11, p. 101)**

We again recommend that the Ministry of Environment and Sustainable Resource Development improve the reliability, comparability and relevance of its public reporting on Alberta's results and costs incurred in meeting climate change targets.

**Climate change: Improve planning—July 2014, no. 2, p. 41
(Originally October 2008, no. 9, p. 97)**

We again recommend that the Department of Environment and Sustainable Resource Development improve Alberta's response to climate change by:

- establishing overall criteria for selecting climate change actions
- creating and maintaining a master implementation plan for the actions necessary to meet the emissions intensity target for 2020 and the emissions-reduction target for 2050
- corroborating—through modeling or other analysis—that the actions chosen by the ministry result in Alberta being on track for achieving its targets for 2020 and 2050

Climate change: Improve monitoring processes—July 2014, no. 3, p. 44
(Originally October 2008, no. 10, p. 100)

We again recommend that for each major action in the 2008 Climate Change Strategy, the Department of Environment and Sustainable Resource Development evaluate the action's effect in achieving Alberta's climate change goals.

Sand and gravel: Enforcement of reclamation obligations—July 2014, no. 4, p. 51
(Originally October 2008, no. 40, p. 360)

We again recommend that the Department of Environment and Sustainable Resource Development improve processes for inspecting aggregate holdings on public land and enforcing land reclamation requirements.

Sand and gravel: Quantity of aggregate removed—July 2014, no. 5, p. 52
(Originally October 2008, p. 364)

We again recommend that the Department of Environment and Sustainable Resource Development develop systems to verify quantities of aggregate reported as removed by industry from public lands so that all revenue due to the Crown can be assessed and recorded in the financial statements.

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit:

Climate change: Data quality—October 2009, p. 40

We recommend that the Department of Environment and Sustainable Resource Development strengthen its guidance for baseline and compliance reporting by:

- clarifying when uncertainty calculations must be done
- prescribing the minimum required quality standards for data in terms of minimum required frequency of measurement and connection to the period being reported on
- describing the types of data controls that facilities should have in place

Climate change: Guidance to verifiers of facility baseline and compliance reports—October 2009, no. 3, p. 42

We recommend that the Department of Environment and Sustainable Resource Development strengthen its baseline and compliance guidance for verifiers by improving the description of the requirements for:

- the nature and extent of testing required
- the content of verification reports
- assurance competencies

Climate change: Cost-effectiveness of regulatory processes—October 2009, no. 5, p. 51

We recommend that the Department of Environment and Sustainable Resource Development assess the cost-effectiveness of the *Specified Gas Emitters Regulation*.

Financial security for land disturbances—October 2009, no. 23, p. 207
(Originally 1999, no. 30, p. 158; repeated 2001, no. 8, p. 90; and unsatisfactory progress October 2005, no. 31, p. 180)

We again recommend that the Department of Environment and Sustainable Resource Development implement a system for obtaining sufficient financial security to ensure parties complete the conservation and reclamation activity that the department regulates.

Managing Alberta's water supply: Backlog of *Water Act* applications—April 2010, no. 4, p. 65

We recommend that the Department of Environment and Sustainable Resource Development minimize the backlog of outstanding applications for *Water Act* licences and approvals.

Managing Alberta's water supply: Wetland compensation—April 2010, no. 6, p. 71

We recommend that the Department of Environment and Sustainable Resource Development formalize its wetland compensation relationships and control procedures.

Climate change: Clarify guidance—November 2011, no. 1, p. 17

(Originally October 2009, no. 4, p. 46)

We again recommend the Department of Environment and Sustainable Resource Development clarify the guidance it provides to facilities, verifiers, offset project developers and offset protocol developers, to ensure they consistently follow the requirements in place to achieve the Alberta government's emissions reduction targets.

Climate change: Ensure all protocols meet new standard, and improve transparency—November 2011, no. 2, p. 23

We recommend the Department of Environment and Sustainable Resource Development implement processes to ensure that all approved protocols adhere to its protocol development standard. We also recommend the Department of Environment and Sustainable Resource Development improve its transparency by making key information about how protocols are developed publicly available.

NATURAL RESOURCES CONSERVATION BOARD

There are no outstanding recommendations to the Natural Resources Conservation Board.

Executive Council

SUMMARY

DEPARTMENT

Various Departments—Contracting—see page 57

OUTSTANDING RECOMMENDATIONS

The following recommendations are outstanding and not yet ready for follow-up audits:

Chief executive officer: Guidance—October 2008, no. 1, p. 27

We recommend that the Deputy Minister of the Department of Treasury Board and Finance through the Agency Governance Secretariat assist agencies and departments by providing guidance in the areas of chief executive officer selection, evaluation and compensation.

Chief executive officer: Accountability—October 2008, no. 2, p. 29

We recommend the Agency Governance Secretariat, on behalf of ministers, annually obtain information from agencies on chief executive officer evaluation and compensation processes to assess if good practices are being consistently followed. The results of these systems assessments should be reported to ministers who should then hold boards of directors accountable for their decisions.

Public agencies: Executive compensation practices—October 2009, no. 1, p. 23

We recommend that the Deputy Minister of the Department of Treasury Board and Finance, through the Agency Governance Secretariat, assist public agencies and departments by providing guidance on executive compensation practices for all public agency senior executives.

Assess risk and improve oversight—October 2012, no. 11, p. 62

We recommend that Executive Council:

- assess the risks to public information assets throughout the government
- determine if the government has adequate IT security policies, standards and controls to mitigate risks
- determine who is responsible and accountable to ensure that public information assets are adequately protected. Specifically:
 - who is responsible for monitoring compliance with IT security requirements
 - who is responsible for ensuring or enforcing compliance with security requirements
 - what actions should be taken when non-compliance is identified
 - how is compliance to security requirements demonstrated

Health

SUMMARY

DEPARTMENT

Matters from the current audit

Crown's Right of Recovery of Healthcare Costs from Motor Vehicle Accidents—see page 33

Various Departments—Contracting—see page 57

Matters from prior audits

Health—Seniors Care in Long-term Care Facilities—see page 71

ALBERTA HEALTH SERVICES

Matters from the current audit

AHS should follow its human resource processes for hiring and termination of executives—see page 136

Matters from prior audits

Health—Seniors Care in Long-term Care Facilities—see page 71

We repeated our October 2009 recommendation to Alberta Health Services to:

- develop an information technology control framework, including appropriate risk management processes and controls, for the management of its information technology resources—see page 138
- monitor compliance with security policies, implement effective change management processes and improve password controls—see page 138

Alberta Health Services has implemented:

- our October 2012 recommendation to complete a review of old amounts on the Goods Received Not Invoiced (GRNI) listing to validate amounts or resolve issues as they arise before year-end—see page 141
- our October 2010 recommendation to implement consistent and efficient accounting processes for externally restricted contributions to assure the AHS board that it is complying with the restrictions attached to those contributions —see page 142
- our October 2012 recommendation to implement a recurring process to ensure significant and/or unusual journal entries are reviewed and approved appropriately—see page 142
- our October 2009 recommendation AHS improve the efficiency and effectiveness of its expense approval controls by:
 - developing and implementing a clear and comprehensive expenditure approval policy
 - automating the expenditure controls within its purchasing system—see page 143

FINDINGS AND RECOMMENDATIONS

ALBERTA HEALTH SERVICES

Matters from the current audit

Human resource processes for hiring and termination of executives

Background

AHS's established process for the hiring of employees requires that once a candidate has been selected, an offer letter is sent to the candidate. After the candidate accepts the offer, either a welcome letter or a contract is sent to them. The welcome letters indicate the position and the remuneration. The contracts also include this information and other terms of employment.

When individuals are assigned to an acting position, they receive a letter indicating the position and the compensation if the position is a promotion.

When an executive employee is terminated, they receive a letter indicating the date their employment will end. If the executive employee is being terminated without cause, the letter also indicates the terms of the severance that the employee will receive. If accepted by the employee, the employee signs a release and confidentiality agreement and any severance owing is paid. Following termination of employment, the employee stops providing services to AHS unless AHS and the employee sign an agreement amending the terms of the termination letter. If an employee is provided working notice¹ rather than ending their employment immediately, the letter indicates the terms and the expectations of the working notice.

RECOMMENDATION 16: FOLLOW PROCESSES FOR HIRING AND TERMINATION OF EXECUTIVES

We recommend that Alberta Health Services follow its human resource processes for hiring and termination of executives.

Criteria: the standards for our audit

AHS should have controls to ensure that their human resource processes are followed and risks are mitigated.

Written agreements or letters covering the terms of the work to be provided and the compensation are in place before employees start work.

Our audit findings

KEY FINDING

AHS did not follow its established human resource processes for three executives.

AHS did not follow its established human resource processes in the following three cases.

One individual began working in an executive level position without having an offer letter accepted by them or a contract signed by AHS and the individual. Accordingly, while the individual was working, AHS did not have an executed agreement that specified the position, the terms of employment and the compensation to be paid. AHS was still in the process of

¹ Working notice is an alternative to terminating an employee and providing severance. When AHS uses this alternative, employees are provided with advance notice of their last day of work and continue to work until that date unless they obtain alternative employment prior to that date.

negotiating with the individual as to the individual's role and compensation when AHS made the decision to terminate the arrangement.

The individual eventually signed a release and confidentiality agreement. AHS had payment terms that they had wanted to govern the payment for this individual. However, without having a contract in place, it was difficult to enforce these payment terms and accordingly they paid more than what they would have had to pay had they had a contract with those terms in place.

In another case, AHS eliminated an executive position. AHS informed the individual, in a letter, that their employment would end in a month and that they were entitled to the severance specified in their contract. The individual signed an employment release agreement. However, the individual continued to provide some services to AHS and sent AHS a memo indicating the terms by which they would provide these services in exchange for the severance payments. AHS and this individual did not sign a contract for this arrangement until four months after the effective date in the termination letter.

In the third case, instead of the executive directly receiving severance, AHS arranged for the individual to complete a research project at another organization. AHS entered into an agreement with the organization and paid it approximately the same as what they estimated the individual would be entitled to in severance. AHS chose to structure the payment this way because they concluded this project had the potential to generate value for AHS whereas the payment of severance alone would not have provided additional value to AHS. The agreement outlined the project and indicated if the individual resigned from the organization, any amounts unpaid to the individual would be refunded to AHS.

While there were project requirements and an overall payment specified, the amount to be paid was not specified for each deliverable. In addition, if the organization terminated the individual, the contract indicated that the remaining funds would be paid to the individual and that organization would not be required to complete the project. The individual was not a party to the contract AHS had with the organization. Nor did AHS have a copy of the agreement with the individual and the organization to assess whether AHS agreed with the conditions under which termination could occur.

In our opinion, if severance is due it should be paid as severance. If the severed individual is receptive to providing further services for AHS without additional compensation, prior to starting the project, AHS and the individual should sign an agreement setting out the terms. The agreement should be clear that the individual will do his or her best to deliver but is not obligated to provide services to continue receiving the severance.

If AHS determines that additional funds beyond the severance amount will be required for the completion of a project it requires, it should consider whether there should be a competitive sourcing selection process. Prior to any work being performed, AHS should enter into a contract that includes terms to ensure that the receipt of the additional compensation is linked to the satisfactory provision of the contracted services.

AHS can be exposed to additional risks by not following its hiring and termination processes. In all of these cases, AHS's acting chief financial officer was not involved to ensure risks were being mitigated.

AHS's Human Resources Advisory Committee requested management review the processes for hiring and termination of senior executives. AHS's President, hired subsequent to conclusion of these three cases, has advised us that AHS will be adopting revised processes to better manage risks associated with the hiring and termination of senior executives. The proposed procedures include ensuring that reviews also occur by human resources, legal, internal audit, the chief financial officer, the president and governance whenever deviations from the standard processes are proposed.

Implications and risks if recommendation not implemented

AHS could be exposed to risks such as increased costs, lack of compliance with employee conduct and confidentiality policies or not having the proper authority in place to ensure performance of key tasks.

Matters from prior audits

Information Technology control policies and processes—repeated

Background

Prior to 2009 Alberta had nine regional health authorities, the Alberta Mental Health Board, the Alberta Cancer Board and the Alberta Alcohol and Drug Abuse Commission. We audited each entity separately and reported our IT audit findings to each separately. When these entities combined to form Alberta Health Services, AHS became responsible for implementing our recommendations.

The underlying cause for our recommendations was the lack of a consistent approach to managing information technology risks across the province. Each entity had implemented differently designed IT controls, some of which were poorly designed. AHS was not consistently implementing controls based on risk and monitoring those controls to ensure they were operating as intended. After AHS was formed, we consolidated all of our recommendations to these entities into one recommendation to AHS.²

AHS's IT environment is very complex as a result of consolidating the IT networks and systems from the former entities. The environment spans all of Alberta, with geographically dispersed staff. Therefore, we recommended and will again recommend that AHS implement an IT control framework, including effective IT control practices, and processes to monitor those controls to ensure they are working to manage AHS's risks. An IT control framework is a process to:

- identify IT risks
- implement cost-effective controls that are well documented, to mitigate the identified risks
- monitor those controls to ensure they are working to manage AHS's IT risks

RECOMMENDATION 17: INFORMATION TECHNOLOGY CONTROL POLICIES AND PROCESSES—REPEATED

We again recommend that Alberta Health Services:

- develop an information technology control framework, including appropriate risk management processes and controls, for the management of its information technology resources
- monitor compliance with security policies, implement effective change management processes and improve password controls

² Report of the Auditor General of Alberta—October 2009, no. 29, p. 262

Criteria: the standards we use for our audit

To properly mitigate significant risks, AHS should develop and implement an IT control framework that includes well-designed, efficient and effective IT controls. An IT control framework is a practical tool for identifying:

- specific steps that all AHS employees must follow to help reduce IT risks
- controls to ensure they are following those steps
- specific steps that management must take to monitor and document whether the controls are managing risks as intended and to fix the controls if they are not working

Our audit findings**KEY FINDINGS**

- AHS's IT control framework does not document the entire process to identify risk, implement cost-effective controls and monitor those controls.
- All key IT controls for the four critical applications are not fully documented.
- The process to monitor the effectiveness of IT controls is not fully implemented.
- Weaknesses in IT controls still exist.

IT control framework not fully documented

AHS has invested significant effort to consolidate the redundant IT systems it inherited. AHS has consolidated the payroll and procurement systems and simplified its overall IT environment. This has created opportunities for AHS to improve the IT control environment by implementing effective controls over its centralized systems.

In 2011 AHS senior management approved an IT control framework, which is incomplete based on our criteria. AHS implemented a self-assessment of the maturity of IT processes. Maturity self-assessments evaluate the design of a control but do not assess whether employees use the controls consistently. In other words, AHS checks whether its IT processes are well designed and repeatable but not if they are followed.

Assessing the design of the controls is an important component of what we expected AHS to do in response to our recommendation. However, AHS has not included all of the processes it needs for a well-designed IT control framework. To fully implement our recommendation, AHS needs to document the following key pieces as part of its IT control framework:

- their processes for identifying risk and implementing cost-effective IT controls
- the IT controls that successfully mitigate risks
- processes to monitor if IT controls are operating as intended

AHS follows other practices that it has not documented in the IT control framework. Taken collectively, these practices implement some parts of our recommendation. For example:

- AHS uses an IT risk register to update IT risks in the enterprise risk management register.
- Staff have done deep-dive risk assessments in key risk areas, such as infrastructure risks. A deep-dive assessment is an extensive, focused analysis of a specific risk area.

However, AHS has not fully documented how all of its IT risk management practices integrate with the IT control framework to implement and monitor cost-effective controls. Its IT control framework guides staff to consider risks when doing a self-assessment of the controls. Any risks identified during the process maturity self-assessments are added to AHS's risk register. But the control framework does not require staff to integrate ongoing monitoring of risks into their ongoing self-assessment.

AHS has a Compliance Coordination Committee that is responsible for monitoring whether controls, including IT controls in key systems, are operating effectively. AHS is still developing the controls they will test and report to the compliance committee.

IT controls not fully documented

AHS has identified 19 IT systems that are necessary for its business operations and healthcare support. AHS has defined:

- four key systems that are critical for its operations
- systems that feed information to the four key systems
- systems the four key systems feed information to

AHS has drafted a compliance plan that includes the IT objectives they will achieve by implementing cost-effective controls. The compliance plan defines general control practices that, if implemented, will achieve the objectives. The control practices in the compliance plan provide general guidance on how to achieve a control objective, but not the detailed activities staff will carry out to accomplish those practices.

IT control monitoring not implemented

An IT control framework is only effective if it has processes to assess if controls have been implemented and are being consistently applied. AHS plans to test for the IT control practices documented in the compliance plan for the 19 key IT systems and report the results of that testing to the compliance committee. AHS's IT compliance plan defines a schedule for testing IT controls for the four most critical systems throughout the 2014–2015 fiscal year. However, AHS does not yet have a documented plan for testing the remaining 15 systems.

Control improvement still needed

AHS has a plan to document the key IT controls for the four critical applications over the next year. However, it may take several years to fully document all of the key IT controls, for the remaining 15 systems.

AHS has not completed projects for identity and access management, and security and incident response. The controls AHS implements as a result of these projects will be the basis for many of the key controls that staff will test and report to the compliance committee.

For example, once fully implemented, the security and incident management tool will allow AHS to identify network performance issues or to identify and react to threats not detected by other systems, such as malware that is not detected by anti-virus systems.

When we made our recommendation in 2009 we noted a number of control weaknesses that we expected AHS would improve when implementing its IT control framework. These control weaknesses included:

- weak passwords
- processes for making changes to a financial application did not include segregation of duties
- undocumented monitoring of security logs

During our current financial statement audit we continued to note weaknesses in these areas.

The password parameters for the general ledger and procurement database do not meet the criteria in AHS's standard.

During our testing of the controls for the AHS change management process and general ledger and procurement applications, we noted that three individuals perform system development work for these applications and also have access to promote changes to the production environment. To support segregation of duties within the change management processes, developers should not have access to production systems. We did not find any compensating controls, such as logging and independent monitoring of the system developer's activities in the production environment.

During testing, we noted that AHS did not have a formal, documented process to log and monitor administrative activities over the general ledger and procurement database and operating system. We also noted that the operating system uses standard logging. However, there is little awareness of this logging configuration among the platform infrastructure team and no one checks these logs regularly for unauthorized activity.

Implications and risks if recommendation not implemented

AHS's processes to identify risk and implement and monitor cost-effective controls will only work if AHS clearly documents how they all work together. The IT control framework can only work to manage their identified risks if management is aware of the big picture as well as the details of how the framework functions.

It is critical that AHS document the entire process to manage risk and monitor controls. If the entire process and all of their key controls aren't well documented, there is a risk that staff won't know what processes and controls they must follow to ensure they have an IT environment that can cost-effectively support critical business functions and minimize avoidable disruptions.

Accounts payable system—Goods received not invoiced listing—implemented

Background

In 2012³ we recommended that AHS complete its review of old amounts on the Goods Received Not Invoiced (GRNI) listing to validate amounts or resolve issues as they arise before year-end. AHS's accounts payable system creates an automatic accrual when goods are received. When an invoice is received, this accrual is reversed and the invoice is paid.

We made this recommendation because we noted that there were approximately \$51 million of accruals on the GRNI which were older than 90 days at March 31, 2012. Although management had begun performing reviews of the GRNI listing in December, 2011, a regular review and resolution process had not been implemented. In addition, the GRNI listing included a number of significant offsetting manual journal entries which made the listing difficult to review.

Our audit findings

This recommendation is implemented.

At March 31, 2014, of the total of \$67 million that was accrued on the GRNI listing, the amounts that were older than 90 days had been reduced to approximately \$6.4 million.

Accounts payable now performs daily reviews of the GRNI listing and follows up on items older than 90 days to determine if they represent appropriate accruals. This process requires individuals from several departments including accounts payable, operations, contract

³ *Report of the Auditor General of Alberta—October 2012*, no. 24, page 122.

procurement supply management and capital in order to complete the appropriate actions required on the items. In addition, manual journal entries were removed from the GRNI listing.

Deferred contributions and deferred capital contributions—implemented

Background

In 2010⁴ we recommended that AHS implement consistent and efficient accounting processes for externally restricted contributions to assure the AHS board that it is complying with the restrictions attached to those contributions. We made this recommendation because we found that AHS had made material errors in accounting for deferred contributions and deferred capital contributions. We also found that there were inconsistent tracking processes and unspent funds were not applied to other projects which had eligible expenditures.

We followed this recommendation up in 2012⁵ and found that AHS made several improvements in the tracking and recording of restricted contributions but still needed to:

- perform a regular review of the deferred capital contributions so there is timely identification of errors in the deferred capital contribution account
- develop a more timely process to seek approvals for extending expiring grants with funders
- confirm with the Department Health whether the prior-year grants from the former health regions have been spent and reported

Our audit findings

This recommendation is implemented.

AHS performs a regular review of the deferred capital revenue balances. We did not identify any errors this year.

AHS is now monitoring expired or inactive grants. AHS has also implemented a process to seek approvals for extending expiring grants with funders and confirmed with the Department of Health whether the prior-year grants from the former health regions have been spent and reported.

Journal entry review process—implemented

Background

In 2012⁶ we recommended that management implement a recurring process to ensure significant and/or unusual journal entries are reviewed and approved appropriately.

We made this recommendation because we noted a significant number of journal entries that included reclassifications and adjustments arising from system implementation during the year but were not subject to a formal, recurring process. There was not an established process to ensure that journal entries over a significant threshold, and/or unusual journal entries outside the normal course of business, were reviewed and approved by the designated members of the financial reporting team to ensure the impact to the consolidated financial statements was appropriate.

⁴ *Report of the Auditor General of Alberta—October 2010*, no. 22, page 168.

⁵ *Report of the Auditor General of Alberta—October 2012*, page 127.

⁶ *Report of the Auditor General of Alberta—October 2012*, no. 26, page 124.

Our audit findings

This recommendation is implemented.

AHS has implemented a monthly monitoring process to ensure all journal entries over an established threshold are reviewed by the designated members of the financial reporting team. We selected a sample of monthly packages that included all recurring and non-recurring journal entries over the threshold. The journal entries were reviewed and signed off by the designated member of the financial reporting team and included the supporting documentation for these entries.

Expenditure policies and approvals—implemented**Background**

In 2009⁷ we recommended that AHS improve the efficiency and effectiveness of its expense approval controls by:

- developing and implementing a clear and comprehensive expenditure approval policy
- automating the expenditure controls within its purchasing system

When we made this recommendation, the former regional health authorities, the Alberta Mental Health Board, the Alberta Cancer Board and the Alberta Alcohol and Drug Abuse Commission (predecessors to AHS) were operating as separate entities.

Most of them did not have a clear and comprehensive expense approval policy and all but one used manual processes to check approvals. One used an automated process.

Our audit findings

This recommendation is implemented.

AHS has developed and implemented a clear and comprehensive expenditure approval policy. AHS's purchasing system uses automated system controls to verify the approval of expenditures.

OUTSTANDING RECOMMENDATIONS**DEPARTMENT**

The following recommendations are outstanding and not yet ready for follow-up audits:

Electronic health records: User access management—October 2009, p. 80

We recommend that the Department of Health ensure that its user access management policies are followed and that user access to health information is removed when access privileges are no longer required.

Department's accountability for the Primary Care Networks program—July 2012, no. 5, p. 35

We recommend that the Department of Health:

- establish clear expectations and targets for each of the PCN program objectives
- develop systems to evaluate and report performance of the PCN program

⁷ Report of the Auditor General of Alberta—October 2009, page 277.

Engagement and accountability to Primary Care Network patients—July 2012, no. 7, p. 42

We recommend that the Department of Health proactively inform Albertans which Primary Care Network they have been assigned to, and what services are available through their PCN.

Centralized support by the department—July 2012, no. 8, p. 43

We recommend that the Department of Health improve its systems to provide information and support to help Primary Care Networks and Alberta Health Services achieve PCN program objectives.

Department's systems to oversee Primary Care Networks—July 2012, no. 9, p. 48

We recommend that the Department of Health improve its systems for oversight of Primary Care Networks by:

- obtaining assurance that PCNs are complying with the financial and operating policies of the PCN program
- ensuring PCN surplus funds are used in a timely and sustainable manner

Oversight and accountability for infection prevention and control—October 2013, no. 1, p. 22

We recommend that the Department of Health:

- determine clear implementation responsibilities of each partner identified under the infection prevention and control strategy and the hand hygiene strategy
- improve its systems to monitor implementation progress and publicly report on the success of both strategies

Chronic Disease Management: Improve delivery of chronic disease management services—September 2014, no. 1, p. 11

We recommend that the Department of Health improve the delivery of chronic disease management services in the province by:

- defining the care services it expects physicians, Primary Care Networks and Alberta Health Services to provide to individuals with chronic disease
- requesting family physicians to deliver comprehensive team-based care to their patients with chronic disease, through a Primary Care Network or appropriate alternative
- establishing processes to assess the volumes, costs and, most importantly, the results of chronic disease management services delivered by the healthcare providers it funds
- facilitating secure sharing of patients' healthcare information among authorized providers
- strengthening its support for advancing chronic disease management services, particularly among family physicians where the need for better systems and information is most critical

Chronic Disease Management: Improve delivery of pharmacist care plan initiative—September 2014, no. 7, p. 32

We recommend that the Department of Health improve the delivery of its pharmacist care plan initiative by:

- establishing a formal process to ensure pharmacists integrate their care plan advice with the care being provided by a patient's family physician and care team
- strengthening claims administration and oversight, including requiring pharmacists to submit diagnostic information showing patients qualify for a care plan, and making care plans subject to audit verification by Alberta Blue Cross
- setting expectations and targets for pharmacists' involvement in care plans and evaluating the effectiveness of their involvement on an ongoing basis

Chronic Disease Management: Strengthen electronic medical records systems—September 2014, no. 8, p. 37

We recommend that the Department of Health strengthen support to family physicians and care teams in implementing electronic medical record systems capable of:

- identifying patient-physician relationships and each patient’s main health conditions and risk factors
- tracking patient care plans and alerting physicians and care teams when medical services are due, and health goals or clinical targets are not met
- appropriately and securely sharing patient health information between authorized healthcare providers
- reporting key activity and outcome information for selected patient groups (for example, diabetics) as the basis for continuous quality improvement

Chronic Disease Management: Provide individuals access to their personal health information—September 2014, no. 9, p. 41

We recommend that the Department of Health provide individuals with chronic disease access to the following personal health information:

- their medical history, such as physician visits, medications and test results
- their care plan, showing recommended tests, diagnostic procedures and medications, including milestone dates and targets set out in the plan

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit:

Implementing the Provincial Mental Health Plan—The accountability framework—April 2008, no. 4, p. 77

We recommend that the Department of Health ensure there is a complete accountability framework for the Provincial Mental Health Plan and mental health services in Alberta.

HEALTH AND AGRICULTURE AND RURAL DEVELOPMENT

The following recommendation is outstanding and not yet ready for a follow-up audit:

Food safety: Accountability—October 2013, no. 5, p. 59

(Originally October 2006, no. 12, p. 105; repeated as October 2009, no. 13, p. 114)

We again recommend that the Departments of Health and Agriculture and Rural Development improve reporting on food safety in Alberta.

HEALTH, AGRICULTURE AND RURAL DEVELOPMENT AND ALBERTA HEALTH SERVICES

The following recommendation is outstanding and not yet ready for a follow-up audit:

Food safety: Eliminating gaps in food safety inspection coverage—October 2009, no. 12, p. 111 (Originally October 2006, vol. 1, p. 102)

We again recommend that Alberta Health Services and the Departments of Health and Agriculture and Rural Development, working with federal regulators, eliminate the existing gaps in food safety coverage in Alberta. Gaps include:

- mobile butchers
- consistently administering the Meat Facility Standard
- coordinating inspections in the “non-federally registered” sector

DEPARTMENT OF HEALTH AND ALBERTA HEALTH SERVICES

The following recommendations are outstanding and not yet ready for follow-up audits:

Chronic Disease Management: Improve support of patient-physician relationships—September 2014, no. 2 & 3, p. 18

We recommend that the Department of Health improve its support of patient-physician relationships by:

- requesting all family physicians establish a process to identify their patient panels and which of those patients have chronic disease, and providing them with healthcare data to help them do so
- determining what it considers to be an effective care team size and composition, and working with family physicians, Primary Care Networks and other providers to help build teams to this level

We recommend that Alberta Health Services identify individuals with chronic disease who do not have a family physician and actively manage their care until they can be linked with a family physician.

Chronic Disease Management: Improve physician care plan initiative—September 2014, no. 5 & 6, p. 26

We recommend that the Department of Health improve its physician care plan initiative by:

- defining its expectations for what care plans should contain and how they should be managed by physicians and care teams
- setting targets for care plan coverage and evaluating the effectiveness of care plans on an ongoing basis
- strengthening care plan administration by ensuring that claims identify qualifying diagnoses, and that care plan billings by individual physicians are reasonable

We recommend that Alberta Health Services coordinate its services to patients with chronic disease with the care plans developed by family physicians and care teams.

Management has identified these recommendations as implemented—to be confirmed with follow-up audits:

Implementing the Provincial Mental Health Plan: Implementation systems—April 2008, no. 3, p. 72

We recommend that Alberta Health Services and the Department of Health, working with other mental health participants, strengthen implementation of the Provincial Mental Health Plan by improving:

- implementation planning
- the monitoring and reporting of implementation activities against implementation plans
- the system to adjust the *Plan* and implementation initiatives in response to changing circumstances

Mental health: Standards—October 2008, no. 16, p. 162

We recommend that the Department of Health and Alberta Health Services create provincial standards for mental health services in Alberta.

Mental health: Funding, planning, and reporting—October 2008, p. 186

We recommend that the Department of Health and Alberta Health Services ensure the funding, planning, and reporting of mental health services supports the transformation outlined in the Provincial Mental Health Plan as well as system accountability.

Mental health: Aboriginal and suicide priorities—October 2008, p. 190

We recommend that the Department of Health and Alberta Health Services consider whether the implementation priority for aboriginal and suicide issues is appropriate for the next provincial strategic mental health plan.

ALBERTA HEALTH SERVICES

The following recommendations are outstanding and not yet ready for follow-up audits:

Contracting practices: Internal controls—November 2006, no. 1, p. 14

We recommend that Alberta Health Services management improve controls over contracting by:

- ensuring adequate segregation of duties exists over the contracting process
- monitoring and verifying contractors' compliance with contract terms and conditions

Contracting practices: Board governance—November 2006, no. 3, p. 17

We recommend that the Alberta Health Services Board, at least annually, receive reports from management on the design and effectiveness of the Alberta Health Services internal controls.

Contract documentation—October 2008, p. 312

We recommend that Alberta Health Services develop and implement a sole sourcing policy for contracts and ensure that sole sourcing is clearly documented and justified. We also recommend Alberta Health Services ensure contract amendments, including changes to deliverables, are documented and agreed to by both parties.

Capital project monitoring systems—October 2009, no. 32, p. 271

We recommend that Alberta Health Services improve the efficiency and effectiveness of its financial capital project monitoring and reporting systems and processes by:

- implementing common systems, policies and procedures to track and monitor key financial information
- providing relevant, timely and accurate information to Executive Management and the Audit and Finance Committee

Financial operations transition plan—October 2010, no. 19, p. 164

We recommend that Alberta Health Services prepare and implement a formal transition plan for the organization's finance operations. The plan should include and integrate the following:

- assessing the resources, timelines and critical path needed to consolidate the general ledger and sub-ledger systems
- ensuring rigorous change management controls are applied before implementing application system changes
- harmonizing financial reporting policies and processes across the organization
- determining the adequate amount of human resources and skill levels required to implement the plan and then keep the processes operational

Effectiveness of insurance reciprocal—October 2010, no. 21, p. 167

We recommend that Alberta Health Services assess the effectiveness of its arrangement with the Liability and Property Insurance Plan as a risk management tool, and assess the resulting accounting implications.

Oversight at AHS waste generating sites—July 2012, no. 1, p. 15

We recommend that Alberta Health Services establish systems for overseeing the management of healthcare waste materials at all AHS sites that generate these materials.

Waste handling policies and procedures at AHS sites—July 2012, no. 2, p. 16

We recommend that Alberta Health Services improve the handling and disposal of healthcare waste materials at its sites by:

- standardizing healthcare waste materials handling policies and procedures across sites
- establishing processes to monitor and enforce facilities' compliance with healthcare waste materials handling policies and procedures
- ensuring chemical waste hazards are remediated promptly
- pursuing more opportunities to reduce, reuse and recycle materials that could enter the healthcare waste stream

Contract management for disposal of healthcare waste materials at AHS sites—July 2012, no. 3, p. 19

We recommend that Alberta Health Services take steps to improve its contract management processes for healthcare waste materials by:

- requiring sites to verify services have been performed before approving vendor invoices for payment
- developing risk-focused systems to monitor healthcare waste management for purposes of controlling volumes and costs

Healthcare waste materials at contracted health service providers—July 2012, no. 4, p. 21

We recommend that Alberta Health Services assess its risk related to healthcare waste materials produced by contracted health service providers and ensure contract provisions manage that risk.

AHS accountability for Primary Care Networks—July 2012, no. 6, p. 40

We recommend that Alberta Health Services within the context of its provincial primary healthcare responsibilities:

- define goals and service delivery expectations for its involvement in PCNs
- define performance measures and targets
- evaluate and report on its performance as a PCN joint venture participant

Fees and charges—October 2012, no. 25, p. 123

We recommend that Alberta Health Services:

- reinforce its admissions policies to ensure consistent application
- review its controls over the processes that generates fees and charges revenue, to ensure they are appropriately designed, consistent across regions and aligned with current policies

Controls over expenses—February 2013, no. 1, p. 24

We recommend that Alberta Health Services tighten its controls over expense claims, purchasing card transactions and other travel expenses by:

- improving the analysis and documentation that support the business reasons for—and the cost effectiveness of—these expenses
- improving education and training of staff on their responsibilities for complying with policies
- monitoring expenses and reporting results to the board

Cleaning, disinfection and sterilization of medical devices—October 2013, no. 2, p. 27

We recommend that Alberta Health Services establish clear oversight and accountability for medical device reprocessing within and across zones to ensure consistent processes and accountability for reprocessing activities in Alberta.

Prevention and control of antibiotic-resistant organisms—October 2013, no. 3, p. 31

We recommend that Alberta Health Services improve its systems to manage risk posed by antibiotic-resistant organisms at hospitals, by:

- developing an evidence-informed approach for evaluating and aligning antibiotic-resistant organism policies and procedures in hospitals
- developing an approach to provide antibiotic stewardship in hospitals across the province

Hand hygiene practices—October 2013, no. 4, p. 38

We recommend that Alberta Health Services improve its systems for hand hygiene by:

- clarifying responsibility and accountability for improving hand hygiene compliance across hospitals
- using available data, on a risk-focused basis, to identify hospital units with poor compliance and take appropriate remedial action
- strengthening the infection prevention and control orientation and training provided to hospital healthcare workers

Payroll—accuracy monitoring activities—October 2012, no. 23, p. 121

We recommend that Alberta Health Services improve its monitoring activities to ensure the accuracy of transactions in its payroll system.

Performance measures for surgical services—July 2014, no. 6, p. 58

(Originally October 2001, p. 135)

We again recommend that Alberta Health Services strengthen its process to monitor the performance of contracted non-hospital surgical facilities.

Chronic Disease Management: Improve AHS chronic disease management services—September 2014, no. 4, p. 22

We recommend that Alberta Health Services improve its chronic disease management services by:

- assessing the total demand for chronic disease management services across Alberta
- developing evidence to support decisions on how services provided by Alberta Health Services, family physicians, Primary Care Networks and Family Care Clinics should be integrated
- setting provincial objectives and standards for its chronic disease management services
- establishing systems to measure and report the effectiveness of its chronic disease management services

Information technology control policies and processes—October 2014, no. 17, p. 138

(Originally October 2009, no. 29, p. 262)

We recommend that Alberta Health Services:

- develop an information technology control framework, including appropriate risk management processes and controls, for the management of its information technology resources
- monitor compliance with security policies, implementing effective change management processes and improving passwords controls

Management has identified these recommendations as implemented—to be confirmed with follow-up audits:

Mental health: Housing and supportive living—October 2008, no. 17, p. 164

We recommend that Alberta Health Services encourage mental health housing development and provide supportive living programs so mental health clients can recover in the community

Mental health: Concurrent disorders—October 2008, no. 18, p. 168

We recommend that Alberta Health Services strengthen integrated treatment for clients with severe concurrent disorders (mental health issues combined with addiction issues).

Mental health: Gaps in service—October 2008, no. 19, p. 171

We recommend that Alberta Health Services reduce gaps in mental health delivery services by enhancing:

- mental health professionals at points of entry to the system
- coordinated intake
- specialized programs in medium-sized cities
- transition management between hospital and community care

Mental health: Not-for-profit organizations—October 2008, p. 169

We recommend that Alberta Health Services improve relationships with not-for-profit organizations to provide better coordinated service delivery.

Mental health: Provincial coordination—October 2008, p. 176

We recommend that Alberta Health Services coordinate mental health service delivery across the province better by:

- strengthening inter-regional coordination
- implementing standard information systems and data sets for mental health
- implementing common operating procedures
- collecting and analyzing data for evidence-based evaluation of mental health programs

Mental health: Community-based service delivery—October 2008, p. 181

We recommend that Alberta Health Services strengthen service delivery for mental health clients at regional clinics by improving:

- wait time management
- treatment plans, agreed with the client
- progress notes
- case conferencing
- file closure
- timely data capture on information systems
- client follow up and analysis of recovery

Approval of drug purchases—October 2009, p. 278

We recommend that Alberta Health Services improve controls for drug purchases by ensuring they are properly approved and duties are appropriately segregated.

Human Services

SUMMARY

DEPARTMENT

The Department of Human Services should improve access control for all its information systems – see below

OFFICE OF THE PUBLIC TRUSTEE

There are no new recommendations to the Office of the Public Trustee.

FINDINGS AND RECOMMENDATIONS

DEPARTMENT

Matters from the current audit

User access control

Background

System access controls are a cornerstone of data security. They ensure only authorized employees have access to systems, thereby improving the integrity of the systems and applications including the data in them. Effective access controls typically include procedures such as formal access requests and approvals, timely access removal, periodic monitoring, and appropriate segregation of duties.

RECOMMENDATION 18: IMPROVE ACCESS CONTROL PROCESSES

We recommend that the Department of Human Services improve access control processes for all its information systems, to ensure:

- user access to application systems and data is properly authorized
- user access is disabled promptly when employees leave their employment or role

Criteria: the standards for our audit

The department should:

- have a clear policy and documented control process for employees to follow in requesting, approving, granting, regularly reviewing and terminating access to business and financial applications
- ensure that access control processes gather appropriate evidence to show they are regularly followed

Our audit findings

KEY FINDINGS

- The department has not defined and implemented control processes to authorize and create new users, or remove users' access, after they leave the organization, for one of the in-scope applications.
- There were no regular periodic reviews of users or access in all the in-scope applications.

The department has not defined and implemented user access control processes for the child care information system.

We found terminated employees with continuing access to six business and financial applications, including the contract management and child care information systems. We also found that the department does not regularly and periodically review user access in in-scope systems and business applications to mitigate the risk of inappropriate and unauthorized access.

Implications and risks if recommendation not implemented

Unauthorized individuals may access the department's systems and applications and may change or manipulate critical personal, business and financial information. Unauthorized access to financial systems could impair the integrity of financial reporting and results.

OUTSTANDING RECOMMENDATIONS

DEPARTMENT

There are no outstanding recommendations to the Department of Human Services.

OFFICE OF THE PUBLIC TRUSTEE

The following recommendations are outstanding and not yet ready for follow-up audits:

Supervisory review of client files—February 2013, no. 2, p. 42

We recommend that the Office of the Public Trustee improve its file management processes to ensure all client files are subject to adequate supervisory review.

Improve and follow policies—February 2013, no. 4, p. 45

We recommend that the Office of the Public Trustee:

- review and assess whether its policies are appropriate, and procedures are adequate to mitigate the risk that client assets could be misappropriated or otherwise mismanaged
- improve its processes for ensuring compliance with policies and procedures

Segregation of duties—February 2013, no. 5, p. 47

We recommend that the Office of the Public Trustee strengthen its processes for the approval and payment of client expenses or disbursements.

Documentation—February 2013, no. 6, p. 48

We recommend that the Office of the Public Trustee improve its processes for ensuring client files are appropriately documented, including adequate documentation of supervisory review and internal audit.

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit:

Internal audit role—February 2013, no. 3, p. 42

We recommend that the Office of the Public Trustee strengthen the role of its internal audit, ensuring it has adequate authority and independence to effectively perform its function.

Infrastructure

SUMMARY

DEPARTMENT

Matters from the current audit

There are no new recommendations to the Department of Infrastructure in this report.

OUTSTANDING RECOMMENDATIONS

DEPARTMENT

The following recommendations are outstanding and not yet ready for follow-up audits:

Infrastructure needs: Process to prioritize projects—October 2007, no. 4, vol. 1, p. 57

We recommend that the Department of Infrastructure improve the process to evaluate proposed infrastructure projects that ministries submit.

Infrastructure needs: Improving current information—October 2007, no. 5, vol. 1, p. 59

We recommend that the Department of Infrastructure, working with the Treasury Capital Planning Committee, examine how the current information provided to Treasury Board and Finance can be improved.

Infrastructure needs: Deferred maintenance—October 2010, no. 8, p. 89

(Originally October 2007, no. 2, p. 49)

We again recommend that the Department of Infrastructure, in consultation with departments, develop objectives, timelines and targets for reducing deferred maintenance, and include information on deferred maintenance in the province's Capital Plan.

Infrastructure needs: Maintaining assets over their life—October 2010, no. 9, p. 92

(Originally October 2007, no. 3, p. 54)

We again recommend that the Department of Infrastructure establish a process that enables public infrastructure assets to be properly maintained over their life.

Innovation and Advanced Education

SUMMARY

DEPARTMENT

There are no new recommendations to the Department of Innovation and Advanced Education in this report.

Innovation¹

We recommend that the Alberta Innovates—Energy and Environment Solutions improve its financial reporting processes—see page 159

Alberta Innovates—Technology Futures implemented our 2011 recommendation to improve its governance practices for the Corporate Information Systems project—see page 160

Advanced Education²

Athabasca University implemented our recommendations on implementing an enterprise risk management framework, and developing a conflict of interest policy—see pages 160 and 161

University of Alberta implemented our recommendation to improve controls over bookstore inventory—see page 161

University of Lethbridge implemented our recommendation to enhance controls over its information technology—see page 162

POST-SECONDARY INSTITUTIONS

This report includes an update on the report card on four universities' internal controls over financial reporting, together with comparative assessments from our 2013 and 2012 audits. Our February 2014 report included the results of our audits at the colleges, technical institutions, MacEwan University and Mount Royal University.

Organizations with effective internal controls and processes over financial reporting are critical to reporting reliable financial information to Albertans. Post-secondary institutions are challenged with establishing and sustaining strong internal controls regardless of the unexpected changes that may occur in their operations annually. The Minister of Innovation and Advanced Education, through the department, must ensure the boards of governors of post-secondary institutions hold management accountable for sustaining strong internal control environments and improving identified control weaknesses in a reasonable period of time.

¹ Innovation in this chapter includes three Alberta Innovates corporations (Energy and Environmental Solutions, Technology Futures and Bio Solutions) and Alberta Enterprise Corporation.

² Advanced Education in this chapter includes post-secondary institutions and the Access to the Future Fund.

Consistent with our prior report cards, we evaluated the following key indicators of effective financial processes and internal controls:

- the time it took institutions to prepare complete and accurate year-end financial statements
- the quality of draft financial statements we received, including the number of errors our audit found
- the number and type of current and outstanding recommendations

To govern effectively, boards need accurate and timely financial information throughout the year, not just at year-end. To manage effectively, management needs the same information. We see a direct correlation between a strong year-end process to prepare financial statements and the ability to prepare quality financial information throughout the year.

A university could have a yellow or red ranking, yet still receive an unqualified opinion on the financial statements, as management can correct errors and disclosure deficiencies during the audit process. The number of errors and disclosure deficiencies we find in the draft financial statements indicates how effective financial controls are for preparing accurate financial statements.

Effective control environments include clear policies, well-designed processes and controls to implement and monitor compliance with policies and secure information systems to provide timely and accurate financial and non-financial information to manage and govern the institutions. Recommendations that are not implemented on a timely basis erode the effectiveness of the institution's control environment. Weak control environments impact the quality of decisions made by management and the board of governors. This can result in an institution not achieving its goals by operating in a cost effective manner and managing operating risks.

The report card

- ◆ Significant improvements are needed.
- ▲ Improvement is required, but not to the same extent as the red items. Yellow items may or may not be associated with a management letter recommendation. They represent areas where an institution can improve, as opposed to areas that require significant, immediate attention.
- We have not identified significant weaknesses in the control environment.

Institution	Financial statements preparation		Outstanding recommendations
	Accuracy	Timeliness	
Athabasca University			
2014	●	●	◆
2013	●	●	◆
2012	●	●	◆
University of Alberta			
2014	●	●	●
2013	●	●	●
2012	●	●	▲
University of Calgary			
2014	●	●	●
2013	●	●	●
2012	●	▲	▲
University of Lethbridge			
2014	●	●	●
2013	●	●	●
2012	●	●	●

In concluding on our report card, we note the following.

Financial statements preparation

The four universities generally had effective processes to prepare timely and accurate financial statements. Each university continues to refine their processes and documentation as a result of the change in 2013 to prepare financial statements under Canadian public sector accounting standards. Clear documentation and support for financial reporting conclusions significantly enhance the universities' financial reporting preparation and internal controls throughout the fiscal year. These also improve managements' decision making ability and opportunities to use results analysis to better communicate the universities' performance and accountability for results.

We issued unqualified audit opinions on the financial statements of all these entities.

Outstanding recommendations

There were no new recommendations to the four universities.

Athabasca University implemented two recommendations—implementing an enterprise risk management framework and developing a conflict of interest policy during the year. As reported

in our July 2014 report, the university also implemented two recommendations relating to its administrative systems renewal project. The board of governors and management have demonstrated a commitment to improving the control environment. We continue to encourage them to prioritize implementing the seven remaining outstanding recommendations, in particular those we originally made in our October 2010 report to improve information technology governance, strategic planning and project management.

Both the University of Alberta and the University of Lethbridge implemented one recommendation during the year, leaving one or two outstanding recommendations at each university. The University of Calgary continues making progress implementing its three outstanding recommendations.

In 2013 we recommended to all post-secondary institutions to improve systems to comply with legislation. All four universities are working collaboratively with other post-secondary institutions to improve their systems. Each institution will use the information gathered from this collaborative process to integrate compliance with legislation within its individual process.

FINDINGS AND RECOMMENDATIONS

DEPARTMENT

There are no new recommendations to the Department of Innovation and Advanced Education in this report.

INNOVATION

We recommend that the Alberta Innovates—Energy and Environment Solutions improve its financial reporting processes—see page 157

Alberta Innovates—Technology Futures implemented our 2011 recommendation to improve its governance practices for the Corporate Information Systems project—see page 158

There are no new recommendations to Alberta Innovates—Bio Solutions and Alberta Enterprise Corporation.

ALBERTA INNOVATES—ENERGY AND ENVIRONMENT SOLUTIONS

Background

The corporation receives funding from the Department of Innovation and Advanced Education and other external entities. If the funder placed restrictions on the use of the funds, the amount the corporation reports in revenue from that funder must not be more than the amount of eligible expenses it has incurred in the year. In other words, the financial statements should show that the corporation was only using the funds for the purpose that the funder specified.

The corporation's practice is to initially record all the funds received in its revenue general ledger account. At the year-end, for financial reporting purposes, management reviews the account and decides whether to defer all or part of the revenue from funders to next fiscal year.

RECOMMENDATION 19: IMPROVE FINANCIAL REPORTING PROCESSES

We recommend that Alberta Innovates—Energy and Environment Solutions:

- improve its processes to identify contributions that funders have restricted
- ensure it has incurred eligible expenses before recording the same amount of contributions as revenue in financial statements

Criteria: the standards for our audit

The corporation should have controls in place to ensure that it defers recording contributions as revenues if the corporation has not met the terms in the underlying agreements or grant letters from funders.

Our audit findings**KEY FINDING**

- Management does not have separate program codes to track expenses for each project for which a funder has restricted the use of funds.
- Management does not have an effective process to track all agreements and grant letters, and report on the funds it expects to receive.

We identified a material amount of funding relating to three projects for which the corporation recorded as revenues before it had incurred expenses that were eligible under the funding agreements. The corporation also entered into agreements with funders before the year-end. However, as the corporation did not track agreements or grant letters until it received the anticipated funds, it did not report these amounts in the financial statements. Management corrected the misstatements.

Management should:

- assign a program code to each project for which the corporation receives funding
- implement a process to track all agreements and grant letters that the corporation receives and record the relevant amounts in its financial reporting system
- implement a process to review agreements and grant letters and identify projects for which funders do or do not place restrictions on the use of funds
- run regular reports on eligible expenses that the corporation incurred for those projects that have restrictions, so that the corporation reports the same amount as revenue

Implications and risks if recommendation not implemented

Without effective controls in place, the corporation may record contributions as revenue before it has met the terms in agreements or grant letters.

Without an effective system to track agreements or grant letters, the corporation may fail to report those contributions that funders have promised but not yet released to the corporation.

ALBERTA INNOVATES—TECHNOLOGY FUTURES

Matters from prior audit

Improve project management governance and controls for new information system—implemented

Our audit findings

The corporation implemented our 2011³ recommendation to improve its governance practices for the Corporate Information Systems project. We confirmed that the corporation:

- developed and used well-defined criteria to select the software system and an implementer with good project management abilities to implement it
- established a project steering committee consisting of key stakeholders to provide governance and oversight of the project
- engaged an independent consultant to assess the project plans, management and governance and then to remediate the identified areas for improvement
- tested the system and the data conversion process
- developed and followed clear criteria that had to be met to go-live

ADVANCED EDUCATION

SUMMARY

Athabasca University implemented our recommendations by:

- implementing an enterprise risk management framework—see below
- developing a conflict of interest policy—see page 159

The University of Alberta implemented our 2012 recommendation to improve controls over bookstore inventory—see page 159

The University of Lethbridge implemented our 2007 recommendation to enhance controls over its information technology—see page 160

There are no new recommendations to the four universities and the Access to the Future Fund in this report.

FINDINGS AND RECOMMENDATIONS

ATHABASCA UNIVERSITY

Matters from prior audits

Enterprise risk management—implemented

Our audit findings

The university implemented our 2012⁴ recommendation to implement an effective risk management system. The university developed an Enterprise Risk Management (ERM) framework which includes an ERM policy and governance document, a risk tolerance statement, ranking of the university's primary risk exposures, and procedures for managing risks and

³ *Report of the Auditor General of Alberta—November 2011*, no. 4, page 65.

⁴ *Report of the Auditor General of Alberta—October 2012*, no.18, page 107.

reporting the risks and actions to senior management and the board. The board of governors approved the framework on January 10, 2014.

With the implementation of the ERM framework, we noted that management is able to identify, assess, manage and monitor risks. We examined that management produces a risk management report and submits it to senior management and the board quarterly for their review.

Conflict of interest policy—implemented

Our audit findings

The university implemented our 2012⁵ recommendation to update its policy and procedures, and implement a process for staff to annually disclose potential conflicts of interest in writing so the university can manage the conflicts proactively.

The university developed a new conflict of interest policy, which the board of governors approved on June 7, 2013. The policy and procedures include a requirement for each employee to acknowledge that the employee has read the policy and disclosed conflicts or potential conflicts of interest, if any, annually. These requirements are part of the annual performance management process that human resource manages. For new employees, the completion of the conflict of interest disclosure report is part of the commencement process. We identified no issues in a sample of annual assessments examined.

UNIVERSITY OF ALBERTA

Matters from prior audit

Improve controls over bookstore inventory—implemented

Our audit findings

The university implemented our 2012 recommendation⁶ by improving its controls to value the bookstore inventory, developing a process to regularly review costs and identify obsolete inventory.

The university implemented a monthly reporting process. The accounting supervisor runs a report for the finance officer and assistant director to review and approve. We noted that their reviews focus on inventory valuation analysis that includes costs, quantity and price adjustments. Bookstore management ensures its inventory system has the correct quantity by performing periodic inventory counts throughout the year and at year-end. To reduce obsolete inventory, the warehouse supervisor performs a secondary check to identify excess books that the bookstore can return to the publishers. We tested management's processes and concluded they are adequate.

⁵ *Report of the Auditor General of Alberta—October 2012*, no.19, page 108.

⁶ *Report of the Auditor General of Alberta—October 2012*, no. 20, page 110.

UNIVERSITY OF LETHBRIDGE

Matters from prior audit

Information technology control framework—implemented

Our audit findings

The university implemented our 2007⁷ report recommendation to enhance controls over its information technology by implementing an IT control framework. The university:

- worked with the Department of Innovation and Advanced Education and participated in the provincial IT control framework program
- developed information technology management policies that are aligned with the provincial IT Control Framework program. These policies have been included in a comprehensive Information and Technology Management policy, which was approved by the board of governors
- developed an enterprise risk management policy and a risk register that includes IT risks. This risk register is updated on a yearly basis and actions to mitigate or responses to deal with the risks are documented.

We did not identify any IT control weakness during our testing which covered user access, change management and security controls.

OUTSTANDING RECOMMENDATIONS

DEPARTMENT

The following recommendations are outstanding and not yet ready for follow-up audits:

Resolve outstanding sector accounting issues—October 2012, no. 17, p. 101

We recommend that the Department of Innovation and Advanced Education work with the Office of the Controller and institutions to develop a process for efficient resolution of accounting issues in the post-secondary sector.

Develop strategic plan and accountability framework—July 2013, no. 6, p. 48

We recommend that the Department of Innovation and Advanced Education, working with institutions and the Campus Alberta Strategic Directions Committee:

- develop and communicate a strategic plan that clearly defines the minister's expected outcomes for Campus Alberta, initiatives to achieve those outcomes, resources required and sources of funding
- develop relevant performance measures and targets to assess if the outcomes are being achieved
- publicly report results and the cost of achieving them
- review and clarify the accountability structures for governing collaborative initiatives

Develop processes and guidance to plan, implement and govern collaborative projects—July 2013, no. 7, p. 51

We recommend that the Department of Innovation and Advanced Education, working with institutions and the Campus Alberta Strategic Directions Committee, develop systems and guidance for institutions to follow effective project management processes for collaborative initiatives.

⁷ Annual Report of the Auditor General of Alberta—2006-2007, no. 21, volume 2, page 23.

Management has identified these recommendations as implemented—to be confirmed with follow-up audits:

Cross-Institution recommendation: Enterprise risk management—April 2010, no. 17, p. 158

We recommend that the Department of Innovation and Advanced Education (through the Campus Alberta Strategic Directions Committee) work with post-secondary institutions to identify best practices and develop guidance for them to implement effective enterprise risk management systems.

Improve financial reporting processes—October 2012, no. 16, p. 100

We recommend that the Department of Innovation and Advanced Education improve its financial reporting processes by:

- training staff on the policies, processes and controls related to preparing the financial statements
- improving its monitoring and review processes to ensure accuracy of the financial information
- reducing its reliance on manual processes, to increase the efficiency and accuracy of financial reporting

MULTI-INSTITUTIONAL RECOMMENDATION

The following recommendation is outstanding and not yet ready for a follow-up audit:

Improve systems to ensure compliance with legislation

We recommend that the post-secondary institutions⁸ implement systems to:

- understand what legislation they must comply with
- develop appropriate policies, procedures and controls to ensure compliance with legislation
- monitor and report non-compliance to senior management and board audit committees

ALBERTA COLLEGE OF ART + DESIGN

The following recommendations are outstanding and not yet ready for follow-up audits:

Improve systems to ensure compliance with legislation—see multi-institutional recommendation

Implement a disaster recovery plan—February 2013, no. 10, p. 65

We recommend that Alberta College of Art + Design implement and test a disaster recovery plan.

Management has identified these recommendations as implemented—to be confirmed with follow-up audits:

Improve risk management systems—March 2012, no. 3, p. 19

We recommend that the Alberta College of Art + Design:

- finalize its enterprise risk management framework document
- periodically update and manage the framework as it identifies new potential risks and opportunities
- enforce compliance with its risk management policy by requiring the president and CEO to periodically report the risks and mitigating strategies to the board

⁸ As a result of our assessment, we made this common recommendation to all colleges and universities as part of our February 2013, October 2013 and February 2014 reports.

Improve controls over contracts—February 2013, no. 9, p. 64

We recommend that Alberta College of Art + Design improve controls over contracts by:

- developing, documenting and enforcing contract procedures
- standardizing contracts with templates that ACAD's legal counsel approves
- developing systems to track and monitor all contracts prepared by all its departments

Strengthen controls over procurement cards transactions—February 2013, no. 11, p. 66

We recommend that Alberta College of Art + Design strengthen its processes over the authorization, review and approval of procurement card transactions.

Improve controls over expense claims and purchase card transactions—February 2014, no. 4, p. 76

We recommend that Alberta College of Art + Design strengthen its controls over expense claims and purchase card transactions by:

- improving documentation to support the business reason for and cost effectiveness of expenses
- improving staff training on their responsibilities for complying with policies monitoring expenses and reporting results to the board

Improve periodic financial reporting—February 2014, no. 5, p. 78

(Originally April 2008, p. 180; repeated April 2010, p. 160)

We again recommend that Alberta College of Art + Design improve its processes and internal controls to increase the accuracy and efficiency in its financial reporting.

Implement and enforce procedures for codes of conduct and conflict of interest—February 2014, no. 6, p. 79

(Originally April 2011, p. 72)

We again recommend that Alberta College of Art + Design develop, implement and enforce procedures for code of conduct and conflict of interest.

Improve internal controls at the bookstore—February 2014, no. 7, p. 80

(Originally February 2013, no. 8, p. 62)

We again recommend that Alberta College of Art + Design improve its internal control systems for its bookstore operations by:

- properly segregating incompatible job duties
- improving its inventory count procedures and investigating discrepancies between inventory counts and inventory records
- resolving software deficiencies in its inventory management computer application

Implement proper purchase controls—February 2014, no. 8, p. 81

(Originally February 2013, no. 12, p. 67)

We again recommend that Alberta College of Art + Design ensure purchases are appropriately supported by purchase requisitions and purchase orders, in accordance with its policies and procedures.

ATHABASCA UNIVERSITY

The following recommendations are outstanding and not yet ready for follow-up audits:

Information technology governance, strategic planning and project management: Improve governance and oversight of information technology—October 2010, no. 1, p. 21

We recommend that Athabasca University continue to improve its information technology governance by:

- developing an integrated information technology delivery plan that aligns with the university's information technology strategic plan
- requiring business cases for information technology projects that include key project information such as objectives, costs-benefit assessments, risks and resource requirements to support the steering committees' and executive committee's decisions and ongoing project oversight
- improving the coordination and communication between the information technology steering committees in reviewing, approving and overseeing projects

Information technology governance, strategic planning and project management: Improve portfolio and project management processes—October 2010, no. 2, p. 24

We recommend that Athabasca University continue to improve its portfolio management and project management processes for information technology projects by:

- clarifying and communicating the mandate and authority of the project management office
- setting project management and architectural standards, processes and methodologies, and training project managers on these
- monitoring and enforcing project managers' adherence to these standards, processes and methodologies
- tracking and managing project dependencies on scope, risks, budgets and resource requirements

Information technology governance, strategic planning and project management: Formalize information technology project performance monitoring and reporting—October 2010, p. 25

We recommend that Athabasca University formalize and improve its monitoring and oversight of information technology projects by:

- improving its systems to quantify and record internal project costs
- providing relevant and sufficient project status information to the information technology steering and executive committees, and summarized project information to the Athabasca University Governing Council Audit Committee
- completing post-implementation reviews on projects to verify that expected objectives and benefits were met and identify possible improvements to information technology governance, strategic planning and project management processes

Information technology governance, strategic planning and project management: Resolve inefficiencies in financial, human resources and payroll systems—October 2010, p. 27

We recommend that Athabasca University complete its plans to resolve the inefficiencies in its financial, human resources and payroll systems.

Improve systems to ensure compliance with legislation—see multi-institutional recommendation

Improve procedures to monitor and report access and security violations—October 2013, no. 8, p. 95

We recommend that Athabasca University formalize its access and security monitoring procedures to:

- detect and assess security threats to critical information systems
- report access and security violations to senior management
- identify and resolve the root causes of security threats and violations

Establish information technology resumption capabilities—October 2013, no. 9, p. 96 (Originally October 2010, no. 10, p. 111)

We again recommend that Athabasca University:

- assess the risks and take the necessary steps to establish appropriate off-site disaster recovery facilities that include required computer infrastructure to provide continuity of critical information technology systems
- complete and test its existing disaster recovery plan to ensure continuous services are provided in the event of a disaster

BOW VALLEY COLLEGE

The following recommendation is outstanding and not yet ready for a follow-up audit:

Improve systems to ensure compliance with legislation—see multi-institutional recommendation

GRANDE PRAIRIE REGIONAL COLLEGE

The following recommendation is outstanding and not yet ready for a follow-up audit:

Improve systems to ensure compliance with legislation—see multi-institutional recommendation

Management has identified these recommendations as implemented—to be confirmed with follow-up audits:

Improve conflict of interest procedures—February 2013, no. 14, p. 72

We recommend that Grande Prairie Regional College update its policy and procedures, and implement a process for directors and employees to annually disclose potential conflicts of interest in writing, so the college can manage the conflicts proactively.

KEYANO COLLEGE

The following recommendation is outstanding and not yet ready for a follow-up audit:

Improve systems to ensure compliance with legislation—see multi-institutional recommendation

LAKELAND COLLEGE

The following recommendation is outstanding and not yet ready for a follow-up audit:

Improve systems to ensure compliance with legislation—see multi-institutional recommendation

LETHBRIDGE COLLEGE

The following recommendation is outstanding and not yet ready for a follow-up audit:

Improve systems to ensure compliance with legislation—see multi-institutional recommendation

MACEWAN UNIVERSITY

Management has identified these recommendations as implemented—to be confirmed with follow-up audits:

Systems over costs for internal working sessions and hosting guests—April 2010, p. 165

We recommend that MacEwan University:

- implement policies and guidance on appropriate expenses for events related to internal working sessions and for hosting guests
- follow its policies and processes for employee expense claims and corporate credit cards

Ensure contracts are signed before work begins—April 2011, no. 3, p. 75

(Originally November 2006, no. 9, p. 35)

We again recommend that MacEwan University have signed contracts (interim or final) in place before projects start.

Improve financial business processes—March 2012, no. 1, p. 13

We recommend that MacEwan University improve its financial business processes by:

- establishing clearly documented processes and controls
- developing clear roles and responsibilities and communicating these to staff
- training staff on the policies, processes and controls relating to their roles and responsibilities
- implementing monitoring and review processes to ensure staff follow the policies, processes and controls

Improve security of PeopleSoft computer system—March 2012, no. 2, p. 15

We recommend that MacEwan University improve the security of its PeopleSoft system to ensure that the university:

- uses the system to assign access permissions based on job roles, and properly limit access
- defines, monitors and enforces rules for segregation of duties
- authorizes and reviews logs of critical data changes
- provides appropriate oversight to maintain the integrity of security controls

Improve systems to ensure compliance with legislation—see multi-institutional recommendation

MEDICINE HAT COLLEGE

Management has identified these recommendations as implemented—to be confirmed with follow-up audits:

Improve enterprise risk management systems—March 2012, no. 12, p. 31

We recommend that Medicine Hat College improve its risk assessment process by:

- documenting its assessment of risks for their impact and likelihood of occurrence
- prioritizing the key risks and clearly linking those risks to a program, operational plan or procedures designed to manage and monitor those risks
- formally reporting the key risks and mitigating actions to the board

Improve systems to ensure compliance with legislation—see multi-institutional recommendation

Oversight by the board of governors—July 2013, no. 8, p. 62

We recommend that Medicine Hat College provide the Board of Governors with suitable and sufficient information regarding significant events and risks related to the college's international activities; and that the Board of Governors strengthen its processes to:

- ensure it is aware of significant risks the college faces
- monitor compliance of the college's international activities with the board's policies

Strategic and operational planning—July 2013, no. 9, p. 67

We recommend that Medicine Hat College implement systems to:

- clearly define the strategic and operational objectives for its international education activities
- provide business cases that assess the risks, benefits, costs and legal requirements before providing training in foreign countries
- set clear and measurable targets for planned outcomes
- periodically measure and report on progress towards achieving targets, meeting objectives and outcomes

Program management and monitoring—July 2013, no. 10, p. 72

We recommend that Medicine Hat College improve its management of its international education activities by:

- assessing and clearly defining the roles and responsibilities of its International Education Division
- implementing effective program delivery and quality assurance processes at its offshore campuses
- implementing an appropriate system of internal controls, financial reporting and accountabilities for its international education activities
- implementing contract management practices to ensure risks have been appropriately managed
- aligning the structure and management of the division to reflect these changes and to ensure adequate oversight

Improve controls over travel expenses—July 2013, no. 11, p. 77

We recommend that Medicine Hat College improve controls over travel expenses by enforcing its travel policy.

MOUNT ROYAL UNIVERSITY

The following recommendation is outstanding and not yet ready for a follow-up audit:

Improve systems to ensure compliance with legislation—see multi-institutional recommendation

NORQUEST COLLEGE

Management has identified these recommendations as implemented—to be confirmed with follow-up audits:

Improve controls over contracts—March 2012, no. 5, p. 23

We recommend that NorQuest College improve its controls over contract management.

Improve systems to ensure compliance with legislation—see multi-institutional recommendation

NORTHERN ALBERTA INSTITUTE OF TECHNOLOGY

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit:

Improve systems to ensure compliance with legislation—see multi-institutional recommendation

NORTHERN LAKES COLLEGE

The following recommendation is outstanding and not yet ready for a follow-up audit:

Improve systems to ensure compliance with legislation—see multi-institutional recommendation

Management has identified these recommendations as implemented—to be confirmed with follow-up audits:

Define goals for preserving economic value of endowments—February 2013, no. 26, p. 92

We recommend that Northern Lakes College define its goals for the use and preservation of the economic value of endowment assets.

Improve controls over tuition revenue—February 2013, no. 27, p. 93

We recommend that Northern Lakes College improve controls over tuition revenue by implementing the following processes:

- review the approved fee schedule entered into the accounting system, to ensure completeness and accuracy
- review user access to the accounting system for tuition fees to ensure that roles and level of access are appropriately granted to individuals

Establish accounts receivable write-off policy—February 2013, no. 28, p. 94

We recommend that Northern Lakes College establish an accounts receivable write-off policy to ensure that balances are valid and appropriately valued.

Improve processes for year-end financial report—February 2014, no. 9, p. 87

We recommend that Northern Lakes College review the adequacy of its financial statements closing process and improve its ability to produce timely and accurate financial statements.

OLDS COLLEGE

The following recommendations are outstanding and not yet ready for follow-up audits:

Improve systems to ensure compliance with legislation—see multi-institutional recommendation

Improve systems on financial year-end reporting—February 2013, no. 29, p. 95 (Originally April 2011, p. 68; repeated March 2012, no. 8, p. 27)

We again recommend that Olds College further improve its processes and controls over year-end financial reporting.

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit:

Improve segregation of privileged user access roles—February 2013, no. 30 p. 96 (Originally March 2012, no. 9, p. 28)

We again recommend that Olds College segregate privileged systems access from data entry responsibilities and business functions.

PORTAGE COLLEGE

The following recommendations are outstanding and not yet ready for follow-up audits:

Follow access controls and remove access promptly—March 2012, no. 13, p. 32

We recommend that Portage College ensure that employees follow its system user-access control procedures and that management promptly removes access privileges when staff leave.

Develop and test a business resumption plan—March 2012, no. 14, p. 33

We recommend that Portage College fully develop and test a business resumption plan to ensure that it can resume IT services in a reasonable time after a disaster.

Improve systems to ensure compliance with legislation—see multi-institutional recommendation

Improve information system change management—February 2013, no. 31, p. 98

We recommend that Portage College develop and implement formal change management policies and control procedures to ensure all changes to systems and applications within the computing environment are implemented in a consistent and controlled manner.

Improve accuracy of bookstore inventory—February 2014, no. 10, p. 88

(Originally April 2011, p. 82; repeated March 2012, no. 15, p. 34)

We again recommend that Portage College improve the accuracy of its perpetual inventory system at the bookstore.

RED DEER COLLEGE

The following recommendations are outstanding and not yet ready for follow-up audits:

Improve systems to ensure compliance with legislation—see multi-institutional recommendation

Improve general computer control environment—February 2013, no. 32, p. 100

We recommend that Red Deer College improve its general computer control environment by:

- finalizing its risk assessment process and implementing a comprehensive IT control and governance framework for its key processes
- implementing appropriate security over information and information technology assets
- managing changes to computer programs
- testing its disaster recovery plan and then assessing its adequacy

SOUTHERN ALBERTA INSTITUTE OF TECHNOLOGY

The following recommendation is outstanding and not yet ready for a follow-up audit:

Improve systems to ensure compliance with legislation—see multi-institutional recommendation

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit:

IT strategic plan—February 2013, no. 33, p. 101

We recommend that SAIT reassess and update its IT action plan. We further recommend that SAIT develop:

- a project plan with effective controls to ensure its plan is implemented on time and achieves SAIT's strategic objectives
- an effective process to identify, rank and prioritize all IT projects and update plans as needed.

UNIVERSITY OF ALBERTA

Management has identified these recommendations as implemented—to be confirmed with follow-up audits:

Systems over costs for internal working sessions and hosting guests—April 2010, p. 167

We recommend that the University of Alberta follow its policies and processes for employee expense claims and corporate credit cards.

Improve systems to ensure compliance with legislation—see multi-institutional recommendation

UNIVERSITY OF CALGARY

The following recommendations are outstanding and not yet ready for follow-up audits:

Enterprise risk management—November 2011, no. 5, p. 67

We recommend that the University of Calgary adopt an integrated risk management approach to identify and manage the risks that impact the university as a whole.

Remove users' access privileges promptly—October 2012, no. 21, p. 112

We recommend that the University of Calgary:

- define an acceptable timeframe to disable or remove users from the application and the network
- document, communicate and consistently follow a process to deactivate users from the university's information technology systems within the defined timeframe

Improve systems to ensure compliance with legislation—see multi-institutional recommendation

UNIVERSITY OF LETHBRIDGE

The following recommendation is outstanding and not yet ready for a follow-up audit:

Improve systems to ensure compliance with legislation—see multi-institutional recommendation

International and Intergovernmental Relations

SUMMARY

DEPARTMENT

There are no new recommendations to the Department of International and Intergovernmental Relations in this report.

OUTSTANDING RECOMMENDATIONS

The following recommendation is outstanding and not yet ready for a follow-up audit:

Evaluating international offices' performance—October 2008, p. 324

We recommend that the Ministry of International and Intergovernmental Relations improve the processes management uses to evaluate the performance of each international office.

Jobs, Skills, Training and Labour

SUMMARY

DEPARTMENT

There are no new recommendations to the Department of Jobs, Skills, Training and Labour in this report.

OUTSTANDING RECOMMENDATIONS

DEPARTMENT

The following recommendations are outstanding and not yet ready for follow-up audits:

Occupational health and safety: Work Safe Alberta planning and reporting—April 2010, p. 43

We recommend that the Department of Jobs, Skills, Training and Labour improve its planning and reporting systems for occupational health and safety by:

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

Occupational health and safety: Promoting and enforcing compliance—July 2012, no. 12, p. 83 (Originally April 2010, no. 3, p. 39)

We again recommend that the Department of Jobs, Skills, Training and Labour enforce compliance with the law by high-risk employers and workers.

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit:

Occupational health and safety: Certificate of Recognition—April 2010, p. 48

We recommend that the Department of Jobs, Skills, Training and Labour improve its systems to issue Certificates of Recognition by:

- obtaining assurance on work done by Certificate of Recognition auditors
- consistently following up on recommendations made to certifying partners

Justice and Solicitor General

SUMMARY

DEPARTMENT

The department implemented our recommendation to establish a formalized IT risk and control framework—see below

FINDINGS AND RECOMMENDATIONS

DEPARTMENT

Matters from prior-year audits

IT risk assessment and IT control framework (Solicitor General)—implemented

Our audit findings

In October 2008 we reported that the Department of Solicitor General and Public Security did not have a formalized information technology control framework to identify and mitigate IT risks and improve its controls over information technology.¹ The department was one of nine organizations that received this recommendation.

We determined that the department has defined the necessary steps and documented the process it will follow to identify technology risks, evaluate their impacts on the business and document the treatment strategies for the identified risks. There is an IT risk registry that identifies the business services affected and a foundation of control policies and procedures have been defined for critical systems in the department.

The department has established a formalized IT risk and control framework, to assess its technology risks and design and implement required controls to mitigate the identified risks.

OUTSTANDING RECOMMENDATIONS

DEPARTMENT

There are no outstanding recommendations to the Department of Justice and Solicitor General.

¹ *Report of the Auditor General of Alberta—October 2008*, pages 51 and 52.

Legislative Assembly Offices

SUMMARY

There are no new or outstanding recommendations to the Legislative Assembly Office or Officers of the Legislative Assembly.

Municipal Affairs

SUMMARY

DEPARTMENT

Matters from the current audit

Various Departments—Contracting—see page 57

We repeat our two October 2005 seniors care recommendations to the Department of Municipal Affairs to improve:

- the effectiveness of the Seniors Lodge Program
- its processes for determine future needs of the Seniors Lodge Program—see page 183

ALBERTA SOCIAL HOUSING CORPORATION

Matters from the current audit

There are no new recommendations to Alberta Social Housing Corporation.

FINDINGS AND RECOMMENDATIONS

DEPARTMENT

What we examined

In 2005¹ we performed an audit of provincial systems used to deliver services to seniors in long-term care facilities. As part of the audit, we made two recommendations related to the Seniors Lodge Program, at the time operated by the Department of Seniors and Community Supports. The department had to:

- improve the measures the department uses to assess the effectiveness of the Seniors Lodge Program and obtain sufficient information periodically to set the minimum disposable income of seniors used as a basis for seniors lodge rent charges
- improve its processes for identifying the increasing care needs of lodge residents and consider this information in its plans for the Seniors Lodge Program

The program was subsequently moved to the Department of Health, and finally in 2012 to the Department of Municipal Affairs. This follow-up audit report presents our work and conclusions on these two recommendations.

We conducted our field work between December 2013 and February 2014. We substantially completed our audit work on May 22, 2014. Our audit was conducted in accordance with the *Auditor General Act* and the standards for assurance engagements set by the Chartered Professional Accountants of Canada.

What we found

The Department of Municipal Affairs has not yet implemented the two recommendations. In 2013 the department initiated a review of the Seniors Lodge Program. This review is currently underway and the department expects its outcomes to be instrumental in implementing the two

¹ *Report of the Auditor General on Seniors Care and Programs—May 2005*, page 53-69.

outstanding recommendations. Although the department is moving in the right direction, we are repeating these two recommendations because of how long they have remained outstanding.

What remains to be done

The department needs to implement the two outstanding recommendations.

Why this is important to Albertans

Without clearly articulated goals, targets and the performance measures to demonstrate achievements, the department cannot show that the Seniors Lodge Program is delivering the expected results. Without comprehensive information on the needs of seniors in lodges, the department may not be able to adequately set expectations, assess resource requirements and plan service delivery for the Seniors Lodge Program.

Background

The Seniors Lodge Program was established in 1959 as a partnership with the Government of Alberta and local municipalities to offer housing and supports to aging populations.² The program is currently administered by the Department of Municipal Affairs and provides accommodation services to about 9,700 mainly low income seniors at 153 lodges across Alberta. Lodges provide room and board for seniors who are functionally independent but cannot live in the community on their own. Core services provided in lodges include basic room furnishings, meals, housekeeping services, linen services, security, 24-hour non-medical services and recreational activities.

In May 2005 we reported the following:

- The department did not identify specific objectives for the Seniors Lodge Program.
- The department measured and reported on the percentage of lodge residents who are satisfied with the quality of their accommodation in its annual report. However, this performance measure was not sufficient to determine whether the department is adequately meeting its goal for the Seniors Lodge Program.
- The department did not periodically obtain and review information to assess whether the monthly disposable income rate for lodge residents is appropriate. The monthly disposable income for lodge residents was set in 1994 at \$265 per resident.
- The department's projections of future needs did not include an assessment of the program's capacity to meet the personal care and health needs of the lodge residents in the future.
- The department did not obtain sufficient information from management bodies, municipalities and health authorities to plan program delivery and manage performance.
- Management bodies were required by legislation to prepare and annually submit to the department their three-year business plans. In 2005 we found that some of the management bodies did not prepare a business plan at all.

² Municipal Affairs 2013-2014 Annual Report, <http://www.municipalaffairs.alberta.ca/documents/2013-2014-MA-Annual-Report.pdf>

Effectiveness of the Seniors Lodge Program and determining future needs of the residents—repeated

RECOMMENDATION 20: EFFECTIVENESS OF THE SENIORS LODGE PROGRAM AND DETERMINING FUTURE NEEDS—REPEATED

We again recommend that the Department of Municipal Affairs:

- improve the measures it uses to assess the effectiveness of the Seniors Lodge Program and obtain sufficient information periodically to set the minimum disposable income of seniors used as a basis for seniors lodge rent charges
- improve its processes for identifying the increasing care needs of lodge residents and consider this information in its plans for the Seniors Lodge Program

Criteria: the standards for our audit

The department should have systems to:

- define the purpose and objectives of the Seniors Lodge Program
- obtain reliable performance and cost information
- analyze the performance information to assess the effectiveness of the services provided at the lodges
- obtain sufficient information from lodges to enable it to set minimum disposal income as a basis for seniors' rent charges
- obtain and analyze information to prepare projections, based on the capacity to provide future needs of the residents—i.e., considering personal and healthcare needs

Our audit findings

KEY FINDINGS

- After taking over the Seniors Lodge Program in 2012, the Department of Municipal Affairs has moved forward by initiating a review of the Seniors Lodge Program in 2013.
- However, we repeat the recommendations because they have been outstanding with the government since 2005.

We were informed by the Department of Municipal Affairs that the two outstanding recommendations have not yet been implemented. The department took responsibility for the Seniors Lodge Program in 2012. It is working to implement the recommendations. In 2013 the department initiated a review of the Seniors Lodge Program. It expects that the outcome of this review will be instrumental in implementing the two outstanding recommendations.

The department established a Lodge Program Advisory Committee to assess and make recommendations on the following:

- The purpose of the lodge program is clearly defined, articulated and endorsed, ensuring relevancy, efficiency and effectiveness.
- Whether there is long-term sustainability of the lodge program.
- The funding model is transparent, efficient and effective, meeting the needs of communities and residents served.

In our 2005 audit we had noted that the department did not periodically obtain and review information to assess whether the monthly disposable income rate for lodge residents is appropriate. The monthly disposable income for lodge residents was set in 1994 at \$265 per resident. In May 2014 the Government of Alberta announced that effective July 1, 2014, the residents of seniors lodges would see a \$50 increase in their disposable monthly income, up from \$ 265 to \$315, under the *Alberta Housing Act*.

Implications and risks if recommendation not implemented

Without clearly articulated goals, targets and performance measures to demonstrate their achievements, the department cannot show that the Seniors Lodge Program delivers the expected results. Without comprehensive information on the needs of seniors in lodges, the department may not be able to adequately set expectations, assess resource requirements and plan service delivery for the Seniors Lodge Program.

OUTSTANDING RECOMMENDATIONS

DEPARTMENT

The following recommendations are outstanding and not yet ready for follow-up audits:

Improve monitoring processes—July 2013, no. 12, p. 90

We recommend that the Department of Municipal Affairs improve its monitoring processes to ensure affordable housing grant recipients comply with their grant agreements by:

- developing and conducting risk-based monitoring activities
- following procedures and processes when performing monitoring activities

Develop an evaluation system—July 2013, no. 13, p. 92

We recommend that the Department of Municipal Affairs improve its evaluation processes by:

- developing performance measures and adequate information systems so that the department can better evaluate and report on its affordable housing grant programs
- completing periodic evaluations of its affordable housing grants programs

Seniors care: Effectiveness of the Seniors Lodge Program and determine future needs—October 2014, no. 20, p. 183

(Originally October 2005, no. 12, p. 66 and October 2005, p. 67)

We again recommend that the Department of Municipal Affairs

- improve the measures it uses to assess the effectiveness of the Seniors Lodge Program and obtain sufficient information periodically to set the minimum disposable income of seniors used as a basis for seniors lodge rent charges.
- improve its processes for identifying the increasing care needs of lodge residents and consider this information in its plans for the Seniors Lodge Program.

ALBERTA SOCIAL HOUSING CORPORATION

The following recommendations are outstanding and not yet ready for follow-up audits:

Social housing contracting policy—November 2011, no. 17, p. 120

We recommend that the Alberta Social Housing Corporation develop a contracting policy for capital additions to its social housing portfolio and strengthen related contract management processes.

Review housing management body cash reserve policy—October 2013, no. 11, p. 145

We recommend that the Alberta Social Housing Corporation review the housing management body cash reserve policy to determine if the policy continues to meet its objective of providing appropriate short-term operational cash flow requirements to the housing management bodies.

Service Alberta

SUMMARY

Service Alberta—IT Disaster Recovery Program—see page 41

The department implemented our recommendations related to registry agencies compliance, payroll review processes and IT resumption—see below

FINDINGS AND RECOMMENDATIONS

DEPARTMENT

Matters from prior-year audits

Ranking of non-compliances at registry agencies—implemented

Our audit findings

In 2012 we recommended that the Department of Service Alberta rank the significance of findings it identified at registry agencies and document its follow-up process.¹ Service Alberta implemented our recommendation by standardizing the registry agent audit process. The standardized process includes separating findings from observations, as well as follow up and questionnaire templates—which define acceptable audit evidence. All registry agent findings are reassessed at the next compliance audit. Going forward, we expect the department to maintain the new process as changes occur and manage the risk of non-compliance with government policies and legislation.

Payroll review process—implemented

Our audit findings

The department implemented our recommendation² to improve its process to provide timely supporting documentation on payroll information that it maintains for itself and its clients. Based on our enquiry of various users of this payroll information we found that the department is preparing, and making available, payroll information in a more timely manner.

Information technology resumption plan—implemented

Background

In 2009³ we recommended that the Department of Service Alberta complete and test an information technology resumption plan.

IT is a vital component in the delivery of programs and services to Albertans. Information technology resumption planning, often referred to as disaster recovery planning or preparedness, involves proactively preparing for major service disruptions to needed IT. Proper disaster recovery planning ensures that critical business IT infrastructure and applications are up and running after a disaster within targeted recovery times, thereby minimizing disruptions in business activities and services.

¹ *Report of the Auditor General of Alberta—October 2012*, page 133.

² *Report of the Auditor General of Alberta—October 2009*, page 312.

³ *Report of the Auditor General of Alberta—October 2009*, no. 35, page 311.

Service Alberta provides over 30 enterprise services used by Albertans and other ministries. It also provides IT core infrastructure as a service to several ministries and their agencies for them to host and run their own systems and applications that help provide programs and services to Albertans.

Our audit findings

We obtained and reviewed Service Alberta's latest pre- and post-disaster recovery plans and test results from March 2013 and 2014. The test results and ongoing updates and improvement of those plans supports the likelihood that Service Alberta can restore the systems and services they provide to other ministries.

We obtained and reviewed the contract between IBM Global and Service Alberta to provide disaster recovery services and regularly test them at IBM's Shaw Court data centre. We found that the disaster recovery plans for the services provided by IBM were reasonable. We also confirmed IBM annually tests the disaster recovery plans for the services they provide to Service Alberta.

This implemented recommendation pertains to the department's technical ability to recover its systems. Our new recommendation to Service Alberta (see page 45) relates to the government-wide identification of critical IT applications, the identification of necessary recovery times, and that adequate resources exist to recover within those stated recovery times.

OUTSTANDING RECOMMENDATIONS

DEPARTMENT

The following recommendations are outstanding and not yet ready for follow-up audits:

Access and security monitoring of the revenue application systems—October 2008, p. 346

We recommend that the Department of Service Alberta ensure adequate logging and monitoring processes are in place in all application systems that host or support financial information and Albertans' personal information.

System conversion process—October 2008, p. 349

We recommend that the Department of Service Alberta document its review of actual system-conversion activities to ensure that they comply with the approved test plan for system conversion and data migration.

Tourism, Parks and Recreation

SUMMARY

DEPARTMENT

There are no new or outstanding recommendations to the Department of Tourism, Parks and Recreation in this report.

TRAVEL ALBERTA

CEO Travel, Hosting, and Hospitality Expenses

Background

Travel Alberta is the tourism marketing agency of the Government of Alberta and the nature of its business requires employees to attend various meetings and events in the province and abroad to advance the strategies of the organization. Travel Alberta employees interact with businesses, representatives from other governments, as well as domestic and international organizations involved in tourism-related endeavors. Travel Alberta is funded through a levy that is assessed on hotel bookings in the province.

In March 2014 the Minister of Tourism, Parks, and Recreation was questioned in the Legislative Assembly about the appropriateness of expenses incurred by Travel Alberta's CEO. On March 23, 2014 we were asked by an MLA to investigate various CEO expenses. The expenses raised as questionable included an \$8,800 trip to Singapore, \$828 for a dinner at a Banff restaurant and a \$157 tuxedo rental to attend a black tie event, among others. Afterwards, the Minister of Tourism, Parks and Recreation requested that Travel Alberta engage an independent party to investigate travel, meal and hospitality expenses from September 20, 2012 onward. This review was completed and the results were provided to Travel Alberta in April 2014. The results of the review did not identify any significant matters or misuse of expenses. Travel Alberta updated its travel and hospitality expense policy (effective June 2014) to better conform with the Government of Alberta policy, while retaining the ability to carry out its activities, which includes marketing and promoting Alberta as a tourist destination.

As a result of the allegations of inappropriate expenses, we decided to review the CEO's expenses for reasonableness and whether appropriate review processes were followed. Our examination was primarily focused on whether the above-noted expenses complied with Travel Alberta's policies (that were effective at the time the expense was incurred). We also considered whether the expenses were appropriate given the circumstances and whether the approvals and justifications were supported by the necessary documentation. Our examination did not include an assessment of the new policy.

RECOMMENDATION 21: ENHANCE DOCUMENTATION TO SUPPORT SENIOR MANAGEMENT EXPENSES

We recommend that Travel Alberta improve the consistency and rigour of its approval process and enhance the documentation to support senior management expenses.

Criteria: the standards for our audit

Travel Alberta, including the CEO and the board, should be able to ensure and demonstrate that expenses are incurred only for business reasons, with proper consideration of economy and efficiency.

Our audit findings**KEY FINDINGS**

- The CEO's expenses incurred were not unreasonable, given Travel Alberta's policies and the business reasons supporting the expenses.
- Pre-approval of international flights, as required by the policy, did not always occur.
- The board did approve CEO expenses and was aware of the nature and purpose of these expenses.
- Documentation that articulated why certain expenses were necessary and appropriate was not always available.

CEO hosting expenses

Attendance of family members—Based on our examination, the attendance of employee spouses, and other family members, at Travel Alberta working and hosting sessions is infrequent. When it does occur, we found no evidence that Travel Alberta is paying for employee family members' costs. In particular, for an \$828 meal expense for a dinner at a Banff restaurant in October 2012, where a spouse was in attendance, we confirmed that while the bill was paid by Travel Alberta, the costs related to the two spouses were reimbursed soon after the meal had taken place.

Attendance of non-government employees—Non-government employees can be hosted by Travel Alberta provided it is a reasonable expense with a valid business reason. During a hosting session the expensing of alcohol is permissible; however, alcohol cannot be expensed for a working session among employees. One expense brought into question was a hosting session with Parks Canada that included the expensing of alcohol. Travel Alberta does not consider Parks Canada representatives as government employees, as they were engaged through their role as a potential partner in advancing tourism in Alberta. In effect, Travel Alberta considers only provincial employees as government employees and this is clear in their new policy.

Also, the Minister's Strategic Tourism Council, appointed by the minister but comprised of individuals external to government, is considered a non-government group. Thus, expenses we reviewed related to hosting sessions for the council were in compliance with the stated policy. Alcohol is generally served and expensed during these hosting sessions.

Reasonableness of expenses

Dinner at golf resort—A meal expensed by the CEO for a board meeting dinner at a golf resort was questioned—notably a \$99 rib steak that was purchased. Based upon the number of meals in comparison to attendees on the expensed bill, Travel Alberta's claim that the \$99 rib steak was shared among three people appears reasonable. We confirmed no alcohol was expensed for this meal. Our examination of dinners held in conjunction with board meetings identified this one as relatively more costly on a per person basis. While it is apparent the meal was for the purposes of a board meeting, Travel Alberta did not have documented support for the necessity and economy of the meal. Travel Alberta should carefully consider the business reason and cost effectiveness of working sessions, to reduce the risk that an expense could be viewed as exorbitant.

Chamber of Commerce Golf Tournament—Travel Alberta expensed four tickets to the 2013 Calgary Chamber of Commerce Golf Tournament. Based upon the type of events that Travel Alberta representatives attend to advance the organization's objectives, this expense of \$1,900 is not in violation of the expense policy. We confirmed that the CEO did not personally attend the event, and that other Chamber of Commerce events in both Calgary and Edmonton were attended in the past. Thus, it does not appear that the CEO received a personal benefit as a result of Travel Alberta employees attending this event.

CEO Travel

Singapore trip—In June 2013 the CEO travelled from Calgary to Singapore for a total cost of \$8,800. The stated purpose of the trip was to interview a prospective candidate for a senior management position. The candidate had previously been an employee of the organization and was considering returning to Alberta. The CEO, based on the candidate's past performance, indicated he was very keen on encouraging the individual to return to the organization. The former board chair and the CEO both told us that the purpose and need for the trip were discussed in advance of it taking place. There was no available documentation to support this statement. Furthermore, board approval of the CEO's international trip did not occur in advance, which is required per Travel Alberta's policy. However, based on the information gained through our interviews, the rationale (for example, senior management position, candidate's personal circumstances, alternative cost of using a recruiting agency) coincides with other evidence we obtained and supports the business reasons for making the trip. We noted that the duration of the trip from departure to return was three days, which included approximately 30 hours of flying time. One full day was spent in Singapore, where the CEO met with the prospective candidate and the candidate's family. Thus, a personal benefit does not appear to have been obtained from this trip. The use of business class was in compliance with Travel Alberta's stated policy.

Direct flight from Edmonton to New York—The stated purpose of participating in this flight was through the CEO's role as a Travel Alberta representative on the Edmonton International Airports Advisory Council. This trip to New York was viewed as an important event that allowed the CEO to interact with influential members of the community, who also took part in the flight. The \$2,750 expense included the cost of the hotel. This expense did not contravene the Travel Alberta policy.

Tuxedo rental

The \$157 tuxedo rental cost, reimbursed by Travel Alberta to the CEO, was subsequently repaid after it was questioned as reasonable. The board approved the expense when it was originally submitted, as it was viewed as an expense incurred for the purposes of the CEO representing Travel Alberta at a black tie event. The policy does not delve into the layer of granularity that would explicitly state whether this is an appropriate expense or not. The CEO decided to repay the expense. In the future, the CEO and board should carefully consider whether an expense, while potentially allowable under the policy, might still be viewed as unreasonable and possibly pose a reputational risk to Travel Alberta.

Board oversight

While we found that board approvals did not always occur when they should have (for example, pre-approval for international flights) and documentation of certain expenses needs to improve, we didn't identify a lack of board oversight. We found that the board did ultimately approve all the CEO's expenses and was aware of the nature and purpose of these expenses. We found no evidence to indicate that the board was not aware of the CEO's expenses when they were incurred and that the board was concerned that the CEO was obtaining a personal benefit from his expenses.

Our audit of this matter reaffirms that while public disclosure of senior management expenses does increase transparency, without the circumstances, context and justification for those expenses, it can be difficult to appropriately assess the reasonableness of specific expenses. It also highlights that government organizations need to be cognizant of the risks that exist when travel, hosting and attendance occurs at events. An expense that complies with prevailing policies may still be viewed as inappropriate by external parties; thus, adequate documentation and timely approvals are necessary to support the reasonableness of expenses. Additionally, regular scrutiny of policies is needed to ensure they are meeting the needs of and protecting the organization as intended.

Implications and risks if recommendation not implemented

Without consistently applied approvals and the necessary supporting documentation, Travel Alberta may pay for unreasonable expenses and be unable to demonstrate the expenses are cost effective.

Transportation

SUMMARY

DEPARTMENT

There are no new recommendations to the Department of Transportation in this report.

OUTSTANDING RECOMMENDATIONS

DEPARTMENT

The following recommendation is outstanding and not yet ready for a follow-up audit:

Commercial vehicle safety: Progressive sanctions—July 2014, no. 7, p. 70

(Originally October 2009, no. 14, p. 127)

We again recommend that the Department of Transportation enforce compliance by carriers who persistently fail to comply with rules and regulations.

Management has identified these recommendations as implemented—to be confirmed with follow-up audits:

Improve processes to value donated assets in the department financial statements

—October 2010, p. 197

We recommend that the Department of Transportation:

- enter into agreements with donors that:
 - provide the Department of Transportation with assurance on the fair value of the donated assets
 - specify whether donation receipts will be issued
- document its support for the valuation reported in its financial statements, including the procedures performed, assumptions made and source documents reviewed

Managing structural safety of bridges: Design of level 1 visual inspections—October 2012, no. 1, p. 21

We recommend that the Department of Transportation improve its inspection processes by ensuring that it collects all the information it needs to assess the quality of inspections.

Managing structural safety of bridges: Quality of inspections—October 2012, no. 2, p. 23

We recommend that the Department of Transportation regularly assess whether contractors perform inspections following its standards and take corrective action if they do not.

Managing structural safety of bridges: Inspector certification—October 2012, no. 3, p. 24

We recommend that the Department of Transportation ensure that contractors who perform inspections are properly certified.

Managing structural safety of bridges: Timeliness and completeness of inspections

—October 2012, no. 4, p. 25

We recommend that the Department of Transportation ensure that bridges are inspected as frequently as its standards require.

Managing structural safety of bridges: Assessing whether to contract out program delivery—October 2012, no. 5, p. 26

We recommend that the Department of Transportation regularly assess whether it should contract out inspections or do them itself.

Managing structural safety of bridges: Contracting level 1 bridge inspections**—October 2012, no. 6, p. 27**

We recommend that the Department of Transportation improve its process to contract its level 1 inspections by:

- documenting how it establishes criteria for assessing candidates and awards points for each criterion
- ensuring proposal requirements do not limit qualified candidates

Managing structural safety of bridges: Controls over access to the bridge information system—October 2012, no. 7, p. 28

We recommend that the Department of Transportation improve its processes to monitor access to the computer system that manages bridge inventory and inspections.

Managing structural safety of bridges: Maintenance activities—October 2012, no. 8, p. 29

We recommend that the Department of Transportation improve the information that senior management receives on inspector activities, results, maintenance and other actions.

Managing structural safety of bridges: Capital planning—October 2012, no. 9, p. 31

We recommend that the Department of Transportation ensure that it gives decision makers the information they need to assess the impact of funding alternatives on bridge safety and protection of the province's investment.

Treasury Board and Finance

SUMMARY

DEPARTMENT

Matters from the current audit

Treasury Board and Finance—Collection of Outstanding Corporate Taxes—see page 47

We recommend that the Department of Treasury Board and Finance:

- update and follow its enterprise risk management systems—see page 194
- improve the security controls over the tax and revenue administration systems—see page 195
- approve tax refunds before they are made as required by the *Financial Administration Act*—see page 197

Matters from prior audits

The department implemented our recommendation related to inconsistent budgeting and accounting for grants—see page 198

ALBERTA GAMING AND LIQUOR COMMISSION

Matters from the current audit

There are no new recommendations to the Alberta Gaming and Liquor Commission in this report.

Matters from prior audits

The Alberta Gaming and Liquor Commission implemented our recommendation to improve its processes for managing information security patches—see page 196

ALBERTA INVESTMENT MANAGEMENT CORPORATION

Matters from the current audit

We recommend that the Alberta Investment Management Corporation ensure that its Statement of Investment Valuation Principles and Practices are applied when valuing and accounting for its life settlement investments—see page 199

Matters from prior audits

The Alberta Investment Management Corporation implemented our recommendation to improve controls over the investment risk IT system—see page 201

ATB FINANCIAL

Matters from the current audit

There are no new recommendations to ATB Financial in this report.

Matters from prior audits

We repeat our recommendation that ATB Financial improve its processes related to service providers by ensuring its business areas receive and review service auditor reports, assess the

impact of control weaknesses at the service provider and implement controls that complement service providers' controls—see page 202

ATB Financial implemented recommendations related to:

- new banking system internal controls—see page 203
- action plans to resolve internal control weaknesses identified by its internal control group—see page 203
- securitization policy and business rules—see page 204
- change management processes—see page 204
- liquidity simulations—see page 204
- interest rate risk model assumptions—see page 205
- interest rate risk modeling and stress testing—see page 205

FINDING AND RECOMMENDATIONS

DEPARTMENT

Enterprise risk management systems

Background

Enterprise risk management is a continuous and proactive process to understand, manage and communicate risks from an organization-wide perspective. Risk management involves identifying risks relevant to the entity, assessing their likelihood and potential impact, implementing risk mitigation strategies, monitoring the risks and mitigation strategies and reporting to management.

In 2007, the government-wide deputy ministers' committee approved an enterprise risk management framework that required all departments to implement a risk management system.

RECOMMENDATION 22: ENTERPRISE RISK MANAGEMENT SYSTEMS

We recommend that the Department of Treasury Board and Finance update and follow its enterprise risk management system by identifying, monitoring, communicating and appropriately mitigating relevant risks.

Criteria: the standards for our audit

The department should have an effective enterprise risk management system that:

- identifies the risks associated with achieving the department's objectives
- assesses and ranks risks, including their likelihood and potential impact
- defines roles and responsibilities, including clearly identifying who is responsible for managing risk
- develops and implements programs or procedures for identified risks
- updates risk assessments as changes occur
- monitors and evaluates programs and processes to mitigate risks
- reports risks and actions taken to mitigate risks to senior management

Our audit findings

KEY FINDING

The department has not updated and followed a formal enterprise risk management process since 2011.

While the department continuously manages risks, through various methods, these systems could be more efficient and effective in a more coordinated approach. The department developed a risk management framework and drafted a risk management policy several years ago in response to the requirement across government to implement a risk management system. However, the department has still not approved the policy, nor has the department followed formal enterprise risk management processes since 2011.

The department has not:

- updated and communicated risk criteria to staff to enable a common understanding of acceptable levels of risk and pursuit of potential opportunities
- defined clear roles and responsibilities for risk management, including responsibility for monitoring, reviewing and reporting on risks and on the status of risk mitigation activities
- completed a comprehensive risk assessment. The risk register the department completed in 2011 has not been updated since that time.
- identified key risk indicators to monitor risks and respond to them promptly
- reported regularly to the department's executive team the key risks, any changes in risks, recommended actions and the status of risk mitigation activities

Implications and risks if recommendation not implemented

Without an effective enterprise risk management system, the department may not identify and manage its risks efficiently and effectively.

Access controls for the tax and revenue administration systems

Background

The tax and revenue administration (TRA) division of the Department of Treasury Board and Finance administers the collection of corporate income tax, fuel tax, tobacco tax and insurance tax. These taxes totaled \$8 billion in 2014. Employees in the division use 29 information systems to register taxpayers, capture and assess returns, record tax payments, and manage objections, appeals, collections, compliance and audits. Management assigns role-based access to these information systems based on the jobs employees perform in the division.

RECOMMENDATION 23: IMPROVE ACCESS CONTROLS OVER THE TAX AND REVENUE ADMINISTRATION SYSTEMS

We recommend that the Department of Treasury Board and Finance improve the security of its tax and revenue information systems to ensure that it:

- assigns access based on job roles and responsibilities
- defines, monitors and enforces its rules for segregation of duties
- periodically reviews if access to its systems remain appropriate

Criteria: the standards for our audit

The department should have effective processes to:

- limit user access to that needed to an employee's roles and responsibilities
- document and enforce segregation of duties through defined roles

Our audit findings

KEY FINDINGS

- Security design, including segregation of duties for tax and revenue information systems are not documented.
- Management cannot demonstrate that assigned access to its information systems is appropriate.

TRA does not have well-designed and effective systems to manage security within the tax information systems. Specifically, TRA management did not:

- have documented evidence to support the design of security roles
- have documented rules for segregation of duties, and the system does not always enforce segregation of duties
- periodically review whether access to the information systems remains appropriate

a) Security design for tax system is not formalized

TRA uses role-based access to the tax and revenue information systems. In role-based access, managers create roles based on the job function requirements, assign appropriate access to applications to each role, and then give employees access to those roles based on the access they need for their jobs.

The department could not provide us with documentation that would allow department managers to assess whether the access they assigned was appropriate, required and ensured proper segregation of duties. TRA does not have effective processes or controls to ensure that it gave employees access to only the roles needed for their job or function. We also confirmed examples where TRA assigned access directly to users rather than assign that access to a role and then give the role to the user. Assigning access directly to users contradicts security best practices and makes it difficult to administer user and database security.

Several IT staff in the department have access to perform functions that are the responsibility of staff in the division. While we recognize IT staff may need to resolve issues in the systems, they should not have ongoing access to functions for which they are not responsible.

b) Segregation of duties is not formalized

Segregation of duties ensures that no single person can complete a significant financial process or task end-to-end without supervision or input from another user. While we agree that segregation of duties exist in manual processes, TRA could not demonstrate that it had designed and implemented adequate segregation of duties within its information systems that is consistent with its policies. This would include designing roles based on documented rules for segregation of duties. For example, we found a refund of \$74 million that did not have the required second review because the person who authorized the refund had access that allowed them to bypass the requirement for a second review in the tax information system. As this is one example, TRA should do a comprehensive review of the segregation of duties controls within its information systems to ensure they align with policies.

c) Periodic review of access

TRA does not periodically review whether users' access to the various applications is appropriate. TRA staff may be seconded or move to another position and may be given additional access to perform certain functions. Periodic reviews are important to ensure that access to conflicting roles or functionality no longer needed is removed so segregation of duty risks are mitigated.

Implications and risks if recommendation not implemented

Without understanding its complex information systems security needs and capabilities, management may assign access that will allow users to perform transactions that are not part of their responsibilities.

Corporate tax refunds**Background**

Corporations are required to pay tax installments to the department and file an annual tax return. The department's Tax and Revenue Administration division processes and assesses these tax returns and issues notices of assessment or reassessment. Because of these assessments, corporations may either owe additional money or receive a refund for overpayments.

Sections 37 and 38 of the *Financial Administration Act* require that an expenditure officer and accounting officer approve all disbursements of public money before the department makes the disbursement. The department delegates various employees to approve refunds, depending on their value.

RECOMMENDATION 24: CORPORATE TAX REFUNDS

We recommend that the Department of Treasury Board and Finance approve tax refunds before making payments in accordance with the requirements of the *Financial Administration Act*.

Criteria: the standards for our audit

The department should approve disbursements of public money before making corporate tax refund payments to comply with the *Financial Administration Act*.

Our audit findings**KEY FINDING**

The department did not approve tax refund payments, as required by the *Financial Administration Act*, before the payments were made.

The department pays refunds to corporations daily after it issues a notice of assessment or reassessment. Management told us that they pay the refunds promptly, to avoid or minimize any interest due on the refunds. However, the department does not have well-designed processes to ensure an appropriate expenditure officer approves these payments before they are made in accordance with the *Financial Administration Act*. For the samples we reviewed, the expenditure officer approved the payments after the disbursements occurred, not before.

Implications and risks if recommendation not implemented

Approval before disbursement allows the department to comply with the *Financial Administration Act* and to prevent erroneous refunds to taxpayers.

Matters from prior audits**Inconsistent budgeting and accounting for grants—implemented****Background**

In 2007¹ we recommended that the Department of Treasury Board and Finance provide guidance to ensure consistent accounting treatment of grants throughout government. Since we provided our recommendation, Public Sector Accounting Standards for accounting for grants changed. The change in standards helped resolve several inconsistencies we noted in our original recommendation. Accounting for multi-year grants remained inconsistent.

Our audit findings

The department implemented our recommendation by developing a corporate accounting policy on accounting for government transfers, including accounting for multi-year grants.

ALBERTA GAMING AND LIQUOR COMMISSION**Matters from prior audits****Security patch management—implemented****Background**

In 2013² we recommended that AGLC ensure it regularly applies security patches to its information systems, to manage security vulnerabilities.

Patches generally come from vendors to fix security vulnerabilities and improve software. A good security patch management program reduces security risks to information systems.

Our audit findings

AGLC implemented this recommendation by improving its process to manage security patches. This year we found that security patches were up to date on critical servers and regularly applied, and that a new automated process had been implemented for certain security patches.

ALBERTA INVESTMENT MANAGEMENT CORPORATION**Matter from current audit****Investments in life settlements****Background**

In 2010 AIMCo began investing in life settlements on behalf of its pension and endowment fund clients. At December 31, 2013 AIMCo had valued its clients' investments in life settlements at approximately \$1.3 billion. These life settlements are held in two corporations established by AIMCo and administered by several agents.

In a life settlement, the policy holder settles their policy with an investor at an amount that is higher than the surrender value that would be paid by the insurance company writing the policy, but less than the death benefit of the policy. The investor, from the time of settlement, pays the annual premiums on the policy until the original policy holder dies and the investor collects the death benefit from the insurance company.

¹ *Annual Report of the Auditor General of Alberta—2006-2007*, volume 2, page 178.

² *Report of the Auditor General of Alberta—October 2013*, no. 15, page 159.

Life settlements are recorded at their estimated fair value in the financial statements of AIMCo's clients, such as the public sector pension funds and endowment funds like the Alberta Heritage Savings Trust Fund. Life settlements are not publicly traded securities with quoted market prices and therefore changes in fair value must be estimated using a valuation model.

Generally accepted accounting principles used by AIMCo's clients permit valuation models to be used for accounting purposes to estimate the fair value of these investments. The valuation model has to produce an estimate of the fair value that the investment would sell for in an orderly transaction between market participants under current market conditions at the reporting date. The accounting standards also require:

- at the time of purchase the recorded fair value should not exceed the purchase price (i.e., no day-one gains) unless the difference is supported by data from observable markets—A day-one gain indicates that the purchase price of an investment was less than its fair value on the date of purchase. Such circumstances should be rare.
- subsequent revaluations should be consistent with observable market data
- models should be periodically calibrated to ensure they result in values that are in line with recent market transactions

The AIMCo board of directors has approved a Statement of Investment Valuation Principles and Practices (the SIVPP) which serves as the foundation of the corporation's valuation policies and processes. The SIVPP document refers to the accounting principles summarized above as its authoritative guidance.

RECOMMENDATION 25: VALUING INVESTMENTS IN LIFE SETTLEMENTS

We recommend that Alberta Investment Management Corporation ensure that its Statement of Investment Valuation Principles and Practices is applied when valuing and accounting for its life settlement investments.

Criteria: the standards for our audit

AIMCo and its agents should develop and implement valuation models that follows generally accepted accounting principles and its Statement of Investment Valuation Principles and Practices.

Our audit findings

KEY FINDING

We identified the following concerns with how AIMCo is accounting for and valuing its clients' life settlements investments:

- day-one gains were recognized on the investments
- management was not able to provide adequate support for their valuations
- these exceptions to AIMCo's Investment Valuation Principles and Practices were not identified by management and therefore not reported to the audit committee in a timely manner as required by policy

Day-one gains and subsequent valuations

Management recognized day-one gains for the life settlement investments by purchasing the investment at one price and then revaluing the investment to a higher price shortly after the purchase. This was done by changing the discount rate used to value these investments. We asked management to provide support to show that these investments met the accounting requirements for recognizing day-one gains. Management told us they relied on their external

agent's representations of the market and did not challenge whether this accounting treatment was appropriate for its clients at the inception of the investment.

Similar to the accounting standards, the SIVPP also requires that day-one gains only be recognized where management can support the valuation increase through comparison to similar transactions in an observable market. We concluded that management's practice of revaluing the life settlements immediately after purchase did not comply with AIMCo's SIVPP.

All of the \$325 million of unrealized gains on these investments, up to December 31, 2013, originated from revaluing the investments through a change to the discount rate, which was different than the internal rate of return implicit in the purchase prices. Management and their agents were unable to provide adequate support for the change to the discount rate that is required by the accounting standards.

Aside from the discount rate, life expectancy is another key variable in estimating the value of the life settlements. Management has not yet reviewed whether the life expectancy assumptions underlying the valuations should also be updated.

Roles and responsibilities

The SIVPP also states that "In order to achieve the principles contained in this policy, there will be segregation of duties between those responsible for investment decisions and trading (portfolio management personnel) and those responsible for valuation functions (Investment Valuations Services group within Investment Operations)."

AIMCo has a valuation group whose designated responsibilities include:

- determining the fair value of securities for which market quotations are not readily available
- reviewing valuation information for reasonableness
- resolving valuation issues and providing oversight to the valuation process
- ensuring the independence of the valuation process

We did not see evidence that AIMCo's valuation group had examined the valuation processes used by management's agents for life settlements from the initial investment in 2010 through to 2013. Management indicated this exception occurred because they relied on the external agents' processes.

Reporting non-compliance to the board

The SIVPP requires management to report exceptions to the SIVPP above \$25 million to the audit committee of the board of directors. With life settlements, each of the following was an exception to the SIVPP:

- recognition of day-one gains significantly exceeded \$25 million
- lack of adequate supporting documentation and review of the key discount rate assumption
- valuation review process for private investments was not followed

The current process relies on management to identify exceptions. In this case, the exceptions were not identified or reported.

Implications and risks if recommendations not implemented

Accounting information provided to clients does not comply with their financial reporting frameworks. Performance of these investments may be overstated in the year of purchase and understated in later years because large day-one gains were recognized.

Matters from prior-year audits

Investment risk IT system—implemented

Background

In our November 2011 report³ we recommended that AIMCo improve its controls over the investment risk IT system. The system is used by AIMCo to measure and manage portfolio risk. AIMCo's clients also rely on the system for some of their required financial statement disclosures.

Our audit findings

AIMCo implemented this recommendation by:

- cataloguing and augmenting the documentation detailing the configuration of the system
- completing a review of the valuation models as part of its enterprise-wide systems conversion
- implementing a policy to conduct periodic reviews of the models in the future
- configuring the system to run in accordance with its documented policy
- establishing a process for handling processing errors
- restricting access to certain standing data files so that unauthorized changes cannot be made

AIMCo's internal audit department conducted a review of these changes as well. We reviewed documentation provided by management and internal audit and were satisfied that the steps management has taken mitigate the risks identified in the original recommendation.

ATB FINANCIAL

Matters from the current audit

Service auditor reports—user control considerations—repeated

Background

In 2009⁴ we recommended that ATB Financial improve its processes related to service providers.

ATB uses service providers to process transactions and carry out business functions. Service auditor reports provide independent information and assurance that a service provider has appropriate internal controls over the transactions and business functions ATB has outsourced.

Service auditor reports contain procedures that the service auditor recommends ATB implement called end user controls. These controls complement controls at the service provider to enhance the level of control over ATB's transactions and data. For example, the service provider may require ATB have input controls over data before it is sent to the service provider. The controls at ATB and the service provider together comprise the overall control environment.

We repeat this recommendation because ATB has not assessed whether end user control considerations are in place for its material outsourcing arrangements.

³ *Report of the Auditor General of Alberta—November 2011*, no.14, page 97.

⁴ *Report of the Auditor General of Alberta—October 2009*, page 227.

RECOMMENDATION 26: SERVICE AUDITOR REPORTS—REPEATED

We again recommend that ATB Financial improve its processes related to service providers by ensuring its business areas:

- receive service auditor reports
- review service auditor reports and assess the impact of identified internal control weaknesses
- put end user controls in place to complement service provider controls

Criteria: the standards for our audit

ATB should have a process to:

- obtain service auditor reports from significant service providers
- review service auditor reports to assess the impact of internal control deficiencies identified by the service provider's auditor
- evaluate the end user requirements in the service auditor reports to ensure they are in place

Our audit findings**KEY FINDING**

ATB is unable to demonstrate that end user requirements in the service auditor reports are in place.

ATB has 19 outsourced service provider arrangements that are considered by management to be material. The health of these arrangements is assessed annually as green (good overall health), yellow (requires attention) or red (requires immediate attention).

ATB provided us with a flowchart that documents the service auditor report process:

- service auditor reports are obtained from the vendor management office and sent to applicable lines of business
- lines of business review the report and determine if any actions are required based on internal control deficiencies contained in the service auditor report
- the service auditor report and completed review are sent back to the vendor management office for filing

We selected a sample of five outsourced service provider arrangements and asked ATB to provide us evidence that:

- the service auditor report was obtained
- the service auditor report was reviewed including the impact of any internal control deficiencies
- end user requirements were evaluated

ATB was only able to provide us three out of five of the most current service auditor reports. None of the three provided to us were reviewed by ATB staff. There was also no evidence that end user control considerations were evaluated or in place.

Implications and risks if recommendation not implemented

Operational problems with outsourcing arrangements can go undetected if ATB does not monitor the control environment of its service providers, and design and implement the end user controls the outsourced service provider expects ATB to follow.

Matters from prior audits

New banking system internal control—implemented

Background

In 2011⁵ we recommended that ATB Financial confirm that the key controls in its new banking system, as identified in ATB's risk and control matrices, were implemented and operating effectively.

In 2012⁶ we repeated the recommendation because management's target date of August 2013 was too late to confirm that the key internal controls in the new banking system were operating effectively. We reported that ATB had walked through processes to support the key controls in its new banking system and had voluntarily begun a program to comply with Canadian Securities Administrators' standards for internal controls over financial reporting. However, ATB had not yet tested the operating effectiveness of these controls.

Our audit findings

ATB implemented our recommendation by creating a process to enable the CEO and CFO to assert to the audit committee that key internal controls over financial reporting are well designed, implemented and operating effectively. ATB concluded that its internal controls over financial reporting were effective as at March 31, 2014. This process included examining the key controls in the banking system.

We reviewed the key controls and concluded they were sufficient and appropriate. We reviewed the work done by the internal controls over financial reporting group and agreed with the conclusion that the controls were operating effectively.

Action plans to resolve internal control weaknesses identified by ATB's internal control group—implemented

Background

In 2008⁷ we recommended that ATB Financial validate and approve business processes and internal control documentation developed by its internal control group and implement plans to resolve identified internal control weaknesses.

Our audit findings

ATB implemented our recommendation by creating an internal control group to test the design and operating effectiveness of key financial reporting controls. This group tested the operating effectiveness of these key controls for the first time in fiscal 2013. As of November 2013:

- all deficiencies identified were validated with control owners
- action plans were created by management to resolve the deficiencies

This group follows up quarterly to confirm that management has implemented their action plans.

⁵ *Report of the Auditor General of Alberta—November 2011*, page 102.

⁶ *Report of the Auditor General of Alberta—October 2012*, page 148.

⁷ *Report of the Auditor General of Alberta—October 2008*, no. 29, page 27.

Securitization policy and business rules—implemented

Background

In 2008⁸ we recommended that ATB Financial develop and implement a securitization policy and securitization business rules.

Our audit findings

ATB has implemented our recommendation by including securitization in its liquidity risk management policy and liquidity risk management framework. The policy and framework assist ATB in managing liquidity risk by outlining roles and responsibilities, liquidity metrics and reporting requirements. Participation in securitization transactions is a funding option ATB uses to manage its liquidity.

Change management—implemented

Background

In 2013⁹ we recommended that ATB Financial ensure its IT change management processes are followed.

Our audit findings

ATB implemented this recommendation by consistently following its change management processes. ATB hired a consultant to test whether it followed its change management processes during the year. This testing included whether changes to programs and applications were properly approved and tested before going live. We reviewed the work performed and concluded that ATB followed its change management processes.

Liquidity simulations—implemented

Background

In 2008¹⁰ we recommended that ATB Financial further expand its use of liquidity simulations as a forward-looking liquidity risk measurement tool. We also recommended that management's asset and liability committee and the board's oversight committee consider whether the results of liquidity simulation indicate a need to modify ATB's business plan.

In 2011¹¹ we reported that ATB made satisfactory progress implementing the recommendation. We had concluded that ATB was performing reasonable liquidity simulations. We also reported to fully implement the recommendation, ATB must perform and report its liquidity simulations at least quarterly to comply with its liquidity risk management policy.

Our audit findings

ATB implemented our recommendation by performing and reporting its liquidity simulations monthly to management's asset liability committee and quarterly to the risk committee of ATB's board of directors.

⁸ *Report of the Auditor General of Alberta—October 2008*, no. 31, page 281.

⁹ *Report of the Auditor General of Alberta—October 2013*, no. 13, page 157.

¹⁰ *Report of the Auditor General of Alberta—October 2008*, page 128.

¹¹ *Report of the Auditor General of Alberta—April 2011*, page 47.

Interest rate risk model assumptions—implemented

Background

In 2008¹² we recommended that ATB Financial improve processes for creating, applying and validating assumptions used in its interest rate risk models.

In 2011¹³ we repeated our recommendation because ATB had not made sufficient progress.

Our audit findings

ATB implemented this recommendation by validating the accuracy of important assumptions in its interest rate risk models. Although not all assumptions have been validated and built into the interest rate risk models, in our view ATB has made enough progress validating the critical assumptions for us to consider the recommendation implemented.

Interest rate risk modeling and stress testing—implemented

Background

In 2008¹⁴ we recommended that ATB Financial define its significant interest rate risk exposures and model those significant exposures to assess the effects on future financial results.

In 2011¹⁵ we reported that ATB made satisfactory progress implementing the recommendation. We also reported that to fully implement the recommendation, ATB must complete its analysis of option¹⁶ and basis risk,¹⁷ and perform its stress testing scenarios regularly.

Our audit findings

ATB implemented this recommendation by identifying and quantifying its exposures to:

- option risk within various products such as prepayments in its mortgage portfolio
- basis risk when hedging the exposures of products such as variable rate loans

ATB incorporated these exposures into its interest rate risk modeling and stress testing and reports this information monthly to management's asset liability committee and quarterly to the risk committee of ATB's board of directors.

¹² *Report of the Auditor General of Alberta—October 2008*, page 132.

¹³ *Report of the Auditor General of Alberta—April 2011*, no. 1, page 48.

¹⁴ *Report of the Auditor General of Alberta—October 2008*, page 134.

¹⁵ *Report of the Auditor General of Alberta—April 2011*, page 49.

¹⁶ Option risk occurs when a customer or the financial institution has the ability to alter transaction terms and cash flows. In general, options will only be exercised if there is a benefit to be gained by the holder of the option. Common examples of product options are prepayments for loans or interest rate commitments.

¹⁷ Basis risk occurs in variable interest rate products when the interest rate spread between two different rates widens or contracts. Since variable rate products are indexed to either a market index or an internally managed rate, certain indices may lag the market rate movements, which can slow or accelerate the impact of basis risk.

OUTSTANDING RECOMMENDATIONS

DEPARTMENT

The following recommendations are outstanding and not yet ready for follow-up audits:

Policies designed to achieve plan objectives—February 2014, no. 1, p. 24

We recommend that the Department of Treasury Board and Finance set standards for the public sector pension plan boards to establish funding and benefit policies with:

- tolerances for the cost and funding components
- alignment between plan objectives and benefit, investment and funding policies
- pre-defined responses when tolerances are exceeded or objectives are not met

Risk management system—February 2014, no 2, p. 26

We recommend that the Department of Treasury Board and Finance establish an Alberta public sector pension plan risk management system to support the minister in fulfilling his responsibilities for those plans.

Sustainability support processes—February 2014, no. 3, p 28

We recommend that the Department of Treasury Board and Finance:

- validate the objectives for the pension plan sustainability review with stakeholders
- evaluate and report on how each proposed change meets the objectives for the review
- cost and stress-test all proposed changes to assess the likely and possible future impacts on Alberta's public sector pension plans
- conduct or obtain further analysis of the impact of proposed pension plan design changes on employee attraction and retention
- prepare a detailed implementation plan for the changes

Results Analysis Reporting: Guidance, training and monitoring needed—July 2014, no. 1, p. 18

We recommend that the Department of Treasury Board and Finance, working with the Deputy Ministers' Council, improve:

- the guidance and training for ministry management to identify, analyze and report on results in ministry annual reports
- processes to monitor ministry compliance with results analysis reporting standards

Oversight of premier's office expenses and use of government aircraft—August 2014, no. 1, p. 19

We recommend that the Treasury Board:

- establish a process to provide oversight through monitoring of the Office of the Premier's expenses and usage of government aircraft
- consider what type of oversight should be used for the expenses of ministers' offices

Conduct periodic Air Transportation Services program evaluation—August 2014, no. 2, p. 34

We recommend that the Department of Treasury Board and Finance complete an evaluation of the Air Transportation Services program and immediately communicate the results publicly.

Clarify aircraft use policies—August 2014, no. 3 and no. 4, p. 37

We recommend that the Department of Treasury Board and Finance clarify its aircraft use policies to deal with:

- any partisan and personal use of government aircraft
- requirements for cost effectiveness evaluations when requesting to use government aircraft

We recommend that the Department of Treasury Board and Finance develop a common government aircraft use policy that all users must comply with.

Re-evaluate out-of-province use of government aircraft—August 2014, no. 5, p. 38

We recommend that the Department of Treasury Board and Finance require that a cost benefit analysis be performed, documented and approved by the responsible minister or deputy minister requesting service prior to authorizing the use of its aircraft for out-of-province travel.

Air Transportation Services program—August 2014, no. 6, p. 40

We recommend that the Department of Treasury Board and Finance review its costing model for government aircraft and publicly report on the costs associated with travel on government aircraft.

Management has identified these recommendations as implemented—to be confirmed with follow-up audits:

Chief executive officer compensation disclosure—October 2008, no. 3, p. 32

We recommend that the Treasury Board and Finance consider applying the new private-sector compensation-disclosure requirement to the Alberta public sector.

Salary and benefits disclosure—October 2008, p. 371

We recommend that the Ministry of Treasury Board and Finance, through the Salaries and Benefits Disclosure Directive, clarify what form of disclosure, under what circumstances, is required of the salary and benefits of an individual in an organization's senior decision making/management group who is compensated directly by a third party.

Public agencies: Disclosure of termination benefits paid—October 2009, no. 2, p. 29

We recommend that the Ministry of Treasury Board and Finance increase transparency of termination benefits by adopting disclosure practices for Alberta public agencies that disclose termination benefits paid.

Improve ministry annual report processes—July 2012, no. 10, p. 65

We recommend that the Department of Treasury Board and Finance work with ministries to improve annual report:

- preparation processes for identifying significant performance measure variances and developing explanations for these variances for reporting
- approval processes, including senior management sign-off of a summary of the year's performance measure variances and significant variance assessments

Improve performance measure reporting guidance and standards—July 2012, no. 11, p. 67

We recommend that the Department of Treasury Board and Finance improve its guidance for:

- performance measure target setting
- variance identification
- significant performance measure variance assessments and annual report explanation development
- preparing the results analysis

ALBERTA INVESTMENT MANAGEMENT CORPORATION

The following recommendation is outstanding and not yet ready for a follow-up audit:

Help clients meet financial reporting requirements—October 2010, no. 17, p. 156

We recommend that Alberta Investment Management Corporation identify financial reporting requirements in its investment management agreements with clients. The Alberta Investment Management Corporation should meet with the clients to understand their financial reporting frameworks, their financial accounting requirements and the investment-related information they need to prepare financial statements.

ATB FINANCIAL

The following recommendations are outstanding and not yet ready for follow-up audits:

Payment card industry—October 2012, no. 31, p. 149

We recommend that ATB Financial put in place processes to monitor its compliance with the Payment Card Industry's requirements.

Borrower risk ratings—October 2013, no. 14, p. 158

We recommend that ATB Financial fix the borrower risk ratings in the banking system.

Service auditor reports—October 2014, no. 26, p. 202

(Originally October 2009, p. 227)

We again recommend that ATB Financial improve its processes related to service providers by ensuring its business areas:

- receive service provider audit reports
- review service provider audit reports and assess the impact of identified internal control weaknesses
- put end-user controls in place to complement service provider controls

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit:

Risk assessments—October 2012, no. 12, p. 156

We recommend that ATB Financial implement processes to identify, assess and remediate or accept IT risks.



Glossary

REPORT OF THE AUDITOR GENERAL OF ALBERTA

October 2014

GLOSSARY

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

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

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

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

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

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

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

Auditor A person who examines systems and financial information.

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

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

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

Capital asset A long-term asset.

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

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

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

GLOSSARY

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

Crown Government of Alberta

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

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

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

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

Expense The cost of a thing over a specific time.

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

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

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

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

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

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

- they understand the effectiveness and efficiency of operations

GLOSSARY

- internal and external reporting is reliable
- the organization is complying with laws, regulations and internal policies

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

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

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

Material, materiality Something important to decision makers.

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

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

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

Oversight The job of:

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

Performance measure Indicator of progress in achieving a desired result.

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

Performance target The expected result for a performance measure.

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

PSAS Abbreviation for public sector accounting standards, which are applicable to federal, provincial, territorial and local governments.

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

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

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

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

GLOSSARY

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

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

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

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

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

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

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

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

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

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



OAG Results Analysis Report 2014

REPORT OF THE AUDITOR GENERAL OF ALBERTA

October 2014

Office of the Auditor General of Alberta

Results Analysis Report
2013–2014



Mr. Matt Jeneroux, MLA
Chair
Standing Committee on Legislative Offices

**Office of the Auditor General of Alberta
Results Analysis Report for the Year Ended March 31, 2014**

I am honoured to send you this Results Analysis Report on the operations of the office for the fiscal year April 1, 2013 to March 31, 2014.

[Original signed by Merwan N. Saher, FCA]

Auditor General
Edmonton, Alberta

September 29, 2014

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Office performance measures—a summary table of our performance measures is included as a schedule to our audited financial statements.

Accountability statement

This results analysis report of the Office of the Auditor General of Alberta summarizes and analyzes the work of our office for the year ended March 31, 2014.

In this report we explain how we used Albertans' money as the independent auditor of the Government of Alberta. We also report back on our business plan for 2013–2016, which included our office's strategies and priorities for 2013–2014.

In the year ended March 31, 2014 the office issued three public reports:

- July 2013
- October 2013
- February 2014

We believe this results analysis report, which includes our independently audited 2013–2014 financial statements, presents our operations and results in a complete, fair and balanced manner.

[original signed by]

Merwan N. Saher, FCA
Auditor General

[original signed by]

Eric Leonty, CA
Assistant Auditor General

[original signed by]

Robert Driesen, CA
Assistant Auditor General

[original signed by]

Brad Ireland, CA
Assistant Auditor General

[original signed by]

Doug Wylie, CMA, ICD.D
Assistant Auditor General

[original signed by]

Ruth McHugh, MBA, FCMA, ICD.D
Executive Director, Corporate Services
and Office Accountability

Results management framework

This results analysis summarizes the Office of the Auditor General of Alberta's achievements in 2013–2014 and identifies things we have learned and plan to apply in the next business cycle.

We received an unqualified auditor's opinion on our 2013–2014 financial statements; the auditor identified no new recommendations on our financial processes and controls, nor do we have any recommendations outstanding.

The office's results management framework relies on integrating three central processes: governance, oversight and accountability. Effective results management starts with governance, which we define as the structure and processes we use to bring together capable people and relevant information to achieve cost-effective results.

Our leaders' oversight role in pursuit of desired results includes:

- being vigilant and providing watchful care for the office's use of financial and human resources
- checking that our processes and systems are working well, including our system to ensure accountability for how well we use our resources
- signaling preferred behaviour by example

Oversight is the glue that holds our results management framework together. Without good oversight, we can only guess at whether we are managing our resources cost-effectively in producing our audit results.

We define accountability as management's obligation to show continually improving results in a context of fair and agreed on expectations. To ensure that Albertans receive the value for money they deserve from our office, we must follow a clear process for accountability:

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



The results framework outlines a formal process in which management can learn from what we are doing so that we can do better in the future. The framework also prompts us to feed the analysis back into our business planning and processes. The three parts—governance, oversight and accountability—work together to produce results.

Our mandate

The Office of the Auditor General of Alberta serves the Legislative Assembly and the people of Alberta. Our mandate is to examine and report publicly on government's management of, and accountability practices for, the public resources entrusted to it. Under the *Auditor General Act*, the auditor general is the auditor of all government ministries, departments and funds, and most provincial agencies.

What we do

We have two core lines of business designed to provide expert auditing of the government's:

- financial statements (this also includes reporting on compliance with authorities, performance measures, results analysis and research and advice)
- management systems and processes

Our audit reports on financial statements are included in the annual reports published by ministries and their related entities. We provide our opinion on whether the financial statements are presented fairly, in accordance with appropriate standards.

Ministries and their related entities also include our conclusions about selected performance measures in their annual reports. We report on the performance measures of about 14 per cent of the organizations whose financial statements we audit.

Systems audits, our other core line of business, are of two types. In a stand-alone systems audit, we audit major programs or initiatives that an organization undertakes to achieve its goals. In these audits, we answer the question, "Does the organization have the policies, processes and controls to accomplish its goals and mitigate its risks economically and efficiently?" Such systems include procedures to measure and report on the effectiveness of programs.

The second type of systems audit is a by-product of our financial statements audits. If we find that an organization could improve its systems in areas such as governance and accountability, internal control over financial management, information technology or performance reporting, we make recommendations to management.

How we report on our work

We make our findings and recommendations for financial statements and system improvements public in auditor general reports to the Legislative Assembly.

Once the Government of Alberta has acted upon our audit recommendations, we carry out follow-up audits to confirm that our recommendations have been implemented. The results of the follow-up audits are also included in auditor general reports, to complete our reporting to Albertans.

Our goal

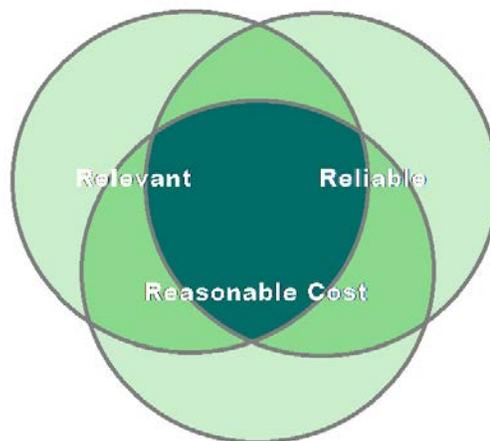
In fulfilling our mandate, and in pursuit of our vision to add value through expert auditing, our goal is to provide the most relevant and reliable audit services within the constraints of reasonable cost. Our business plan seeks to ensure our audits are:

Relevant—Our work must be relevant to the Legislative Assembly and Albertans.

Reliable—The Legislative Assembly and Albertans must be able to count on our work.

Reasonable cost—We meet cost challenges in producing relevant and reliable reports.

As illustrated below, our goal is to optimize the congruence (i.e., the degree and balance) between these three, sometimes competing, accountability objectives.



Office management believes that applying these three standards in our business plan, budget and public reporting processes helps focus our planning, operational and evaluation decisions.

Our strategy

Learning from past results, our 2014-2017 business plan highlights our primary strategy—to perform more added-value systems audit work. As legislative auditors, we have a profound understanding of the environment we are auditing, including performance audit standards, management control systems, performance reporting and accountability. In our view, value is added when we perform systems audits on matters that relate to critical government goals, strategies, and risks, and areas that are important to Albertans. A key output of our systems audit work is to identify areas where government can make improvements to enhance the efficiency, effectiveness, and economy of important management systems. The true value is attained when government implements our recommendations.

Our business

In our 2013–2016 business plan, we allocated operating expenses (including amortization of tangible capital assets) of \$26.4 million for 2013–2014 between our two core lines of business, ministry by ministry. This allocation was organized to match the government’s priorities, as noted in Schedule 1 of our 2013–2014 budget (summarized and compared to actual costs, below).

	2014				2013	
	Budget	Budget %	Actual	Actual %	Actual	Actual %
	(thousands)				(thousands)	
Financial statements auditing						
Government priority areas						
Alberta's Economic Future	\$ 6,072	23%	\$ 6,573	25%	\$ 6,166	24%
Families and Communities	6,476	25%	6,293	24%	6,136	24%
Resource Stewardship	7,584	29%	6,659	26%	6,411	26%
	20,132	77%	19,525	75%	18,713	74%
Executive Council and Legislative Assembly	338	1%	438	2%	368	2%
	20,470	78%	19,963	77%	19,081	76%
Systems auditing						
Government priority areas						
Alberta's Economic Future	1,177	4%	1,168	5%	1,199	5%
Families and Communities	2,162	8%	2,550	10%	2,670	10%
Resource Stewardship	2,393	9%	2,073	8%	2,232	9%
	5,732	21%	5,791	23%	6,101	24%
Executive Council and Legislative Assembly	168	1%	73	0%	23	0%
	5,900	22%	5,864	23%	6,124	24%
	\$ 26,370	100%	\$ 25,827	100%	\$ 25,205	100%

The \$2.6 million cost for systems audits in the families and communities area was \$0.4 million higher than budgeted. This variance reflects our audit work on systems to support child intervention services (included in the *Report of the Auditor General of Alberta—February 2014*) and seniors care (planned for the *Report of the Auditor General of Alberta—October 2014*); neither of these audits were budgeted in our plan for 2013–2014.

On the other hand, the resource stewardship area was \$0.3 million lower than budget due to postponing audit work to accommodate shifting priorities.

Office performance measure

Percentage of costs dedicated to financial statements/systems auditing

Our target for resource allocation between the two core lines of business was 78% to financial statements auditing and 22% to systems auditing (78/22%). Our goal was to build capacity for systems audits by freeing up staff from financial statement audits. The result was 77/23%, exceeding our target of 78/22%.

Compared to 2012–2013 ratios (76/24%), our costs shifted by 1% from systems to financial statements audits. This shift in favour of financial statements was mainly because we moved financial audits for Persons with Developmental Disabilities and Child and Family Services Authorities to January, February and March of 2014 (originally in our 2014–2015 schedule) and did additional work on schools, universities, colleges and hospitals as they transitioned to Public Sector Accounting Standards. These unique, one-time events required additional financial statement audit resources in 2013–2014.

Percentage of office costs	Prior actual results				2014	
	2010	2011	2012	2013	Target	Actual
Financial statements auditing	80%	82%	79%	76%	78%	77%*
Systems auditing	20%	18%	21%	24%	22%	23%
	100%	100%	100%	100%	100%	100%

* The 1.0% difference from our performance target reflects a shift of \$260,000 of office resources from systems to financial statements auditing.

Plans and performance

Our audits include the consolidated financial statements of the Government of Alberta, as well as every ministry, department and regulated fund, and most provincial agencies. Our office's report for each of these entities provides the auditor general's opinion on whether the financial statements are presented fairly in accordance with the appropriate financial reporting framework, most usually public sector accounting standards. These recurring annual audits provide independent assurance on the government's financial reports to the Legislative Assembly.

In 2013–2014, the Auditor General issued 152 unqualified auditor's reports on financial statements (2012–2013: 157). We also issued 11 unqualified auditor's reports on specified financial information for certain organizations (2012–2013: 12). No qualified auditor's reports were issued for either year.

For ministries and some agencies, we complete review engagement procedures on selected non-financial measures of performance in the entity's annual report. We also audit selected measures in the government's annual progress report on its business plans, titled Measuring Up. We report on the reliability, understandability, comparability and completeness of the selected measures of performance. Our reviews and the audit are not designed to provide assurance on whether the measures are relevant or useful to users.

For 2013–2014, we issued 20 unqualified review (limited assurance) engagement reports and one unqualified auditor's report on performance measures (2012–2013: 20 reviews and one audit).

2014 reports

Appendix A lists the entities whose financial statements we audited.

Appendix B lists the entities whose performance measures we examined.

Office performance measures

Alberta's consolidated financial statements—report by June 30

We strive to issue the auditor's report on the consolidated financial statements of the province by June 30 every year, to give timely assurance to the Legislative Assembly on the quality of the government's financial reports. We issued our report on June 20, 2013 for the March 31, 2013 year end and on June 19, 2014 for the March 31, 2014 year end.

Financial statements audits—number of audits completed within budget

We did not meet our target to complete 90% of financial statements audits within budget. Our actual result was 59% (2012–2013: 67%).

We identified four main reasons for not meeting our performance target.

1. We experienced an audit scope increase because schools, universities, colleges and hospitals changed over to the new financial reporting framework required by the Public Sector Accounting Standards. The time required for this additional audit work was difficult to estimate during the budget process.
2. Time and costs for some audits increased due to audit staff departures, which required on-the-job training and more supervision.
3. We found that some auditees were insufficiently prepared for us to begin our work on schedule. This presents a timing problem for us because we must issue the auditor's report on the consolidated financial statements of the province by June 30. We provided the entities we audited with guidance on how to improve their preparation processes for reporting requirements to ensure the consolidated financial statements deadline was met. Providing guidance is normally outside the scope of our audit function. Although this additional work caused delays in our audit schedule and increased time and cost to conduct our financial statements audits this year, we anticipate that the guidance we provided will help entities improve their future reporting. Learning from this experience, we have added an initiative on corporate accounting policies in our 2014–2017 business plan. We view the Government of Alberta controller's success in providing clear corporate accounting policies as essential to providing timely and accurate financial reports to the Legislative Assembly. Enhanced corporate accounting policies will help entities improve their preparation and reporting and reduce our audit time and costs in future.
4. When budgeting for 2013–2014, we reduced our financial statements audit budget to provide a potential opportunity to redeploy resources to conduct more systems audits. This made individual audit budgets more difficult to meet.

Financial statements and performance measures auditing results

We recognize the challenge in reaching our target of completing 90% of our financial statements audits within budget; however, we still believe it represents our future potential. Learning from this year's results, we have introduced a new audit project management process for 2014–2015, which will help our audit teams to monitor and manage costs, staffing and milestone dates more proactively. Together with the government-wide corporate accounting policies initiative in our 2014–2017 business plan, we expect the results for this measure to improve in the coming years.

Auditing standards—pass professional practice review

In summer 2013, we received the results of a financial statements auditing practice review the Institute of Chartered Accountants of Alberta conducted in February 2013. The Institute concluded that our auditing practice meets current auditing standards. As part of the Institute's three-year cycle for practice reviews, the next review is expected in 2016.

Systems auditing results

Plans and performance

Sections 19(2) (d) and (e) of the *Auditor General Act* require us to report when “accounting systems and management control systems, including those systems designed to ensure economy and efficiency, ...were not in existence, were inadequate or had not been complied with” or “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”. We meet this expectation in two ways:

- **Stand-alone audits**—We audit major programs or initiatives that an organization undertakes to achieve its goals. In a stand-alone systems audit, we answer the question, “Does the organization have the policies, processes and controls to accomplish its goals and mitigate its risks economically and efficiently?” Such systems include procedures to measure and report on the effectiveness of programs.
- **By-products of other audits**—If we find that an organization could improve its systems in areas such as governance and accountability, internal control over financial management, information technology or performance reporting, we make recommendations to management.

We concentrate on areas that will result in improved:

- oversight and ethical behavior—these underpin the success of any organization
- safety and welfare of all Albertans—especially the most vulnerable in our society
- security and use of the province’s resources—they belong to all Albertans and must be protected

2014 reports

Appendix C lists the systems audits publicly reported in 2013–2014.

Summaries of major projects included in the July 2013, October 2013 and February 2014 public reports follow.

<p>Collaborative Initiatives Among Alberta's Post-secondary Institutions Innovation and Advanced Education</p> <p>Background Alberta's 21 public post-secondary institutions spend about \$4.8 billion annually. They contribute to the government's priorities of building a knowledge-based economy and improving the social well-being of Albertans. The government wants these institutions to collaborate in an effort to improve services to students and to make the advanced education system more efficient, effective and sustainable. The government refers to this effort as Campus Alberta.</p> <p>Findings We looked at three non-academic collaborative initiatives to assess if the institutions had well-designed systems to plan, govern, implement and sustain them. We found institutions did not clearly understand how the minister wants them to achieve Campus Alberta goals.</p>	<p>Recommendations Our recommendations were made to help the department and post-secondary institutions develop a strategic plan and accountability framework for Campus Alberta. These tools would help them provide clear communication, develop relevant performance measures and targets, publicly report on the results achieved and cost involved, and review and clarify the accountability structures for governing collaborative initiatives. We also recommended that the department offer more guidance and develop effective management processes for these types of initiatives.</p> <p>Total audit project costs – \$361,000 Auditor general report – July 2013</p>
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<p>Infection Prevention and Control in Alberta's Hospitals Health and Alberta Health Services</p> <p>Background The increasing proliferation of antibiotic-resistant microorganisms is a threat to the health of Albertans. Infection prevention and control is a central aspect of healthcare delivery and is critical for managing health risks in a hospital setting. Healthcare-acquired infections often lead to serious complications. They have more significant negative outcomes than infections acquired in the community, result in longer hospitalizations and represent added cost to the healthcare system. Many healthcare-associated infections are preventable.</p> <p>Findings There has been a stronger focus on infection prevention and control at hospitals over the last several years. AHS, with the department's support, has introduced provincial infection prevention and control systems that fill critical gaps in the areas we audited.</p> <p>While we did not find immediate and significant risks to patient safety, there were weaknesses in the management systems to ensure implementation of the provincial infection prevention and control strategy and the hand hygiene strategy, as well as weaknesses in AHS systems to manage infection prevention and control risk within hospitals.</p>	<p>Recommendations We made one recommendation to the department to determine responsibilities for implementing strategies, to improve monitoring and to report on the success of strategies for infection prevention and control.</p> <p>We made three recommendations to AHS to improve its systems for:</p> <ul style="list-style-type: none"> • cleaning, disinfecting and sterilizing medical devices • preventing and controlling antibiotic-resistant organisms • hand hygiene practices <p>Total audit project costs – \$670,000 Auditor general report – October 2013</p>
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<p>Oversight Systems for Alberta’s Public Sector Pension Plans Treasury Board and Finance</p> <p>Background The financial health and design of Alberta’s public sector pension plans can affect the government’s and other plan employers’ ability to cost effectively deliver public services, attract and retain quality employees, and provide a level of benefit security for plan members. Albertans need to know if Alberta’s public sector pension plans are sustainable.</p> <p>Findings We found that pension plan boards have, to varying degrees, implemented risk management systems. However, no one organization has clear responsibility for coordinating and monitoring the performance of the plans or taking a consolidated approach to managing risk.</p>	<p>Recommendations We recommended that the department establish an Alberta public sector pension plan risk management system to support the minister in fulfilling his responsibilities for Alberta’s public sector pension plans. We also made recommendations for improvement to the department’s ongoing sustainability review.</p> <p>Total project costs – \$452,000 Auditor general report – February 2014</p>
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Office performance measures

Auditing recommendations—acceptance by ministries and other entities

One performance measure for our audit work is the number of recommendations we issue that the government accepts for implementation. Out of 63 recommendations, made in July 2013, October 2013 and February 2014, the government accepted 56 (89%) and seven were accepted in principle. Our target for acceptance is 95%; our actual performance was 98% in 2012–2013.

Auditing recommendations—not implemented within three years of acceptance

Each year, we make recommendations for improvements or changes to government systems and financial controls. We then follow up on all recommendations and report publicly whether they have been implemented. Follow-up audits confirm that sustainable change has taken place. The audit work to confirm that each recommendation has been sustainably implemented is not superficial. We approach follow-up audits with the rigour that Albertans expect from this office, and will repeat our recommendations when management has not satisfactorily implemented them.

Generally, we try to complete follow-up audits within three years. At March 2014, there were 47 recommendations outstanding for over three years, of which the government advises 11 are ready for follow-up audits in 2015. This number was reduced from 55 outstanding recommendations at March 2013. We are pleased that our initiative to reduce the number of outstanding recommendations was successful in the current year. Our ultimate objective is to have no recommendations older than three years.

Priority initiatives from 2013–2016 business plan

Priority initiatives	Performance update
<p>Results analysis project We will do a systems audit of the processes ministries use to analyze their results for ministry annual reports. We view this as a prerequisite to developing a method that uses appropriate criteria to provide assurance on management's analysis of performance.</p>	<p>Results of this systems project were published in the July 2014 Auditor General report.</p>
<p>Independent peer review We will continue to execute our plan for an independent peer review. The review will be commissioned to provide conclusions on whether we do relevant, reliable work at a reasonable cost, and will be made public.</p>	<p>The peer review will be completed in two stages. The first stage, which focused on the design of the office's systems, took place in August 2013. The second stage, focusing on the operating effectiveness of systems, is expected to occur in August 2014.</p>
<p>Staff development Creating an organization that thrives in dealing with challenges and new initiatives, while delivering extraordinary performance to all our stakeholders, is our aim. We draw on the potential in every employee. Success is more likely if we accelerate challenging opportunities and improve training and mentoring for all staff. In 2013–2014, we will ensure our training program continues to improve the overall effectiveness, efficiency and personal excellence of all staff.</p>	<p>In addition to the training program provided in 2013–2014, beginning in 2014–2015 we have created a new performance management system augmented by specific staff coaching and training to give our people the skills they need to get the most out of the new performance management tools. This enhanced performance management system will help us to monitor and improve the overall effectiveness, efficiency and personal excellence of our people.</p>
<p>Outstanding recommendations As we outlined in the <i>Report of the Auditor General of Alberta—October 2012</i>, there are 165 outstanding numbered recommendations. Numbered recommendations require a formal public response from the government. It is our intention to focus on the 25 numbered recommendations more than three years old that departments or agencies have notified us are ready for follow-up audits.</p>	<p>Follow-up audits have been completed or initiated for these recommendations.</p>

Our people

As a professional services office, we compete with the private sector for designated accountants and other professionals with specialized technical skills. As a training office for accounting students, we also compete to attract top talent from post-secondary institutions.

People development has been, and will continue to be, a key focus of our office. Like many professional services firms, particularly in Alberta's robust economic environment, one of our main operating challenges is attracting, training and retaining quality staff to carry out our legislative audit responsibilities. We recognize that our staff are well educated and receive good training, making them attractive to other employers. Without making good hires and investing in their skills development, we would expose the office to audit performance and other business risks.

A challenge of management is to maximize the office's investment in its staff to ensure that our work meets our overriding objectives for:

- quality – Do we meet professional standards for the financial statements and systems audit engagements?
- accountability – Do we provide relevant, reliable auditing services at a reasonable cost?

Some staff leave our office for positions in the province's public sector. In these cases, Albertans receive an ongoing benefit from the initial training investment in those individuals through our office.

Office performance measure

Staff turnover and vacancy rate

This performance measure is monitored for the overall office, within each line of business and by levels of staff experience.

The rate is used as a comprehensive measure for the office within the context of reasonable cost auditing and human resources management. The measure considers the number of departures and vacancies as a percentage of the total number of employees employed by the office during the year.

We recognize the importance of understanding and measuring turnover and vacancy. Whatever the reasons (such as maternity leave, resignation, performance or retirement), the costs for replacing employees include hiring, onboarding, training, mentoring, supervising and employing temporary staff. These costs are also reflected in additional time spent on audits disrupted by staff turnover and negatively affect our ability to perform audits within budget. As a result, both reliability and reasonable cost are reliant on a healthy staff turnover and vacancy rate.

The rate is also used to understand our staff profile. As a training office for the accounting profession, and given our staff mix and the overall nature of our business, we consider a target turnover rate of 20% to be realistic and reasonable.

For 2013–2014, the office’s overall staff turnover rate was 18%, an improvement on the previous year’s 21% and better than our target. As anticipated, the turnover was highest among young auditors who recently achieved their accounting designation. The higher vacancy rate at the manager level was due to more maternity leaves.

Learning from past results, in the spring of 2014 we introduced a new performance management system. Comprehensive competency and expectations guidelines will allow us to measure performance in a more meaningful way. Managers are encouraged to take every opportunity to interact with staff and demonstrate inspirational leadership. We believe that over time this initiative will have a positive effect on our ability to train and retain high quality employees.

We have offices in Edmonton and Calgary. Through 2013–2014, our average monthly full-time equivalent staffs were 136 in Edmonton (2012–2013: 127) and 14 in Calgary (2012–2013: 16). As is the case with many public accounting firms, there is a significant seasonal element for our financial statements line of business. As a cost-effective means of completing the financial statements audit assignments on time, the office seconded staff from public accounting firms as well as contracting some public accounting firms as agents to complete audit work under office oversight. In 2013–2014, hiring more internal staff reduced the need for seconded staff.

2014 staff milestones

The office’s 2014 United Way fundraising campaign was recognized as one of the highest fundraising and highest average gift per employee campaigns among similarly sized Alberta government departments and organizations. This was the fifth consecutive year the office received this acknowledgement. The office was also recognized by the United Way Alberta Capital Region for its Leaders of the Way campaign.

In December 2013, one staff member was recognized for their 40 year Alberta public service employee milestone and one for their 30 year milestone. Five staff members were recognized for reaching 10 and 15 year milestones. At March 31, 2014, 33 of our employees had 10 or more years of experience in the Alberta public service.

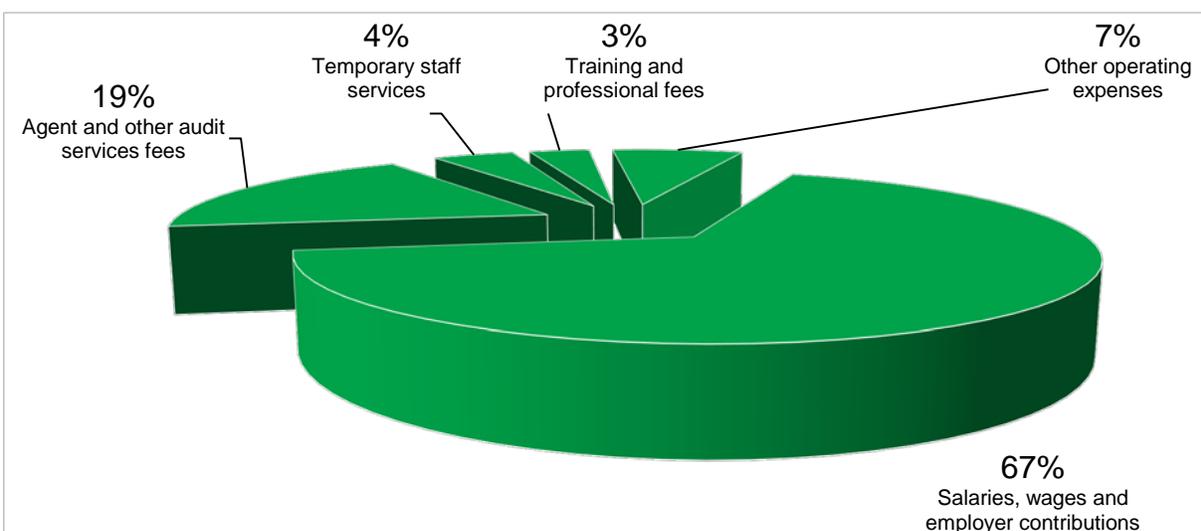
Throughout 2013–2014, 10 employees passed their professional accounting designation exams and eight fulfilled the education and experience requirements to obtain their professional accounting designation. We are proud and supportive of our staff in these significant accomplishments.

Financial discussion and analysis

The discussion should be read in conjunction with our audited financial statements.

For April 1, 2013 to March 31, 2014, the Legislative Assembly provided \$26 million for our office's expenses and \$560,000 for capital investment, for a total of \$26.6 million.

The chart below illustrates our expense mix. As expected in a "people organization" such as ours, salary, wages, employer contributions plus professional service contracts for agents and temporary staff represent 90% of our total expenses.



One of the lessons we learned from the previous year's results is that building our capacity for systems audits remains crucial to our success. In order to build this capacity, in 2013–2014 we decided to hire and develop more internal staff in place of some external temporary staff services and other audit services.

Salaries and wages in 2013–2014 were \$346,000 (3%) higher than in the previous year, which reflected recruitment of more internal audit staff as well as salary adjustments to recognize professional growth. Despite the additional recruitment, salaries and wages were \$736,000 (5%) lower than budget due to a delay in filling two vacant senior positions (to procure the exact skill set required) and lower than budgeted salary adjustments due to a government pay band freeze initiated after the budget was approved.

Employer contributions were up by \$264,000 (8%) from the previous year and exceeded our budget by \$154,000 (5%). This was mainly because of employer pension plan premium increases beyond our control.

We contract with external accounting firms to second qualified auditors to augment our audit teams temporarily during our peak work periods. As a result of hiring more internal audit staff, temporary audit staff services were lower than in the previous year by \$147,000 (12%) and below budget by \$226,000 (17%).

Financial discussion and analysis

We also engage accounting firms as our agents to conduct certain audits. The agent audits the entity, under our oversight, to compile the supporting evidence needed for the auditor's report by the auditor general. We use agents to meet peak work demands and to save on travel costs. Certain audits call for specialized skills. We use external audit services to provide these skills as required. Agent and other audit services fees were higher than the previous year by \$505,000 (12%) and exceeded budget by \$377,000 (9%) primarily due to audit work on ten projects for Child and Family Services Authorities and six for Persons with Developmental Disabilities. We moved these 16 projects, originally planned for completion in 2014–2015, to the end of 2013–2014. As well, we experienced a larger than anticipated audit scope increase in the first half of 2013–2014, when schools, universities, colleges and hospitals changed over to Public Sector Accounting Standards.

Advisory services were on budget in the current year; the decrease of \$136,000 (33%) from the previous year was mainly in staff development consulting services.

In 2013–2014 the three Canadian accounting bodies, Chartered Accountant (CA), Certified Management Accountant (CMA) and Certified General Accountant (CGA), signed an agreement to unify into one Canadian professional accounting designation, the Chartered Professional Accountant (CPA). As a result, the Canadian Institute of Chartered Accountants (CICA) announced it would discontinue the CA education program and offer more frequent module sessions to allow current students to complete the curriculum. Accordingly, our training and professional fees increased by \$78,000 (10%) over the previous year and exceeded budget by \$12,000 (1%) because of the extra modules taken by our accounting student employees. Successful student recruitment meant we hired more accounting students than originally anticipated. For the same reason, our prepaid expenses also increased as we registered our students in 2013–2014 for the modules offered in fiscal 2015.

As most of our students were enrolled in successive accounting education modules due to the transitional changes to the new education program, they took less vacation. Concurrently we had fewer staff departures, requiring payment of accrued vacation, than in the prior year. As a result, our current year accrued vacation liability was higher than the previous year by \$211,000 (11%).

Due to shorter duration of out of town fieldwork on financial statements audits, travel costs were \$90,000 (14%) lower than the previous year and \$14,000 (2%) under budget.

Capital investment was \$172,000 (59%) higher than the previous year and \$95,000 (17%) below budget mainly related to the laptop fleet replacement conducted due to warranty expiration. Price negotiation resulted in replacing the fleet for \$333,000 rather than the budgeted \$430,000. As the new fleet was deployed in fiscal 2015, no related amortization was recorded on the new fleet in 2013–2014. Old computer assets were fully depreciated, therefore our total amortization expense was lower than the previous year by \$200,000 (58%) and below budget by \$153,000 (52%).

Financial discussion and analysis

For many years, we charged audit fees to organizations that were funded primarily from sources other than provincial general revenues. Our office did not keep these fees. Instead, we forwarded them to the government's general revenue fund. For that reason, and because our client is the Legislative Assembly, not the entities we audit, we stopped charging audit fees effective for auditee year ends after March 31, 2013. As a result, our revenue decreased by \$1.5 million (61%) compared to the previous year and budget.

Overall, our actual total operating expenses increased by \$622,000 (2%) over the previous year. Our financial result is comparable to our results in prior years. We returned \$485,000 (1.8%) of our budget to the Legislative Assembly for 2013–2014. A small surplus or deficit in any one fiscal year is normal because of changes in the timing of our planned audit work. As audits often span two or more fiscal years, we budget according to planned audit timelines but must be flexible in carrying out our work.

What we learned

In considering our results, we have learned and incorporated the following lessons in our 2014-2017 business plan.

Effective and sustainable people development

The right complement of staff skills and ongoing people development are critical for high quality and cost effective auditing. Maintaining a workplace that recruits, grows and retains skilled legislative auditors is vital to our success. In recent years, we have learned to meet these ongoing human resources challenges by being flexible and adapting to market, education and societal changes.

As a professional services organization in Alberta's competitive economy, we need to develop and retain our work force. To do this we have enhanced our performance management system and strengthened training in our career advisor program to give our people the skills they need to improve their overall effectiveness, efficiency and personal excellence and foster a positive and supportive work environment.

We have linked clear performance indicators to strategic tools and priorities. These tools include a new key performance indicator designed to improve audit project management.

Timely follow up after recommendations implemented

Follow-up audits help us confirm that departments are making sustainable changes in response to our recommendations. In our management letter to auditees, we ask them to commit to an implementation target date. Sometimes these implementation targets are met, sometimes not. When the implementation target is met, our office is in a better position to schedule and complete our follow-up audit within a reasonable time.

We undertake substantial audit work to confirm that auditees have implemented each recommendation by making sustainable changes. We approach follow-up audits with the rigor that Albertans expect from this office, and repeat recommendations that are not satisfactorily implemented. A variety of new and follow-up audits are often in progress at the same time.

Timely follow up on past recommendations has yielded positive results. We have reduced the number of recommendations that remained outstanding for more than three years from 55 in the previous year to 47 in the current year. We have learned that reducing a backlog of outstanding recommendations requires singular focus. We appreciate the support of the Public Accounts Committee in this endeavour. Our ultimate objective is to have no recommendations older than three years.

Build our capacity for systems audit work

We entered 2013–2014 with strategies to build our capacity to do more systems audits and it is still a key strategic focus today.

What we learned

Extending our use of agent expertise will help the office redeploy its own resources and build our capacity to do more systems audit work. As senior staff gain systems audit experience, our office will have better access to legislative auditing skills and greater scheduling flexibility. Filling vacant senior auditor positions will also increase our capacity for systems audits.

We have spent significant leadership time in analyzing our results and identifying our core strengths. As legislative auditors we have a profound understanding of the environment we are auditing. We believe we also have a unique ability to communicate complex technical concepts in an understandable manner. By building on these core strengths we will succeed in our strategy: to perform more value added systems audit work. We believe systems audit work aligns with our continuing goal of providing Albertans with relevant, reliable audits conducted at a reasonable cost.

Appendix A—2014 Financial statements reports

We issued an unqualified independent auditor's report on the financial statements and financial information for the year ended March 31, 2014 (unless otherwise stated) for the following entities:

Consolidated financial statements of the Province of Alberta

Alberta's Economic Future

Aboriginal Relations

- Ministry of Aboriginal Relations

Agriculture and Rural Development

- Ministry of Agriculture and Rural Development
- Department of Agriculture and Rural Development
- Agriculture Financial Services Corporation
- Alberta Livestock and Meat Agency Ltd.

Infrastructure

- Ministry of Infrastructure

Innovation and Advanced Education

- Ministry of Innovation and Advanced Education
- Department of Enterprise and Advanced Education
- Access to the Future Fund
- Alberta Enterprise Corporation
- Alberta Foundation for Health Research
- Alberta Innovates—Bio Solutions
- Alberta Innovates—Energy and Environment Solutions
- Alberta Innovates—Health Solutions
- Alberta Innovates—Technology Futures
- Athabasca University
- University of Alberta
- University of Calgary
- University of Lethbridge

For the year ended June 30, 2013

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

Intergovernmental and International Relations

- Ministry of International and Intergovernmental Relations

Tourism, Parks and Recreation

- Ministry of Tourism, Parks and Recreation
- Department of Tourism, Parks and Recreation
- Alberta Sport, Recreation, Parks and Wildlife Foundation
- Travel Alberta

Families and Communities

Culture

- Ministry of Culture
- Department of Culture
- Alberta Foundation for the Arts
- Historic Resources Fund
- The Alberta Historical Resources Foundation
- The Government House Foundation
- The Wild Rose Foundation

Appendix A —2014 Financial statements reports

Education	
<ul style="list-style-type: none"> Ministry of Education Department of Education 	<ul style="list-style-type: none"> Alberta School Foundation Fund
For the year ended August 31, 2013	
<ul style="list-style-type: none"> Alberta Teachers' Retirement Fund Board 	<ul style="list-style-type: none"> Northland School Division No. 61
Health	
<ul style="list-style-type: none"> Ministry of Health Department of Health Alberta Health Services Calgary Laboratory Services Ltd. 	<ul style="list-style-type: none"> Carewest Health Quality Council of Alberta
Human Services	
<ul style="list-style-type: none"> Ministry of Human Services Department of Human Services 	<ul style="list-style-type: none"> Office of the Public Trustee
For the nine months ended December 31, 2013 (entities dissolved)	
<ul style="list-style-type: none"> Calgary and Area Child and Family Services Authority Central Alberta Child and Family Services Authority East Central Alberta Child and Family Services Authority Edmonton and Area Child and Family Services Authority Metis Settlements Child and Family Services Authority North Central Child and Family Services Authority Northeast Alberta Child and Family Services Authority Northwest Alberta Child and Family Services Authority Southwest Alberta Child and Family Services Authority 	<ul style="list-style-type: none"> Southeast Alberta Child and Family Services Authority Persons with Development Disabilities Calgary Region Community Board Persons with Development Disabilities Central Region Community Board Persons with Development Disabilities Edmonton Region Community Board Persons with Development Disabilities Northwest Region Community Board Persons with Development Disabilities Northeast Region Community Board Persons with Development Disabilities South Region Community Board
Jobs, Skills, Training and Labour	
<ul style="list-style-type: none"> Ministry of Jobs, Skills, Training and Labour 	
For the year ended December 31, 2013	
<ul style="list-style-type: none"> Workers' Compensation Board—Alberta 	
Justice and Solicitor General	
<ul style="list-style-type: none"> Ministry of Justice and Solicitor General Department of Justice and Solicitor General 	<ul style="list-style-type: none"> Human Rights Education and Multiculturalism Fund Victims of Crime
Service Alberta	
<ul style="list-style-type: none"> Ministry of Service Alberta 	

Appendix A —2014 Financial statements reports

Resource Stewardship	
Energy	
<ul style="list-style-type: none"> Ministry of Energy Department of Energy Alberta Utilities Commission 	<ul style="list-style-type: none"> Alberta Energy Regulator Post-Closure Stewardship Fund
For the year ended December 31, 2013	
<ul style="list-style-type: none"> Alberta Petroleum Marketing Commission 	<ul style="list-style-type: none"> Senior Employee Pension Plan Fund for AER and AUC
Environment and Sustainable Resource Development	
<ul style="list-style-type: none"> Ministry of Environment and Sustainable Resource Development Department of Environment and Sustainable Resource Development 	<ul style="list-style-type: none"> Environment Protection and Enhancement Fund Land Stewardship Fund Climate Change and Emissions Management Fund Natural Resources Conservation Board
Municipal Affairs	
<ul style="list-style-type: none"> Ministry of Municipal Affairs Department of Municipal Affairs Alberta Social Housing Corporation 	
For the year ended December 31, 2013	
<ul style="list-style-type: none"> Improvement Districts 4, 9, 12, 13, 24, 25 and 349 Kananaskis Improvement District 	<ul style="list-style-type: none"> Special Areas Trust Account
Transportation	
<ul style="list-style-type: none"> Ministry of Transportation 	
Treasury Board and Finance	
<ul style="list-style-type: none"> Ministry of Treasury Board and Finance Department of Treasury Board and Finance Alberta Cancer Prevention Legacy Fund Alberta Gaming and Liquor Commission Alberta Heritage Foundation for Medical Research Endowment Fund Alberta Heritage Savings Trust Fund Alberta Heritage Scholarship Fund Alberta Heritage Science and Engineering Research Endowment Fund Alberta Investment Management Corporation Alberta Lottery Fund 	<ul style="list-style-type: none"> Alberta Risk Management Fund Alberta Securities Commission ATB Financial <ul style="list-style-type: none"> ATB Insurance Advisors Inc. ATB Investment Management Inc. ATB Securities Inc. Consolidated Cash Investment Trust Fund N.A. Properties (1994) Ltd. Provincial Judges and Masters in Chambers (Registered) Pension Plan Provincial Judges and Masters in Chambers Reserve Fund Supplementary Retirement Plan Reserve Fund
For year ended September 30, 2013	
<ul style="list-style-type: none"> Gainers Inc. 	

Appendix A —2014 Financial statements reports

For the year ended December 31, 2013	
<ul style="list-style-type: none"> • Alberta Capital Finance Authority • Alberta Local Authorities Pension Plan Corp. • Alberta Pensions Services Corporation • Credit Union Deposit Guarantee Corporation • Local Authorities Pension Plan • Management Employees Pension Plan 	<ul style="list-style-type: none"> • Public Service Management (Closed Membership) Pension Plan • Public Service Pension Plan • Special Forces Pension Plan • Supplementary Retirement Plan for Public Service Managers
Executive Council and Legislative Assembly	
<ul style="list-style-type: none"> • Ministry of Executive Council • Long Term Disability Income Continuance Plan - Bargaining Unit 	<ul style="list-style-type: none"> • Long Term Disability Income Continuance Plan - Management, Opted Out and Excluded • The Public Service Health Spending Account Plan
For the year ended December 31, 2013	
<ul style="list-style-type: none"> • Government of Alberta Dental Plan Trust 	<ul style="list-style-type: none"> • Government Employees' Group Extended Medical Benefits Plan and Prescription Drug Plan Trust
Legislative Assembly	
<ul style="list-style-type: none"> • Legislative Assembly Office 	<ul style="list-style-type: none"> • Office of the Chief Electoral Officer • Office of the Child and Youth Advocate • Office of the Ethics Commissioner • Office of the Information and Privacy Commissioner • Office of the Ombudsman • Office of the Public Interest Commissioner (10 months ended March 31, 2014)

Appendix B—2014 Performance measures reports

Government of Alberta	
Measuring Up - March 31, 2014 audit report on selected performance measures	
Ministries and other organizations	
The following ministries and organizations engaged us to review ¹ selected performance measures in their March 31, 2014 annual reports. We issued unqualified review engagement reports on the measures reviewed.	
Aboriginal Relations Agriculture and Rural Development Culture Education Energy Environment and Sustainable Resource Development Executive Council Health * December 31, 2013 annual report	Human Services Infrastructure Innovation and Advanced Education International and Intergovernmental Relations Jobs, Skills, Training and Labour Justice and Solicitor General Municipal Affairs Service Alberta Tourism, Parks and Recreation Transportation Treasury Board and Finance Alberta Pensions Services Corporation*

¹ A review is not an audit, and provides a limited/moderate level of assurance.

Appendix C—2014 Systems auditing reports

July 2013 Public Report

Stand-alone auditing

New

- | | |
|-----------------------------------|---|
| Aboriginal Relations | • Systems to Assess First Nations Development Fund Grants |
| Innovation and Advanced Education | • Athabasca University Administrative Systems Renewal Project |
| | • Collaborative Initiatives Among Alberta's Post-secondary Institutions |
| | • Medicine Hat College International Education Division |
| Municipal Affairs | • Affordable Housing Grants |
| Treasury Board and Finance | • Alberta Pension Services Corporation Next Generation Project |
| | • The Budget for Financial Reporting Purposes |

Follow-up

- | | |
|--|---|
| Energy | • Bioenergy Grant Programs |
| Environment and Sustainable Resource Development | • Natural Resources Conservation Board—Confined Feeding Operations |
| Innovation and Advanced Education | • University of Alberta Integration of Research into Strategic Planning |
| | • University of Calgary Research Management Systems |
| Human Services | • Monitoring of Daycare and Day Home Providers |
| Justice and Solicitor General | • Justice Online Information Network System |
| Treasury Board and Finance | • Oversight of Financial Institutions |

October 2013 Public Report

Stand-alone auditing

New

- | | |
|------------------------------------|---|
| Health and Alberta Health Services | • Infection Prevention and Control at Alberta Hospitals |
|------------------------------------|---|

Follow-up

- | | |
|---|---|
| Agriculture and Rural Development, Health and Alberta Health Services | • Provincial Food Safety |
| Energy | • Royalty Review Systems |
| Health | • Select Electronic Health Record Processes |

Appendix C—2014 systems auditing reports

Other auditing

Education—Review of school jurisdiction audited financial statements and management letters
Innovation and Advanced Education¹

February 2014 Public Report

Stand-alone auditing

New

Treasury Board and Finance • The Department's Oversight Systems for Alberta's Public Sector Pension Plans

Follow-up

Education	• School Board Budgeting
Human Services	• PDD Service Provider Monitoring
	• Systems to Monitor Training Provider Compliance
	• Administrative Support Systems for Child Intervention Services
Infrastructure	• Alberta Schools Alternative Procurement
Innovation and Advanced Education	• Post-secondary Institutions Non-credit Programs
Service Alberta	• Information Technology Control Framework

Other auditing

Innovation and Advanced Education¹

¹ includes reports on multiple post-secondary education institutions

The public reports of the Auditor General of Alberta are available online at <http://www.oag.ab.ca/reports>

Management's responsibility for financial reporting



**Legislative Assembly of Alberta
Office of the Auditor General
Management's Responsibility for Financial Reporting**

The accompanying financial statements of the Office of the Auditor General, including the performance measures, are the responsibility of office management.

The financial statements have been prepared by management in accordance with Canadian public sector accounting standards. Financial statements are not precise, since they include certain amounts based on estimates and judgments. When alternative accounting methods exist, management has chosen those it considers most appropriate in the circumstances 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, including performance measure results, have been audited by St. Arnaud Pinsent Steman, Chartered Accountants, on behalf of the members of the Legislative Assembly.

[Original signed by Merwan N. Saher, FCA]

Auditor General
June 18, 2014

Financial statements (audited) - March 31, 2014

Legislative Assembly of Alberta
Office of the Auditor General
Financial Statements
March 31, 2014

Independent Auditors' Report

Statement of Operations

Statement of Financial Position

Statement of Cash Flows

Notes to the Financial Statements

Schedule 1—Lines of Business Cost by Sector and Ministry

Schedule 2—Performance Measures Summary



ST. ARNAUD PINSENT STEMAN
CHARTERED ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Members of the Legislative Assembly

Report on the Financial Statements

We have audited the accompanying financial statements of the Office of the Auditor General, which comprise the statement of financial position as at March 31, 2014, and the statement of operations and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting principles, and for such internal controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian public sector auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Unqualified Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Office of the Auditor General as at March 31, 2014, and its financial performance and its cash flows for the year then ended in accordance with Canadian public sector accounting principles.

[ORIGINAL SIGNED BY JOHN H.C. PINSENT PROFESSIONAL CORPORATION]

June 18, 2014

John H.C. Pinsent Professional Corporation
Chartered Accountant

Legislative Assembly of Alberta
Office of the Auditor General
Statement of Operations
Year Ended March 31, 2014

	2014		2013
	Budget	Actual	Actual
Expenses			
Personnel			
Salaries and wages (Note 7)	\$ 14,580,000	\$ 13,844,254	\$ 13,498,671
Agent and other audit services fees	4,380,000	4,757,443	4,252,654
Employer contributions	3,285,000	3,438,991	3,175,190
Temporary staff services	1,350,000	1,124,257	1,271,327
Advisory services	275,000	279,785	416,262
	<u>23,870,000</u>	<u>23,444,730</u>	<u>22,614,104</u>
Supplies and services			
Training and professional fees	825,000	836,686	759,151
Travel	570,000	556,007	646,084
Technology services	430,000	435,884	472,150
Materials and supplies	200,000	238,742	202,660
Telephone and communications	85,000	78,999	81,027
Rental of office equipment	50,000	51,004	49,544
Repairs and maintenance	25,000	24,150	19,930
Miscellaneous	20,000	18,607	18,252
	<u>2,205,000</u>	<u>2,240,079</u>	<u>2,248,798</u>
Total professional services expenses	26,075,000	25,684,809	24,862,902
Add: amortization of tangible capital assets	295,000	141,778	341,613
Total operating expenses	<u>26,370,000</u>	<u>25,826,587</u>	<u>25,204,515</u>
Less: audit fee revenue	<u>(2,450,000)</u>	<u>(952,689)</u>	<u>(2,454,977)</u>
Cost of operations for the year (Note 6)	<u>\$ 23,920,000</u>	<u>\$ 24,873,898</u>	<u>\$ 22,749,538</u>

The accompanying notes and schedules are an integral part of these financial statements.

**Legislative Assembly of Alberta
Office of the Auditor General
Statement of Financial Position
As at March 31, 2014**

	<u>2014</u>	<u>2013</u>
Assets		
Audit fees revenue receivable	\$ -	\$ 1,757,238
Other receivables and prepaids	271,563	151,416
Tangible capital assets (Note 3)	<u>579,684</u>	<u>256,565</u>
	<u>\$ 851,247</u>	<u>\$ 2,165,219</u>
Liabilities		
Accounts payable and accrued liabilities	\$ 2,046,136	\$ 1,665,312
Accrued vacation pay	<u>2,082,458</u>	<u>1,871,064</u>
	<u>4,128,594</u>	<u>3,536,376</u>
Net Assets (Liabilities)		
Net liabilities at beginning of year	(1,371,157)	(249,037)
Cost of operations	(24,873,898)	(22,749,538)
Net financing provided from General Revenues	<u>22,967,708</u>	<u>21,627,418</u>
	<u>(3,277,347)</u>	<u>(1,371,157)</u>
	<u>\$ 851,247</u>	<u>\$ 2,165,219</u>

The accompanying notes and schedules are an integral part of these financial statements.

**Legislative Assembly of Alberta
Office of the Auditor General
Statement of Cash Flows
Year Ended March 31, 2014**

	<u>2014</u>	<u>2013</u>
Operating transactions:		
Cost of operations	\$ (24,873,898)	\$ (22,749,538)
Non-cash item included in cost of operations:		
Amortization of tangible capital assets	<u>141,778</u>	<u>341,613</u>
	(24,732,120)	(22,407,925)
Decrease in audit fees revenue receivable	1,757,238	387,889
(Increase) Decrease in other receivables and prepaids	(120,147)	46,280
Increase in accounts payable and accrued liabilities	380,824	666,304
Increase (Decrease) in accrued vacation pay	<u>211,394</u>	<u>(27,257)</u>
Net cash applied to operating transactions	<u>(22,502,811)</u>	<u>(21,334,709)</u>
Capital transactions:		
Acquisition of tangible capital assets	<u>(464,897)</u>	<u>(292,709)</u>
Financing transactions:		
Net financing provided from General Revenues	<u>22,967,708</u>	<u>21,627,418</u>
Net cash provided	<u>-</u>	<u>-</u>
Cash, beginning of year	-	-
Cash, end of year	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes and schedules are an integral part of these financial statements.

**Legislative Assembly of Alberta
Office of the Auditor General
Notes to the Financial Statements
Year Ended March 31, 2014**

Note 1 Authority and Purpose

The Auditor General is an officer of the Legislature operating under the authority of the *Auditor General Act, Chapter A-46, Revised Statutes of Alberta 2000*. General revenues of the Province of Alberta fund both the cost of operations of the Office of the Auditor General and the purchase of tangible capital assets. 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 Alberta Health Services, universities, and public colleges and technical institutes. With the approval of the Assembly's Standing Committee on Legislative Offices, the auditor general may also be appointed auditor of a Crown-controlled corporation or another organization. The results of the office's work are included in the public reports of the auditor general presented to the Legislative Assembly.

Note 2 Significant Accounting Policies and Reporting Practices

These financial statements have been prepared in accordance with Canadian public sector accounting standards.

(a) Revenue

Audit fee revenue is reported on the accrual basis of accounting when billable financial statements audits are performed. Audit fees are charged to organizations that are funded primarily from sources other than provincial general revenues. Effective for auditee year-ends post March 31, 2013, the office ceased the practice of billing organizations.

(b) Expenses

Directly incurred

Directly incurred expenses are those costs incurred under the authority of the office's budget (Note 5).

Incurring by others

Services contributed by other entities in support of the office's operations are not recognized and are disclosed in Note 6.

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(b) Expenses (continued)

Pension expense

Pension costs included in the directly incurred expenses as part of these statements refer to employer contributions for current service of employees during the year and additional employer contributions for service relating to prior years and are disclosed in Note 4.

(c) Financial instruments

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

The fair values of accounts receivable, other receivables and prepaids, accounts payable and accrued liabilities, and accrued vacation pay are estimated to approximate their carrying values because of the short-term nature of these instruments.

The office does not have any transactions involving financial instruments that are classified in the fair value category and has no foreign currency transactions. There are no remeasurement gains and losses and therefore a statement of remeasurement gains and losses has not been presented.

(d) Tangible capital assets

Tangible capital assets are recorded at historical cost and amortized on a straight-line basis over the estimated useful lives of the assets. The threshold for capitalizing new tangible capital assets is \$5,000. Amortization is only charged if the tangible capital asset is in use over the following estimated useful lives:

Computer hardware	3 years
Computer software	3 years
Office equipment	10 years

(e) Liabilities

Liabilities are recorded to the extent that they represent present obligations as a result of events and transactions occurring prior to the end of the fiscal year. The settlement of liabilities will result in sacrifice of economic benefits in the future.

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(f) Net liabilities

Net liabilities represent the difference between the office's liabilities and the carrying value of its assets.

Canadian public sector accounting standards require a "net debt" presentation for the statement of financial position in the summary financial statements of governments. Net debt presentation reports the difference between financial assets and liabilities as "net debt" or "net financial assets" as an indicator of the future revenues required to pay for past transactions and events. The office operates within the government reporting entity, and does not finance its expenditures by independently raising revenues. Accordingly, these financial statements do not report a net debt indicator.

(g) Lines of business costs

Schedule 1 provides detail of the office's lines of business costs by sector and ministry.

Note 3 Tangible Capital Assets

	2014			2013
	Historical cost	Accumulated amortization	Net book value	Net book value
Computer hardware	\$ 1,598,246	\$ 1,069,947	\$ 528,299	\$ 185,851
Computer software	224,681	220,036	4,645	11,072
Office equipment	593,940	547,200	46,740	59,642
	<u>\$ 2,416,867</u>	<u>\$ 1,837,183</u>	<u>\$ 579,684</u>	<u>\$ 256,565</u>

Note 4 Benefit Plans

The office participates in multi-employer pension plans: Management Employees Pension Plan, Public Service Pension Plan and Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equivalent to the annual contributions of \$2,189,398 for the year ended March 31, 2014 (2013: \$1,998,842). The office is not responsible for future funding of the plan deficit other than through contribution increases.

At December 31, 2013, the Management Employees Pension Plan reported a surplus of \$50,457,000 (2012: deficiency \$303,423,000), the Public Service Pension Plan reported a deficiency of \$1,254,678,000 (2012: deficiency \$1,645,141,000) and the Supplementary Retirement Plan for Public Service Managers reported a deficiency of \$12,384,000 (2012: deficiency \$51,870,000).

Note 4 Benefit Plans (continued)

The office also participates in a multi-employer Long Term Disability Income Continuance Plan. At March 31, 2014, the Management, Opted Out and Excluded Plan reported an actuarial surplus of \$24,055,000 (2013: surplus \$18,327,000). The expense for this Plan is limited to the employer's annual contributions for the year.

Note 5 Budget

The budget shown on the statement of operations is based on the budgeted expenses that the Standing Committee on Legislative Offices approved on November 23, 2012. The following table compares the office's actual expenditures, excluding non-voted amounts such as amortization and audit fee revenue, to the approved budgets:

	<u>Voted budget</u>	<u>Actual</u>	<u>Unexpended</u>
Operating expenses			
Total professional services expenses	\$ 26,075,000	\$ 25,684,809	\$ 390,191
Capital investment	<u>560,000</u>	<u>464,897</u>	<u>95,103</u>
	<u>\$ 26,635,000</u>	<u>\$ 26,149,706</u>	<u>\$ 485,294</u>

Note 6 Expenses Incurred by Others

The office had transactions with other entities for which no consideration was exchanged. The amounts for the following transactions are estimated based on the costs incurred by the service provider.

	<u>2014</u>	<u>2013</u>
Expenses incurred by Alberta Infrastructure accommodation	<u>\$970,308</u>	<u>\$960,036</u>
Expenses incurred by Service Alberta technology services	<u>\$159,000</u>	<u>\$170,000</u>
Expense incurred by the Legislative Assembly Office audit fee	<u>\$ 30,000</u>	<u>\$ 30,000</u>

Note 7 Salary and Benefits Disclosure

	2014						
	Pensionable base salary	Cash benefits ⁽¹⁾	Non-cash benefits ⁽²⁾	Severance	Total	Cashed out vacation	Total including cashed out vacation
Auditor general ⁽³⁾	\$ 254,820	\$ 1,850	\$ 83,213	\$ -	\$ 339,883	\$ 13,669	\$ 353,552
Assistant auditors general:							
AAG ⁽⁴⁾	192,890	1,850	54,909	-	249,649	-	249,649
AAG ⁽⁵⁾	189,690	1,850	53,041	-	244,581	14,536	259,117
AAG ⁽⁶⁾	164,000	1,850	44,522	-	210,372	-	210,372
AAG ⁽⁷⁾	164,000	26,450	5,600	-	196,050	-	196,050
AAG ⁽⁸⁾	73,904	-	21,245	-	95,149	-	95,149
	<u>\$ 1,039,304</u>	<u>\$ 33,850</u>	<u>\$ 262,530</u>	<u>\$ -</u>	<u>\$ 1,335,684</u>	<u>\$ 28,205</u>	<u>\$ 1,363,889</u>
	2013						
	Pensionable base salary	Cash benefits ⁽¹⁾	Non-cash benefits ⁽²⁾	Severance	Total	Cashed out vacation	Total including cashed out vacation
Auditor general ⁽³⁾	\$ 242,688	\$ -	\$ 80,919	\$ -	\$ 323,607	\$ 18,205	\$ 341,812
Assistant auditors general:							
AAG ⁽⁴⁾	192,890	-	53,790	-	246,680	-	246,680
AAG ⁽⁵⁾	180,090	-	48,682	-	228,772	13,800	242,572
AAG ⁽⁶⁾	26,391	-	8,148	-	34,539	-	34,539
AAG ⁽⁷⁾	26,391	3,959	1,942	-	32,292	-	32,292
AAG ⁽⁸⁾	192,890	-	52,608	-	245,498	-	245,498
AAG ⁽⁹⁾	161,850	40,463	5,193	-	207,506	25,412	232,918
AAG ⁽¹⁰⁾	145,262	-	40,904	310,328	496,494	40,441	536,935
	<u>\$ 1,168,452</u>	<u>\$ 44,422</u>	<u>\$ 292,186</u>	<u>\$ 310,328</u>	<u>\$ 1,815,388</u>	<u>\$ 97,858</u>	<u>\$ 1,913,246</u>

- (1) Cash benefits include lump sum payments, payments in lieu of certain employer contributions towards non-cash benefits such as long-term disability insurance and pensions. No bonuses were paid in 2014 and 2013.
- (2) Non-cash benefits include the office's share of all employee benefits, and contributions or payments made on behalf of employees including pension, supplementary retirement plans, health care, dental coverage, group life insurance, short and long term disability plans, WCB premiums, professional memberships and tuition fees.
- (3) Non-cash benefits for the auditor general includes \$10,995 (2013: \$10,414) being the lease, fuel and maintenance expenses for an automobile provided.

Note 7 Salary and Benefits Disclosure (continued)

Responsibilities of the Assistant Auditors General as at March 31, 2014 are as follows:

- (4) Executive Council, Health, Human Services, Legislative Assembly, Measuring Up and Ministry Performance Measures
- (5) Infrastructure, Municipal Affairs, Treasury Board and Finance
- (6) Aboriginal Relations, Education, Innovation and Advanced Education, International and Intergovernmental Relations, Jobs, Skills, Training and Labour, Transportation; Promoted on February 1, 2013 (2 months in 2013)
- (7) Agriculture and Rural Development, Culture, Energy, Environment and Sustainable Resource Development, Justice and Solicitor General, Service Alberta, Tourism, Parks and Recreation; Promoted on February 1, 2013 (2 months in 2013)
- (8) Left on August 9, 2013 (5.3 months in 2014)
- (9) Left on January 31, 2013 (10 months in 2013)
- (10) Left on January 4, 2013 (9 months in 2013)

Note 8 Comparative Figures

Certain 2013 figures have been reclassified to conform to the 2014 presentation.

Note 9 Approval of the Financial Statements

These financial statements were approved by the Auditor General.

**Legislative Assembly of Alberta
Office of the Auditor General
Lines of Business Costs by Sector¹ and Ministry
Year Ended March 31, 2014**

	2014 Budget			2014 Actual			2013 Actual		
	Auditing			Auditing			Auditing		
	Financial statements ²	Systems ³	Total	Financial statements ²	Systems ³	Total	Financial statements ²	Systems ³	Total
Alberta's Economic Future									
Aboriginal Relations	\$ 82,000	\$ 523,000	\$ 605,000	\$ 78,000	\$ 378,000	\$ 456,000	\$ 44,000	\$ 133,000	\$ 177,000
Agriculture and Rural Development	706,000	10,000	716,000	702,000	44,000	746,000	637,000	85,000	722,000
Infrastructure	221,000	181,000	402,000	231,000	45,000	276,000	221,000	6,000	227,000
Innovation and Advanced Education	4,763,000	463,000	5,226,000	5,253,000	671,000	5,923,000	5,001,000	957,000	5,958,000
Intergovernmental and International Relations	53,000	-	53,000	63,000	30,000	93,000	73,000	17,000	90,000
Tourism, Parks and Recreation	247,000	-	247,000	246,000	-	246,000	190,000	1,000	191,000
	<u>6,072,000</u>	<u>1,177,000</u>	<u>7,249,000</u>	<u>6,573,000</u>	<u>1,168,000</u>	<u>7,741,000</u>	<u>6,166,000</u>	<u>1,199,000</u>	<u>7,365,000</u>
Families and Communities									
Culture	187,000	-	187,000	194,000	-	194,000	141,000	-	141,000
Education	576,000	388,000	964,000	572,000	280,000	852,000	600,000	74,000	674,000
Health	2,442,000	1,191,000	3,633,000	2,457,000	1,717,000	4,173,000	2,441,000	1,748,000	4,189,000
Human Services	1,504,000	52,000	1,556,000	1,559,000	274,000	1,833,000	1,425,000	596,000	2,021,000
Jobs, Skills, Training and Labour	482,000	-	482,000	501,000	2,000	503,000	402,000	-	402,000
Justice and Solicitor General	468,000	201,000	669,000	457,000	148,000	605,000	496,000	1,000	497,000
Service Alberta	817,000	330,000	1,147,000	553,000	129,000	682,000	631,000	251,000	882,000
	<u>6,476,000</u>	<u>2,162,000</u>	<u>8,638,000</u>	<u>6,293,000</u>	<u>2,550,000</u>	<u>8,843,000</u>	<u>6,136,000</u>	<u>2,670,000</u>	<u>8,806,000</u>
Resource Stewardship									
Energy	1,016,000	258,000	1,274,000	796,000	298,000	1,094,000	811,000	36,000	847,000
Environment and Sustainable Resource Development	981,000	746,000	1,727,000	587,000	647,000	1,234,000	695,000	667,000	1,362,000
Municipal Affairs	495,000	105,000	600,000	743,000	90,000	833,000	595,000	375,000	970,000
Transportation	233,000	-	233,000	265,000	18,000	283,000	250,000	412,000	662,000
Treasury Board and Finance	4,859,000	1,284,000	6,143,000	4,268,000	1,020,000	5,288,000	4,060,000	742,000	4,802,000
	<u>7,584,000</u>	<u>2,393,000</u>	<u>9,977,000</u>	<u>6,659,000</u>	<u>2,073,000</u>	<u>8,732,000</u>	<u>6,411,000</u>	<u>2,232,000</u>	<u>8,643,000</u>
Executive Council									
Executive Council	111,000	168,000	279,000	158,000	73,000	231,000	144,000	22,000	166,000
Legislative Assembly									
Legislative Assembly	227,000	-	227,000	280,000	-	280,000	224,000	1,000	225,000
	<u>338,000</u>	<u>168,000</u>	<u>506,000</u>	<u>438,000</u>	<u>73,000</u>	<u>511,000</u>	<u>368,000</u>	<u>23,000</u>	<u>391,000</u>
	<u>\$ 20,470,000</u>	<u>\$ 5,900,000</u>	<u>\$ 26,370,000</u>	<u>\$ 19,963,000</u>	<u>\$ 5,864,000</u>	<u>\$ 25,827,000</u>	<u>\$ 19,081,000</u>	<u>\$ 6,124,000</u>	<u>\$ 25,205,000</u>
Percentage of costs dedicated to financial statements/systems auditing	78%	22%	100%	77%	23%	100%	76%	24%	100%

¹ Ministry auditing work is aligned with the Government's 2014 priority areas.

² Financial statements audits include reporting on financial statements, compliance with authorities, performance measures, results analysis, and research and advice.

³ Systems audits examine major programs or initiatives an organization undertakes to achieve its goals.

**Legislative Assembly of Alberta
Office of the Auditor General
Performance Measures Summary
Year Ended March 31, 2014**

Performance measures	Actual 2012	Actual 2013	Target 2014	Actual 2014
Relevant auditing				
Percentage of the auditor general's recommendations accepted for implementation ¹ (<i>also Reliable</i>)	100%	98%	95%	89%
Number of auditor general's recommendations not implemented within three years of acceptance	42	55	Zero	47
Issue auditor's report on Alberta's consolidated financial statements by June 30 (for the preceding March 31 fiscal year-end)	June 23, 2011	June 21, 2012	June 30, 2013	June 20, 2013
Percentage of costs dedicated to financial statements/systems auditing (<i>also Reasonable cost</i>)	79/21%	76/24%	78/22%	77/23%
Reliable auditing				
Institute of Chartered Accountants of Alberta's conclusion that the office's financial statements audits meet practice review standards ² (<i>also Relevant and Reasonable Cost</i>)	No review	Met	Next review expected in 2016	Next review expected in 2016
Reasonable cost auditing				
Staff turnover and vacancy rate (<i>also Reliable</i>)	22%	21%	Under 20%	18%
Percentage of financial statements audits completed within budget	68%	67%	90%	59%

¹ Acceptance for implementation does not include audit recommendations accepted in principle or under review.

² The practice review is done triennially



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