AUDITOR GENERAL
Alberta

Report of the Auditor General of Alberta

FEBRUARY 2016

Estefania Cortes-Vargas, MLA
Chair
Standing Committee on Legislative Offices

I am honoured to send my *Report of the Auditor General of Alberta—February 2016* to Members of the Legislative Assembly of Alberta, as required by Section 20(1) of the *Auditor General Act*.

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

Edmonton, Alberta
January 29, 2016

Contents

Auditor General's Message and Recommendations

REPORT OF THE AUDITOR GENERAL OF ALBERTA

February 2016

Auditor General's Message

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

Information Management

Information is a strategic asset for all organizations—as important as people, financial capital and infrastructure. Information technology has moved from providing largely back office support to enabling the delivery of programs and services and achievement of organizational goals and objectives. As a result, all organizations, public and private, large or small, are facing the need to reconsider their governance and management of information and related technology.

Our report identifies four instances[1] in which real or potential deficiencies in the governance or management of information and related technology may jeopardize critical energy sector infrastructure, hamper efficient and economical cash management, create privacy risks or threaten the delivery of student programs and services. We also report on an instance (Drinking Water follow-up) in which increased attention to information management has helped improve program efficiency and effectiveness.

Accumulated Surpluses

We report on the growth of surpluses within the Office of the Public Guardian and Trustee (page 33) and the Victims of Crime Fund (page 43). Both entities provide assistance to vulnerable Albertans. Although the reason for the growing surplus in each case is different, both organizations have failed to assess whether they are achieving their desired results and whether the growth in these surpluses can be justified to Albertans.

Managing Royalty Reduction Programs (page 15)

Royalty reduction programs are designed to increase the amount of oil and gas recovered using new technologies and processes. Although the Department of Energy knows and reports the amount of the royalty reduction ($1.4 billion annually), it does not report on the amount of actual royalties it recovers or other value derived through these programs. Without annual evaluation and reporting on its royalty reduction programs, the department is not telling Albertans whether the programs are working.

IT Security for Industrial Control Systems (pages 23 and 27)

We examined the roles of Alberta government departments and regulators in overseeing the risk to Albertans from unsecured industrial control systems (ICS) in Alberta's electrical and oil and gas industries.

In the case of the electrical industry, we found the Alberta Utilities Commission fulfilled its role and followed its processes, as required by regulation, to adjudicate and approve the IT security standards recommended by the Alberta Electric System Operator.

In the case of the oil and gas industry, we found the Department of Justice and Solicitor General has assessed the threat of attack on Alberta's oil and gas industry through ICS and concluded that it is low. However, no Alberta government entity has assessed the impact of an attack. Our recommendation to the Department of Energy and the Alberta Energy Regulator is designed to enable them to be able to assert that oil and gas operators are properly mitigating those risks to protect Albertans.

---

[1] Recommendations 2 (page 29), 10 (page 82), 15 (page 105) and 16 (page 108).

Disaster Recovery Program Transition (page 55)

The lesson to be learned here is not to transition a program in the midst of dealing with a large natural disaster.

While the decision to move program delivery from a contracted service provider to the Department of Municipal Affairs might have been sound, the timing was not. The department did not have the capacity to re-design the program delivery model and implement a new IT system. The few project managers and dedicated resources the department had working on the transition were also dealing with the 2013 southern Alberta disaster.

We believe that once the department has completed implementing its transition work plan, Alberta will have in place a more effective and efficient disaster recovery program.

Cash Management within the Government of Alberta (page 71)

In our opinion, the Department of Treasury Board and Finance, with the support of the Treasury Board Committee and Deputy Ministers' Council, should lead the transformation and modernization of the province's cash management systems. Our report sets out the opportunities to improve the economy and efficiency of cash management with a payback of reduced debt and interest and administrative costs.

Drinking Water Follow-up (page 91)

The Department of Environment and Parks has implemented the one outstanding recommendation (improve drinking water information systems) from our 2006 audit of the systems to manage drinking water. Systems reporting capacity has improved and meets users' needs. An enhanced system for drinking water inspections helped improve the program efficiency and effectiveness. The department eliminated overlapping systems and implemented an effective process that ensures forms are up to date.

Post-secondary Report Card (page 95)

In this report we update the status of financial reporting and internal control environments within Alberta's publicly funded post-secondary institutions—with the exception of the four universities with March year ends, which we reported on in October 2015.

Most institutions have adequate internal controls and processes over financial reporting. The challenge they face is to sustain their control environments. Six institutions joined the University of Alberta in having no outstanding recommendations at the end of their fiscal year.

February 2016 Recommendations

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

This report contains one repeated and 15 new recommendations to government. The repeated recommendation has been made because we do not believe there has been sufficient action taken to implement our previous recommendation.

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

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

Reporting the status of recommendations

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

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

We report the status of our recommendations as:

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

On occasion, we may make the following comments:

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

SYSTEMS AUDITING—NEW AUDITS

Energy—Systems to Manage Royalty Reduction Programs

Page 18

RECOMMENDATION 1: EVALUATE AND REPORT ON ROYALTY REDUCTION PROGRAM OBJECTIVES

We recommend that the Department of Energy annually evaluate and report whether the department's royalty reduction programs achieve their objectives.

Implications and risks if recommendation not implemented

Without effective systems and processes to annually evaluate and report on its royalty reduction programs, the department is unable to show whether the programs are achieving their objectives and providing the intended value through the use of royalty incentives.

Energy—IT Security for Industrial Control Systems in Alberta's Oil and Gas Industry

Page 29

RECOMMENDATION 2: FURTHER ASSESS PROVINCIALLY REGULATED INDUSTRIAL CONTROL SYSTEMS

We recommend that the Department of Energy and Alberta Energy Regulator work together to determine whether a further assessment of threats, risks and impacts to industrial control systems used in provincially regulated oil and gas infrastructure would benefit Alberta.

Implications and risks if not implemented

If the Department of Energy and Alberta Energy Regulator are unaware of the possible risks and impacts from unsecured ICS, they cannot ensure that oil and gas operators are properly mitigating those risks to protect Albertans.

Human Services—Office of the Public Guardian and Trustee—Surplus Management and Results Reporting

Page 36

RECOMMENDATION 3: DETERMINE AND MANAGE SURPLUS

We recommend that the Public Trustee develop processes to effectively manage the growth and use of the accumulated surplus in the Common Fund.

Implications and risks if recommendations not implemented

If the Public Trustee does not complete an analysis of the accumulated surplus balance, there is a risk that the Public Trustee will hold in reserve more funds than are necessary to mitigate the risks of interest fluctuations, and errors and omissions. Further, the opportunity to maximize the return to client accounts may be missed.

Page 40

RECOMMENDATION 4: IMPROVE RESULTS ANALYSIS PROCESSES AND REPORTING

We recommend that the Public Trustee and Ministry of Human Services improve the performance reporting for the operations of the Public Trustee.

Implications and risks if recommendation not implemented

In the absence of quality results analysis reporting, stakeholders will not receive sufficient information to assess whether the Public Trustee is achieving its desired results. Further, an evaluation into whether the costs to achieve the results are reasonable cannot be performed because of insufficient information.

Justice and Solicitor General—Victims of Crime Fund—Systems to Manage Sustainability and Assess Results

Page 46

RECOMMENDATION 5: DEVELOP AND PUBLICLY REPORT ON A PLAN FOR THE VICTIMS OF CRIME FUND PROGRAM

We recommend that the Department of Justice and Solicitor General:

- develop and approve a business plan with measurable desired results for the Victims of Crime Fund
- publicly report on the results of this business plan

Implications and risks if recommendation not implemented

If the department does not set out goals for the Victims of Crime Fund, with accompanying targets and measures, it cannot know whether the money being spent is achieving program objectives.

Page 49

RECOMMENDATION 6: DETERMINE BEST USE OF VICTIMS OF CRIME FUND ACCUMULATED SURPLUS

We recommend that the Department of Justice and Solicitor General, supported by sufficient analysis, determine an appropriate use of the Victims of Crime Fund accumulated surplus.

Implications and risks if recommendation not implemented

If the potential uses for the accumulated surplus are not sufficiently analyzed and decided upon, potential opportunities may be missed—e.g., heightened and improved accessibility to service by victims of crime in Alberta. Further, questions will persist from Albertans about the purpose of this accumulated and growing surplus.

Municipal Affairs—Disaster Recovery Program Transition

Page 62

RECOMMENDATION 7: IMPLEMENT TRANSITION PLAN

We recommend that the Department of Municipal Affairs implement its transition work plan to improve its disaster recovery program delivery systems by:

- obtaining skilled project managers and implementing project management practices that will achieve the objectives outlined in the plan
- improving project oversight to monitor implementation of the plan to ensure desired results are achieved within an acceptable timeframe

Implications and risks if recommendation not implemented

The department is at risk of ineffectively responding to disasters should they occur, inefficiently using resources, not properly verifying or consistently administering claims, and losing federal funding.

Treasury Board and Finance—Economy and Efficiency of Cash Management in the Government of Alberta

Page 77

RECOMMENDATION 8: EVALUATE CASH MANAGEMENT FOR EFFICIENCY AND ECONOMY

We recommend that the Department of Treasury Board and Finance:

- evaluate how it can use excess liquidity within government-controlled entities to reduce government debt and minimize borrowing costs, and implement mechanisms to utilize excess liquidity
- evaluate the Consolidated Cash Investment Trust Fund and pursue opportunities to increase its use or modify its current structure to ensure it remains a relevant cash management tool

Implications and risks if recommendation not implemented

Inefficient and uneconomical cash management systems increase debt, interest and administration costs.

Page 79

RECOMMENDATION 9: DEVELOP POLICIES TO PREVENT EARLY PAYMENT OF GRANTS AND AN ACCUMULATION OF LARGE CASH BALANCES

We recommend that the Department of Treasury Board and Finance issue policies and guidance for departments to monitor the working capital needs of government-controlled entities to ensure departments only provide cash when needed.

Implications and risks if recommendation not implemented

Providing cash to entities before they need it or allowing them to accumulate large cash balances, increases provincial debt and debt costs.

Page 82

RECOMMENDATION 10: IMPLEMENT AND USE INFORMATION TECHNOLOGY TO MANAGE CASH

We recommend that the Department of Treasury Board and Finance implement an integrated treasury management system to manage treasury functions and processes, including government-wide cash pooling and management.

Implications and risks if recommendation not implemented

Lack of information technology creates inefficiencies, inaccurate and stale information, and too many manual processes that increase errors and costs. It also prevents Treasury Board and Finance from managing cash efficiently and economically across the government.

Page 85

RECOMMENDATION 11: USE LEADING BANKING AND RELATED PRACTICES AND EVALUATE COST BENEFITS OF BANK ACCOUNTS

We recommend that the Department of Treasury Board and Finance work with departments to implement leading banking practices and evaluate the benefits of existing bank accounts compared to the costs of administering them, and make changes where the costs exceed the benefits.

Implications and risks if recommendation not implemented

Government is missing opportunities by not using leading banking practices.

Page 86

RECOMMENDATION 12: IMPROVE POLICIES FOR PAYMENTS

We recommend that the Department of Treasury Board and Finance:

- periodically analyze payment data to identify non-compliance with policies and seek opportunities for improvements
- ensure that cost recoveries between government entities consider costs and benefits, and a transaction threshold

Implications and risks if recommendation not implemented

When government does not use best practices for payment policies, terms and methods, it is missing opportunities to operate in the most efficient and economical way.

OTHER AUDIT WORK

Advanced Education—Report on Post-secondary Institutions

KEYANO COLLEGE

Page 102

RECOMMENDATION 13: IMPROVE FINANCIAL REPORTING PROCESSES

We recommend that Keyano College improve its financial reporting by:

- training staff on Canadian Public Sector Accounting Standards (PSAS)
- improving its monitoring and reviewing processes to ensure accurate financial information

Implications and risks if recommendation not implemented

Without effective controls over its financial reporting processes, management and the board will not have reliable financial information on which to base their decisions.

LAKELAND COLLEGE

Page 103

RECOMMENDATION 14: IMPROVE SEGREGATION OF DUTIES

We recommend that Lakeland College improve segregation of duties within the finance department.

Implications and risks if recommendation is not implemented

Without appropriate segregation of key financial reporting duties, the college will have increased risk of undetected fraud, error and inappropriate transactions occurring.

OLDS COLLEGE

Page 105

RECOMMENDATION 15: IMPROVE ACCESS CONTROLS TO INFORMATION SYSTEMS

We recommend that Olds College strengthen its information systems access controls to ensure it:

- promptly removes system access privileges when staff or contractors leave the college
- discontinues the practice of leaving accounts open for email access after staff are terminated

Implications and risks if recommendation not implemented

Without strong user access controls, the college cannot prevent unauthorized access to its applications and systems that could compromise the confidentiality and integrity of financial and student information.

RED DEER COLLEGE

Page 108

RECOMMENDATION 16: IMPROVE GENERAL COMPUTER CONTROL ENVIRONMENT—REPEATED

We again 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
- managing changes to computer programs
- testing its disaster recovery plan and then assessing its adequacy

Implications and risks if recommendation not implemented

Weakness in the general computer control environment poses a risk to the integrity and availability of the college's systems and data. Without accurate information, college management cannot perform its function efficiently.

Stand-alone Systems Auditing—New Audits

REPORT OF THE AUDITOR GENERAL OF ALBERTA

February 2016

Energy—Systems to Manage Royalty Reduction Programs

SUMMARY

The Department of Energy uses royalty[1] reductions to help achieve its strategic objectives for Alberta's energy resources and for royalty revenue. Specifically, these programs are designed to increase overall royalty revenues by giving companies an incentive to recover oil and gas, previously considered unrecoverable, from existing locations.

The department manages 12 royalty reduction programs that provide an incentive for companies to recover oil and gas that would otherwise cost too much to produce. The use of these programs reduced royalties in 2014–2015 by about $1.4 billion.[2] These reductions are intended to generate incremental royalties from oil and gas that would otherwise not have been recovered.

What we examined

We chose three programs and examined the processes the department uses to:

- analyze and report on whether the programs are helping the department meet its objectives
- improve the programs as needed

The three[3] programs we examined account for about 10 per cent of the royalty reductions from all 12 programs. We chose programs of different sizes, attributes and potential benefit to Albertans. These three programs are representative examples of the department's various royalty reduction programs.

Overall conclusion

Royalty reduction programs increase the amount of oil and gas recovered using new technologies and processes. Although the department knows and reports the amount of the royalty reduction ($1.4 billion), it does not report on the amount of additional royalties generated or other value derived through these programs. Without knowing whether these programs are achieving their intended results, the department cannot assess whether they are working.

What we found

The department identified what it wanted to achieve through its royalty reduction programs. The department had effective processes to:

- develop and administer its royalty reduction programs
- assess program applications for approval
- approve royalty reductions only after the department had evidence that the companies met all program criteria

---

1 Royalties are usually a percentage of gross or net revenues the company receives when it sells the resource. Alberta has different royalty regimes for different types of oil and gas.
2 See the Department of Energy's 2014–2015 annual report.
3 Innovative Energy Technologies Program, Incremental Ethane Extraction Program and Enhanced Oil Recovery. See Appendix A for descriptions of these three programs.

For the three royalty reduction programs we examined, we also found that the department:
- had not done sufficient analysis or provided enough information to show that these programs achieved the desired results and provided the expected value
- had identified performance metrics for one program but had not used them to analyze or report on whether the program achieved its intended results
- had recently implemented performance metrics and processes to analyze those metrics, for another program, but had not analyzed the results or reported on whether the program achieved its desired results

What needs to be done

The Department of Energy should analyze, evaluate and report on whether each royalty reduction program is achieving its objectives and providing value to Albertans. And, if not, what can be improved.

Why this is important to Albertans

Oil and gas companies pay royalties for the right to extract and sell Alberta's natural resources. These royalties help pay for the cost of running the government and providing Albertans with infrastructure, health care and education. Alberta collected over $8 billion annually in oil and gas revenue in each of the past two financial years. Royalty reductions for all 12 programs amount to over $1 billion annually—that is more than 10 per cent of all oil and gas revenues collected by the government.

There is currently a royalty review panel assessing Alberta's overall oil and gas royalty framework. This underscores the importance of these programs to Alberta. Thus, it is important that the department have effective processes to analyze and report to Albertans whether the royalty reduction programs are meeting their objectives and providing the intended value and benefits.

AUDIT OBJECTIVES AND SCOPE

Our audit objectives were to assess whether the department had effective systems and processes to set and achieve objectives through royalty reduction programs, and to monitor and evaluate the effectiveness in terms of costs and benefits to Albertans and the energy industry.

Our audit scope focused on three royalty reduction programs and the department's processes to:
- set desired results for each program
- analyze and report on the benefits and value Albertans receive

We conducted our field work between June and October 2015. We substantially completed our audit on December 15, 2015. Our audit was conducted in accordance with the *Auditor General Act* and the standards for assurance engagements set out in the CPA Canadian Handbook—Assurance.

BACKGROUND

Results analysis is a process that managers use to evaluate how well a program is working, and to improve or discontinue programs if needed.[4] Results analysis can be an ongoing process but should be reported on at least annually to be effective. The importance of royalty reduction programs makes results analysis especially important to know whether a program is on track to meet its strategic

[4] In July 2014 we recommended that the Department of Treasury Board and Finance improve results analysis reporting within the government. See http://www.oag.ab.ca/webfiles/reports/AGJuly2014Report.pdf (page 15).

objectives. Done well, annual analysis would allow the government to inform Albertans:
- what is working and what is not
- whether actual results match desired results
- what can be done to improve results

Three royalty reduction programs form the basis of our audit and findings. Following are brief descriptions of these programs and their intended purpose.

Innovative Energy Technologies Program

The Innovative Energy Technologies Program (IETP) can provide up to $200 million in royalty adjustments to help support early stage research and technology projects that would improve efficiency of oil recoveries from existing reserves and encourage responsible development of oil, natural gas and in situ oil sands reserves.

Enhanced Oil Recovery Program

In 2014 the Enhanced Oil Recovery Program (EORP) replaced the Enhanced Oil Recovery Royalty Relief (EORRR) Program. The EORP's objective is to enable incremental oil production through tertiary development resulting in increased recoverable reserves and incremental royalties for the Crown.[5]

Incremental Ethane Extraction Program

The Incremental Ethane Extraction Program (IEEP), started in 2006 and extended for an additional five years in 2011, supports continued growth of Alberta's petrochemical sector. IEEP provides royalty reductions in the form of credits to petrochemical companies that use incremental ethane and ethylene for value-added upgrading in Alberta.

FINDINGS AND RECOMMENDATIONS

Systems to evaluate and report on royalty reduction programs

Background

The Department of Energy uses royalty reduction programs to encourage the use of new technology, processes and research in the oil and gas industry. Royalty reductions give industry operators financial incentives to develop or use new technology and processes, or to help make certain resource extraction activities economically viable. Royalty reduction programs are intended to increase the overall royalties paid to the province.

For example, the IETP and EORP encourage developing and using innovative and more efficient ways to extract a higher percentage of crude oil from existing locations. This reduces the need to build and use new infrastructure and increases environmental sustainability of resource extraction. The IEEP encourages value-added upgrading of natural gas resources in Alberta.
In general, each royalty reduction program invites industry operators to apply with a project to take advantage of the opportunities within each program. The department has administrative processes to:
- review, vet and approve proposed projects into each program
- verify all documentation provided by the operator for royalty reduction requests
- ensure each project meets all program criteria and requirements before the department reduces any royalties

[5] Enhanced Oil Recovery Royalty Relief Program Review—Report and Recommendations (May 6, 2011), page 12.

RECOMMENDATION 1: EVALUATE AND REPORT ON ROYALTY REDUCTION PROGRAM OBJECTIVES

We recommend that the Department of Energy annually evaluate and report whether the department's royalty reduction programs achieve their objectives.

Criteria: the standards for our audit

The department should have effective systems to analyze and report on the results of its royalty reduction programs and should use the analysis to improve its programs as needed.

Our audit findings

KEY FINDINGS

The Department of Energy had effective systems to develop and administer its royalty reduction programs.

The department has not:
- analyzed the royalty reduction programs using relevant performance metrics
- publicly reported whether these programs are achieving their objectives and providing value to Albertans

Administrative systems for royalty reduction programs

The department has effective processes to:
- develop and administer its programs
- ensure only qualified projects are admitted into a program
- ensure each operator and project meets all criteria a before royalties are reduced or adjusted

Performance metrics and systems to evaluate programs

The department used the government's policy development process and due diligence to develop the three royalty reduction programs to support its strategic objectives. The government's guide to this process also indicates the need to:
- evaluate and measure the performance of policy programs
- monitor and report the results to Albertans[6]

During our audit, managers for one of the programs started to develop performance measures and processes to report on their achievement annually. These measures were implemented in September 2015.

Another program had a performance metric in place from the start of the program. However, that metric was not being used and there were no other performance metrics identified that would allow the program to measure whether it was achieving the desired results.

Reports on royalty reduction programs

The department prepares some internal reports for the programs we examined. For example, one program prepared a high level summary and status report for the assistant deputy minister for the past two years. There is also internal reporting on oil and gas volumes for specific programs. However, those internal reports did not use relevant performance metrics to analyze whether the overall program was achieving the desired results or what could be done to improve or expand the program.

[6] Policy Development Process Guidance for Alberta's Public Service—obtained from the Department of Energy. See Appendix B for details.

One program implemented performance measures in September 2015. Program managers told us they plan to use the measures and report on the program's achievements in early 2016.

The 12 royalty reduction programs are grouped together and reported publicly in the department's annual financial statements as a single note to the statements. However, there was no separate analysis or reporting whether individual programs were achieving their desired results or, if not, what could be done to improve them. The note on page 74 of the Department of Energy's 2014–2015 annual financial report states:

> *"The department provides twelve oil and gas royalty reduction programs. The intent of these programs is to encourage industry to produce from wells which otherwise would not be economically productive. For the year ended March 31, 2015, the royalties receive under these programs were reduced by $1,441,451,000 (2014—$1,191,501,000)."*

Although the department discloses the combined amount of the royalty reductions for the 12 programs, it does not disclose the amount of royalty reductions in individual programs. Nor does it report on the actual royalty revenues individual programs help generate. The department does not have requirements to publicly report any other financial analysis on the reduced royalties, or other individual program costs. For example, are the royalty reductions and the administrative costs incurred by each program generating the expected financial return through increased incremental royalties or other financial measures?

The department publicly reports the successes of some of it projects within the royalty reduction programs. For example, successful projects and new technology supported by the IETP were presented at the World Heavy Oil Conference in Edmonton.[7] Information obtained from industry operators in the IEEP program was used in the department's 2014–2015 annual report. The department also publicizes other successful projects or programs on program websites, in news releases or in industry publications.

However, we were unable to find evidence that the department annually evaluated the three royalty reduction programs using defined, relevant performance metrics and then reported on the aggregate program results of those evaluations to Albertans. We were also unable to find evidence that the department stated whether each program achieved its desired results and provided the intended value and;

- if yes, should the program be kept, extended or expanded?
- if no, what could be done to improve the program or discontinue it?

Implications and risks if recommendation not implemented

Without effective systems and processes to annually evaluate and report on its royalty reduction programs, the department is unable to show whether the programs are achieving their objectives and providing the intended value through the use of royalty incentives.

[7] World Heavy Oil Conference, March 24–26, 2015.

Appendix A

THREE ROYALTY REDUCTION PROGRAMS

Innovative Energy Technologies Program

The Innovative Energy Technologies Program (IETP) has a cap of $200 million in royalty adjustments to pilot scale research and technology projects that improve efficiency of oil recoveries from existing reserves and encourage responsible development of oil, natural gas and in situ oil sands reserves. It can provide up to 30 per cent of the funding of a project to a maximum of $10 million. The province can publish the results of the new technology after three years thus giving access to the new technology to the entire energy industry.

The program objectives are:
- increasing the recovery from oil and gas deposits resulting in incremental production and royalties
- finding a flexible commercial technical solution to the gas over bitumen scenario that will allow efficient and orderly production of both resources improving the recovery of bitumen resources by in situ technologies
- improving recovery of natural gas from coal seams
- disseminating technology and information developed through the projects supported by this program[8]

This program is unique, as it uses the royalty system to fund research projects in the form of royalty allowances. Projects approved will be able to receive royalty adjustments of up to 30 per cent of approved projects costs while industry must cover the remainder of total project costs. In 2013–2014 there was an estimated $12 million reduction in royalties due to the IETP.

Another unique aspect of the IETP program is that it is difficult to set quantified performance metrics. As per the department, failure is a normal and integral part of a research program. For example, it is good to know something doesn't work so it can be improved before going into full production.

Enhanced Oil Recovery Program

The Enhanced Oil Recovery Royalty Relief (EORRR) Program was established in the late seventies to encourage tertiary recovery from conventional oil pools. The EORP's objective is to enable incremental oil production through tertiary development resulting in increased recoverable reserves and incremental royalties for the crown.[9] In 2014 the EORRR program was replaced by the new Enhanced Oil Recovery Program (EORP). The program objective and principles remained unchanged and the new EORP included a five per cent royalty rate cap applied, for a defined period of time, to well events rather than a royalty reduction based on cost.

---

8 Alberta Energy Website http://www.energy.alberta.ca/OilSands/794.asp
9 Enhanced Oil Recovery Royalty Relief Program Review—Report and Recommendations (May 6, 2011), page 12.

The EORP encourages the use of enhanced oil recovery methods to obtain additional oil from wells or pools where oil cannot efficiently be recovered through traditional drilling technology. Enhanced oil recovery projects inject hydrocarbons, CO_2, nitrogen, chemicals or other approved substances to increase oil recovery from an existing oil well or pool. Enhanced oil recovery increases the amount of oil that can ultimately be recovered from conventional oil fields, providing incremental oil revenue and other economic benefits across Alberta.

Enhanced oil recovery aims to increase oil production from existing oil fields with existing infrastructure (roads and pipelines). Using existing infrastructure helps preserve undeveloped areas. There is a lot of potential for this program as only about 22 per cent of Alberta's conventional crude oil has been recovered. For the 2013–2014 fiscal year, it was estimated there was a total of $86 million in royalty reductions due to the EORP.

Incremental Ethane Extraction Program

The Incremental Ethane Extraction Program (IEEP) was a five-year program started in 2006 with a budget of $350 million. The program was extended for an additional five years in 2011 to support continued growth of Alberta's petrochemical sector. IEEP is an incentive program that provides credits to petrochemical companies that use incremental ethane and ethylene for value-added upgrading in Alberta (for example, production of higher valued products such as ethylene, polyethylene and other derivatives).

The program's objective is to sustain and grow the petrochemical industry in Alberta. The department's 2014–2015 annual report indicates IEEP funds are now fully designated and the program has contributed to approximately $1.8 billion in projected new capital investment[10] and industry production of approximately 92,000 barrels per day of ethane.[11] The department provides incentives through royalty credits to offset the high capital costs of recovering incremental barrels of ethane feedstock. For fiscal 2013–2014, the royalty reduction due to IEEP was about $34 million.

[10] Information obtained from industry and not verified by the department.
[11] Energy Annual Report 2014–2015, page 26.

Appendix B

POLICY DEVELOPMENT PROCESS

The government's Policy Development Process also states that:

- performance measurement is the ongoing collection of quantitative and qualitative information
- evaluations, conducted periodically, gather information intended to answer specific questions such as:
  - Is a program efficient?
  - Is it adequate?
  - Is the program relevant?
- evaluations provide the necessary in-depth information required to assess policy

Energy—IT Security for Industrial Control Systems in Alberta's Electrical Industry

SUMMARY

Industrial control systems[1] help control industrial processes. ICS devices are widely used in Alberta's electrical industry and are generally controlled by instructions received from information technology devices.

The electrical industry uses ICS to control and monitor critical components such as turbines and circuit breakers in power generation and distribution. These control systems help to ensure electricity reaches Albertans and other markets efficiently, safely and securely. Therefore, IT security[2] must be carefully considered when designing and using ICS.

We decided to audit ICS because we believe Albertans may be at risk if ICS are unsecured or do not meet minimum IT security standards.

The Alberta Utilities Commission is a provincial agency that provides independent, adjudicative functions. The AUC is accountable to the Legislature through the Minister of Energy, who is designated the responsible minister.[3] The Government of Alberta has given the AUC a regulatory mandate over the utilities sector, and natural gas and electricity markets to protect the social, economic and environmental interests of Alberta where competitive market forces do not. The AUC also establishes mandatory requirements and standards of practice for the retail electric markets through the use of a rule-making procedure involving a consultative process with stakeholders and interested parties.

On September 15, 2015 the AUC approved mandatory IT security standards for ICS in the electrical industry. Although some electrical operators may have already implemented IT security standards for ICS, they do not have to comply with these new standards until October 2017.

What we examined

We examined the Alberta Utilities Commission's role in:

- assessing risks and developing, implementing and communicating adequate IT security standards for ICS to mitigate those risks
- monitoring operators in the electrical industry for compliance with IT security standards for ICS and enforce compliance with the standards

1 These systems include Supervisory Control and Data Acquisition (SCADA), Distributed Control Systems (DCS), Programmable Logic Controllers (PLC) and other types of control systems.

2 IT security is the protection of information technology systems against unauthorized access or modification of data in storage, processing, or transit, and the hardware on which the data resides.

3 http://finance.alberta.ca/publications/budget/budget2015/energy.pdf

Overall conclusion

The AUC fulfilled its role and followed its processes, as required by regulation, to adjudicate[4] and approve the IT security standards recommended by the Alberta Electric System Operator (AESO). However, Alberta's electrical operators do not have to comply with the newly-approved IT security standards until October 2017.

What we found

The AUC and AESO have clear roles and responsibilities for developing and approving IT security standards for ICS used by Alberta's electricity operators. The AESO's role is to develop and recommend the standards. The AUC's role is to approve the recommended standards. If there are objections to the standards from electrical industry operators or Albertans, the AUC is required to assess the objections before deciding whether to approve the recommended standards.

Why this is important to Albertans

Electricity is essential to modern life. Disruption or loss of electricity from accidental or targeted disruption to Alberta's electricity grid could harm the safety of Albertans or the environment.

AUDIT OBJECTIVE AND SCOPE

Our audit objective was to determine what the AUC's role is with respect to objections and complaints filed in connection with the approval of the Alberta Reliability Standards - IT security standards for ICS, and if there are effective AUC processes to carry out that role.

We conducted our field work between January and July 2015. We substantially completed our audit on September 18, 2015. Our audit was conducted in accordance with the *Auditor General Act* and the standards for assurance engagements set out in the CPA Canada Handbook—Assurance.

FINDINGS

The AUC followed its processes to approve IT security standards

Background

Alberta's electrical industry relies on critical infrastructure to safely and efficiently generate and deliver electricity to Albertans and to other national and international markets. ICS are a critical part of electrical operators' efforts to monitor and ensure safe and reliable operations. If the ICS devices are not secure, they could be misused to cause damage to critical infrastructure (e.g., electrical generation stations, high voltage power lines), resulting in harm to Albertans or the environment.

The electrical industry uses ICS to control and monitor critical components such as turbines and circuit breakers in power generation and distribution. IT security for ICS is a critical part of decisions about the design of these controls and their use in operations. In essence, these ICS help ensure electricity reaches all Albertans efficiently, safely and securely.

For the safety of Albertans, Alberta's environment and its economy, it is important to regularly assess IT security risks in the electrical industry and implement IT security standards to mitigate the identified risks.

4 That is, to make a formal judgment or decision about a problem or disputed matter.

The *Transmission Regulation*[5] under the *Electric Utilities Act*[6] gives the AESO the authority to develop reliability standards for Alberta's electrical industry based on the North American Electric Reliability Council's (NERC) standards.[7] NERC implemented IT security standards in 2008 and the AESO started a process to adopt those standards in 2012.

The *Transmission Regulation* under the *Electric Utilities Act* also:

- requires the AESO to submit proposed reliability standards to the AUC with its recommendation to approve or reject them
- requires the AUC to follow the AESO's recommendation unless a third party can show that the standards are technically deficient or they are not in the public interest

Criteria: the standards for our audit

The AUC should have effective processes to assess objections to Alberta Reliability Standards dealing with ICS IT security standards for Alberta's critical electrical infrastructure.

Our findings

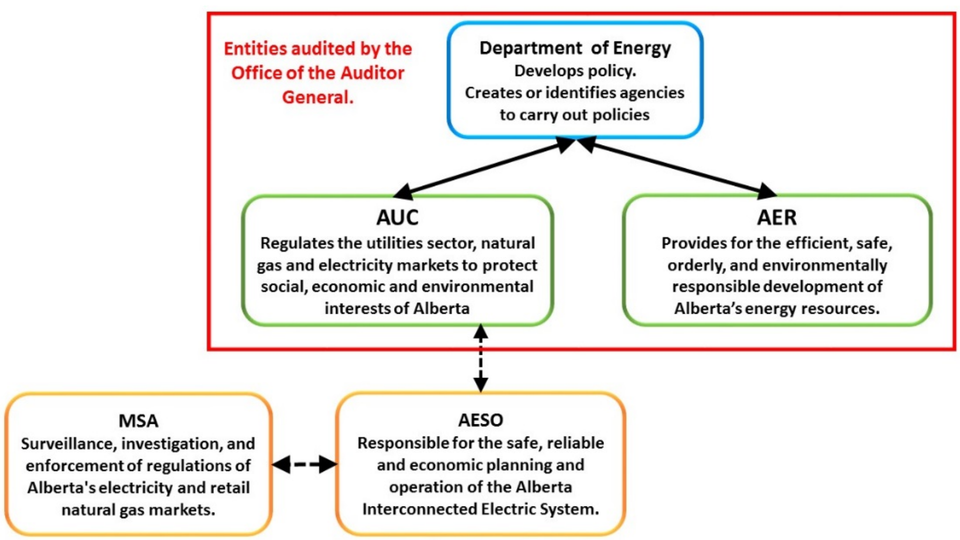
KEY FINDINGS

- The AUC followed its processes to assess the IT security standards recommended by the AESO and to adjudicate the objections from the electrical industry.
- The AUC approved the recommended IT security standards for ICS. Alberta's electrical operators must comply with the standards by October 2017.

The AUC reviewed and approved the security standards

The AESO developed NERC-based IT security standards to protect Alberta's electrical infrastructure. In September 2014 the AESO put forward the IT security standards to the AUC with a recommendation to approve the standards. However, electrical operators objected to implementation costs and the effective dates of the standards.

We are not the auditor of the AESO or the Market Surveillance Administrator.[8] We did, however, talk to the AESO about its process to develop the Alberta Reliability Standards for IT security. The AESO provided us with versions of the standards they sent to the AUC.



5 *Transmission Regulation*—Alberta Regulation 86/2007
6 *Electric Utilities Act*—Statutes of Alberta, 2003, Chapter E-5.1
7 http://www.nerc.com/pa/stand/Pages/default.aspx
8 The *Electric Utilities Act* states the AESO and Market Surveillance Administrator are not provincial corporations for the purposes of the *Financial Administration Act* or the *Auditor General Act*.

We reviewed, but did not audit or assess, the AESO's processes to develop, or to monitor and enforce IT security standards for Alberta's electrical industry. Our review of the documentation did not identify anything to suggest the AESO cannot develop a reasonable set of ICS IT security standards based on electrical industry best practices.

The AUC has defined its processes to assess objections to proposed standards before making a decision to approve or reject the standards.

The AUC followed its adjudicative processes to assess the electrical operators' objections and decide whether to approve or reject the AESO's reliability standards for IT security. The AUC approved the IT security standards after its review on September 15, 2015.

The standards are now approved. The *Transmission Regulation* gives the AESO and Market Surveillance Administrator the authority to monitor and enforce the industry's compliance with the reliability standards. However, Alberta's electrical operators do not have to comply with the standards until October 2017.

Energy—IT Security for Industrial Control Systems in Alberta's Oil and Gas Industry

SUMMARY

Industrial control systems[1] help control industrial processes. ICS are widely used in Alberta's oil and gas industry and are generally controlled by instructions received from information technology devices.

ICS devices are part of the critical infrastructure the oil and gas industry uses to produce and safely deliver energy products to provincial, national and international markets. The industry uses ICS to control pumps and valves and to detect leaks in pipeline operations, for example. These control systems help to ensure oil and gas reaches Albertans, refineries and other markets efficiently, safely and securely. Therefore, IT security[2] must be carefully considered when designing and using ICS.

We decided to audit ICS because we believe Albertans may be at risk if ICS are unsecured or do not meet minimum IT security standards. Oil and gas operators with inter-provincial or international operations may already follow international ICS IT security standards. However, the Alberta government does not currently require provincially regulated oil and gas operators to meet ICS IT security standards.

What we examined

We examined the roles the Department of Energy, Alberta Energy Regulator and the Department of Justice and Solicitor General have to:

- assess risks[3] to Alberta caused by possibly unsecured ICS used in provincially regulated oil and gas infrastructure
- assess whether provincially regulated oil and gas operators have adequate IT security standards for their ICS

Overall conclusion

The Department of Justice and Solicitor General has assessed the threat of attack on Alberta's oil and gas industry through ICS and concluded that it is low. However, no Alberta government entity has assessed the impact of an attack if one were to occur.

What we found

The Department of Energy manages Alberta's non-renewable resources and protects the interests of Albertans. The department has not assessed IT security risks to ICS in Alberta's oil and gas infrastructure.

---

[1] These systems include Supervisory Control and Data Acquisition (SCADA), Distributed Control Systems (DCS), Programmable Logic Controllers (PLC) and other types of control systems.

[2] IT security is the protection of information technology systems against unauthorized access or modification of data in storage, processing or transit, and protection of the hardware on which the data resides.

[3] A risk assessment identifies threats and the risks and impact if those threats are carried out.

The Alberta Energy Regulator is the provincial agency that carries out oil and gas regulatory functions for which the Minister of Energy is accountable.[4] The Alberta government has given the AER a mandate to ensure Alberta's energy resource policies and regulations are efficient and effectively support public safety and environment management.[5] However, the AER has not assessed IT security risks to ICS in Alberta's oil and gas infrastructure.

The Department of Justice and Solicitor General gathers intelligence to identify security threats to Alberta's critical infrastructure. It has assessed the threat of attacks on Alberta's oil and gas industry as low, but it has not assessed what the risks or impact might be if there was a successful attack on Alberta's oil and gas infrastructure.

Ultimately, the oil and gas operators are responsible for the security of the ICS devices they use and the results of any unauthorized use or attack on their infrastructure.

What needs to be done

The Department of Energy and Alberta Energy Regulator need to decide if they should assess IT security risks to ICS in Alberta's provincially regulated oil and gas industries.

Why this is important to Albertans

The Department of Energy and the Alberta Energy Regulator should understand the risks and impact to Albertans from unsecured ICS.

AUDIT OBJECTIVE AND SCOPE

Our audit objective was to determine if the Department of Energy and Alberta Energy Regulator understand the risks from unsecured ICS, and what, if any, role they should play in ensuring those risks are adequately mitigated.

We conducted our field work between January and July 2015. We substantially completed our audit on November 9, 2015. Our audit was conducted in accordance with the *Auditor General Act* and the standards for assurance engagements set out in the CPA Canada Handbook—Assurance.

FINDINGS AND RECOMMENDATIONS

Unsecured ICS and risk

Background

Alberta's oil and gas industry relies on critical infrastructure to extract, refine and transport its products and safely deliver those products to provincial, national and international markets. Industrial control systems are a key component of energy operators' efforts to monitor and ensure safe and reliable operations. For example, pipeline operators use ICS to control pumps and valves and to detect leaks or other problems. If the ICS are not secure, they can be misused to cause damage to critical infrastructure (e.g., oil wells, pipelines and refineries), resulting in harm to Albertans or the environment.

---

4 http://finance.alberta.ca/publications/budget/budget2015/energy.pdf
5 http://www.aer.ca/about-aer/what-we-do

In 2010 the world learned that a virus, called Stuxnet, successfully attacked the ICS used in Iranian nuclear facilities. The Stuxnet virus attacked programmable logic controllers, a type of ICS. Recently, a German steel mill's ICS were attacked by manipulating and disrupting ICS so that a blast furnace could not be shut down, which resulted in "massive physical damage."[6]

Alberta is not immune to security risks from ICS. For example, there was a sophisticated cyber attack against a Calgary-based company's systems.[7] The company supplies ICS remote administration and monitoring tools and services to the energy sector in Alberta. Attacks on industry exploiting unsecured ICS are not common and may not be an immediate risk to Alberta's oil and gas industry. However, if those who want to harm Alberta's oil and gas industry obtain the skills needed to do so, the risks to Alberta increase.

We spoke with oil and gas operators in Alberta, with national and international operations, about their ICS controls. The operators we talked to had, or were implementing, IT security standards to comply with national and international standards. But provincially regulated oil and gas companies do not have to comply with minimum IT security standards for ICS. ICS devices that are not configured to a minimum IT security standard are at a higher risk of cyber exploitation or attack.

Similar to home computers, ICS used in Alberta's oil and gas industry need to be regularly updated and secured to protect them against unauthorized access and malicious use. Most ICS began as proprietary, stand-alone collections of hardware and software that were walled off from the rest of the world and isolated from most external threats. Today, widely available software applications, internet-enabled devices and other non-proprietary IT offerings have been integrated into most such systems. This connectivity has delivered many benefits, but it also has increased the vulnerability of these systems.[8] When ICS are not updated or maintained to a minimum security level, they are at increased risk of cyber attacks that could disrupt Alberta's energy industry and harm Albertans and the environment.

RECOMMENDATION 2: FURTHER ASSESS PROVINCIALLY REGULATED INDUSTRIAL CONTROL SYSTEMS

We recommend that the Department of Energy and Alberta Energy Regulator work together to determine whether a further assessment of threats, risks and impacts to industrial control systems used in provincially regulated oil and gas infrastructure would benefit Alberta.

6 https://ics.sans.org/media/ICS-CPPE-case-Study-2-German-Steelworks_Facility.pdf
7 http://www.securityweek.com/telvent-hit-sophisticated-cyber attack-scada-admin-tool-compromised
8 http://www.nist.gov/el/isd/201506_ics_security.cfm

Criteria: the standards for our audit

The Department of Energy and Alberta Energy Regulator should understand whether there are threats, risks and impacts to Albertans because of unsecured ICS.

Our findings

KEY FINDINGS

- The AER asserted it does not currently have a role in assessing risks with ICS or IT security standards for Alberta's oil and gas industry.
- The Department of Energy does not believe it is responsible for determining whether ICS risks to provincially regulated oil and gas infrastructure should be assessed.
- No Alberta government entity has assessed the risks or impact to Alberta's provincially regulated oil and gas infrastructure if successfully attacked through unsecured ICS.

No one has assessed all the threats, risks and potential impact with ICS

Through meetings and discussions with the AER, we confirmed that AER has not assessed the risks to provincially regulated oil and gas infrastructure from unsecured ICS.

Through meetings and discussions with the Department of Energy we confirmed it had not determined whether risks of unsecured ICS used in provincially regulated oil and gas infrastructure require a risk assessment.

The Department of Justice and Solicitor General gathers intelligence to identify threats to Alberta's critical infrastructure. It then distributes this threat information to interested stakeholders in the oil and gas industry. But it does this only for the small percentage of provincially regulated oil and gas infrastructure identified as critical.[9] The Department of Justice and Solicitor General also works with the AER and the oil and gas operators to communicate threats it identifies.

In a recent report the Department of Justice and Solicitor General found there is currently a high threat of exploitation[10] but a low threat of cyber attack[11] to Alberta's oil and gas industry. The report also suggests that a more detailed threat and risk assessment should be conducted to better understand the threats and possible impact of an attack on Alberta's oil and gas industry. Further, the department's processes to assess and report threats would not raise its "low threat" of cyber attack until there was evidence an attack had occurred (see Figure 1 on next page).

The Department of Justice and Solicitor General used the example of a dam to better illustrate its role in assessing threats to critical infrastructure. The department assesses whether there are threats to attack the dam, then communicates with those responsible for the safety of the dam about those threats. It does not, however, assess if the control systems ensuring the safe release of water are secured from malicious use or if the dam was built to required standards. It also does not assess what the impact would be to people living downstream if there was a breach and all the water in the dam was released at once.

---

9 The Department of Justice and Solicitor General has identified fewer than 50 oil and gas industry sites in Alberta as being critical.

10 Exploitation—where bad actors gain unauthorized entry into ICS or IT systems to steal information.

11 Cyber attack—where bad actors gain unauthorized entry into ICS or IT systems to cause physical damage to infrastructure, Albertans or the environment.

Figure 1—More information on the difference between a threat and a risk

Threat Vs Risk. **A + T + V = R**
Asset + Threat + Vulnerability = Risk.

An asset is what you want to protect—e.g., provincially regulated oil and gas infrastructure.

A threat is anything that can exploit a vulnerability, intentionally or accidentally, and obtain, damage or destroy an asset.
A threat is what we're trying to protect against.

A vulnerability is a weakness or gap in a security program that can be exploited by threats to gain unauthorized access to an asset.
A vulnerability is a weakness or gap in our protection efforts.

The risk is the potential for loss, damage or destruction of an asset as a result of a threat exploiting a vulnerability.
Risk is the intersection of assets, threats and vulnerabilities.

We were unable to obtain any documentation from any provincial government entity to show that an assessment of the possible risks and impacts from an attack on unsecured ICS was completed.

Implications and risks if not implemented

If the Department of Energy and Alberta Energy Regulator are unaware of the possible risks and impacts from unsecured ICS, they cannot ensure that oil and gas operators are properly mitigating those risks to protect Albertans.

Human Services—Office of the Public Guardian and Trustee—Surplus Management and Results Reporting

SUMMARY

The Public Trustee manages the financial assets of vulnerable Albertans. The Public Trustee acts to protect and manage the interests of Albertans who are otherwise unable to make financial decisions for themselves. This role includes administering estates or trusts for represented adults, minor children, and deceased and missing persons. There are approximately 20,000 open case files. The Public Trustee has a fiduciary responsibility to act in their best interest, protect their assets and comply with legislative requirements. Clients, beneficiaries and families deserve to know that their loved ones' financial needs are being properly managed by the Public Trustee.

The Public Trustee is accountable to its clients, the public and the Minister of Human Services. The Ministry of Human Services funds the Public Trustee's administrative costs representing salaries and other expenses. In 2015 these costs totalled $16 million.

The Public Trustee was created as a separate legal entity under legislation, and administers $603 million in assets directly and indirectly. These assets are not consolidated into the Ministry of Human Services financial statements as they do not belong to the government, rather they are held in trust for clients.

What we examined

We examined whether the Public Trustee has processes to determine how much should be retained in the surplus account and how to utilize the balance that has accumulated over time.

We also examined the processes the Public Trustee uses to set, communicate and report the results of its operations.

Overall conclusion

The Public Trustee does not have adequate systems to manage the surplus funds arising from the management of the assets of the Public Trustee's clients.

The Public Trustee does not have adequate processes to support reporting on the results the Public Trustee's operations, including adequate results analysis.

What needs to be done

The Public Trustee should analyze past results and examine trends to determine the required amount that should be retained in the accumulated surplus to mitigate the risks of negative interest fluctuations and errors and omissions claims.

The Public Trustee should implement processes to identify, analyze and report results achieved in order to improve its operations and demonstrate accountability for results to its clients and Albertans.

Why this is important to Albertans

An increasing number of Albertans are relying on the Public Trustee to make financial decisions on their behalf. Albertans, the ministry and the Legislative Assembly need sufficient and appropriate information to assess whether the Public Trustee is complying with legislative responsibilities, accomplishing its objectives and managing risk for vulnerable Albertans.

If the Public Trustee does not complete an analysis of the accumulated surplus balance, there is a risk that the Public Trustee will hold in reserve more funds than are necessary to mitigate the risks of interest fluctuations, errors and omissions, and the opportunity to maximize the return to client accounts may be missed.

AUDIT OBJECTIVE AND SCOPE

Our objective was to determine if:
- the Public Trustee has adequate systems to monitor the accumulated surplus
- the Public Trustee has systems in place to report on its results measured against plans and objectives

Our audit included examining:
- applicable legislation
- how results are measured, analyzed and reported

We conducted our field work from January to October 2015. We substantially completed our audit on December 10, 2015. Our audit was conducted in accordance with the *Auditor General Act* and the standards for assurance engagements set out in the CPA Canada Handbook—Assurance.

BACKGROUND

Mandate of the Public Trustee

The *Public Trustee Act* sets out the regulatory framework within which the Public Trustee operates. The role of the Public Trustee was established within the Department of the Attorney General on July 1, 1949 and transferred the responsibility of administering client estates from the attorney general to the Public Trustee.

The Public Trustee is a corporation sole,[1] which was established under the *Public Trustee Act* in 2005. Governance and decision making for vulnerable Albertans, as listed below, are vested in the Public Trustee.

Under the *Public Trustee Act* the Lieutenant Governor in Council may appoint the Public Trustee to act:
- as a personal representative of a deceased person
- as trustee of any trust to hold or administer property in any other fiduciary capacity
- to protect the property or estate of minors and unborn persons
- in any capacity in which the Public Trustee is authorized to act by order of the court and this or any other Act

[1] Technical term is a corporation sole—which is a unique type of corporation in which it is comprised of one individual.

The legislation provides for the appointment of a Public Trustee to:

- protect and manage the best interests of Albertans who are otherwise unable to make financial decisions for themselves.
- separate the assets of Public Trustee clients from those that belong to the province. The Public Trustee acts as a custodian of these assets.

Role of the Minister of Human Services

The Minister of Human Services is responsible for the *Public Trustee Act, Adult Guardianship and Trusteeship Act,* and *Minors' Property Act*.[2]

The Minister of Human Services, through the department, has responsibility for oversight of the Public Trustee to ensure the interests of clients are protected and to mitigate the risk of provincial exposure to loss on the guaranteed accounts. A portion of these assets under administration are guaranteed by the Crown.

The common fund

The Public Trustee manages the financial interests of vulnerable Albertans in accordance with the *Public Trustee Act,* the *Adult Guardianship and Trusteeship Act* and the supporting regulations. Prior to 2005, the Public Trustee administered client assets through a common fund and a special reserve fund. The *Public Trustee Act* that was passed in 2005 combined these funds into a single trust fund called the common fund. The purpose of the common fund is to invest and hold in trust the monetary assets of its clients.

Under the previous Act,[3] the special reserve fund was set up to mitigate the risks of interest fluctuations in the client accounts, protect the Public Trustee from errors and omissions, and pay expenses incurred in the operation of the common fund. The accumulated surplus now serves the functions of the previous special reserve fund. The surplus reflects the differences between the income earned on client investments and the interest paid to the client accounts less operating costs. This surplus has been increasing.

The estates and trust fund is comprised of two components:

- common fund assets—the balance in the client guaranteed accounts[4] plus the accumulated surplus.[5] At March 31, 2015, these balances were $441 million and $76 million, respectively.
- other assets under administration—other client assets and liabilities held outside of the common fund, including real and other property as well as privately held investments over which the Public Trustee has no direct management, but retains a fiduciary obligation. These assets and liabilities are held pending liquidation or discharge, at which time the proceeds will be deposited into the common fund. At March 31, 2015 these were comprised of assets valued at $127 million and liabilities valued at $41 million, and are not guaranteed by the government.

The Act stipulates that any money received by the Public Trustee is to be paid into the common fund. The Public Trustee uses the common fund to receive income, pay expenses and settle estates on behalf its clients, receive investment income, pay investment management fees and transfer fees to the

---

[2] *Government Organization Act,* Section 16 and *Designation and Transfer of Responsibility Regulation*.
[3] *Public Trustee Act.*
[4] Portion of the client assets under administration that are unconditionally guaranteed by the Crown.
[5] Excess income on investments that has not been returned to client accounts.

department for both administering the Act and for fees collected from client accounts for services provided.[6]

Interest allocated to client guaranteed accounts

Under the Act, the Public Trustee is required to credit the client guaranteed accounts interest on a monthly basis. The rate of interest is set by the Public Trustee in accordance with the *Public Trustee Investment Regulation* (PTIR).

The *Regulation* states the annual interest rate on guaranteed accounts during a fiscal year will be at least 90 per cent of the average reference rate.[7] The reference rate is a rolling average of the yield for the past five years on the Government of Canada five-year benchmark bond (CANSIM V39053). This benchmark bond paid 1.81 per cent in 2015.

Public Trustee Information System Replacement—Business Operating Support System

The Public Trustee Information System (PTIS) is a data management system currently used by the Public Trustee to track financial and non-financial data for its clients. In 2005 the Public Trustee requested additional funding from the Department of Justice[8] to support the development of a new data management system to replace PTIS, due to its age, lack of capacity and costs to maintain.

The Department of Justice and Solicitor General requested and Treasury Board authorized funding of $13 million for both the Business Operating Support System project of $4.5 million and other operational requirements amounting to approximately $8.5 million, to be spent over a seven-year period. This project had no impact on the department's operating or capital budgets, the project was fully funded from the accumulated surplus of the common fund of the Public Trustee.

FINDINGS AND RECOMMENDATIONS

Accumulated surplus

Background

Maintaining a reserve is a common and prudent practice. The Public Trustee uses such a reserve, called the accumulated surplus, to manage the risks and ensure the Public Trustee is protected from interest fluctuations and from unforeseen expenses, such as errors and omissions. If the balance is too large, the opportunity to maximize the return to client accounts may be missed.

The accumulated surplus has existed in some form since the Public Trustee office was created. Growth in the accumulated surplus is a result of interest earned on investments exceeding the interest allocated to the client accounts. The balance has increased over the years to $76 million as at March 31, 2015.

RECOMMENDATION 3: DETERMINE AND MANAGE SURPLUS

We recommend that the Public Trustee develop processes to effectively manage the growth and use of the accumulated surplus in the Common Fund.

6 *Public Trustee Act,* Sections 31 and 32.
7 *Public Trustee Investment Regulation,* Section 2(2).
8 Prior to 2013 government restructuring, responsibility for Public Trustee was with Minister of Justice.

Criteria: the standards for our audit

The Public Trustee should have processes to manage the growing accumulated surplus, which consider the amount required for errors and omissions, as well as the amounts to protect against interest fluctuations and other required administrative costs.

Our audit findings

KEY FINDINGS

- The Public Trustee does not have systems to assess the optimal level of accumulated surplus.
- The Public Trustee does not have:
    - systems to estimate the amount necessary to manage the risks of investment return fluctuations and errors and omissions
    - documented analyses to justify the current balance retained in accumulated surplus

Prior to 2005, the Public Trustee had a special reserve fund to manage two identified risks. The first risk was that investment earnings on clients' assets were insufficient to cover the minimum legislative required allocations to client accounts. The second was to ensure sufficient funds were set aside to cover the costs of errors and omissions relating to the management of client accounts.

Investment earnings

We could not find evidence that an analysis had been performed to determine the amount to be retained in the accumulated surplus to manage the risk of insufficient investment earnings on client assets. Insufficient investment earnings occur when the interest earned on investments drops below the benchmark rate, which is the minimum amount that must be paid monthly to client accounts.

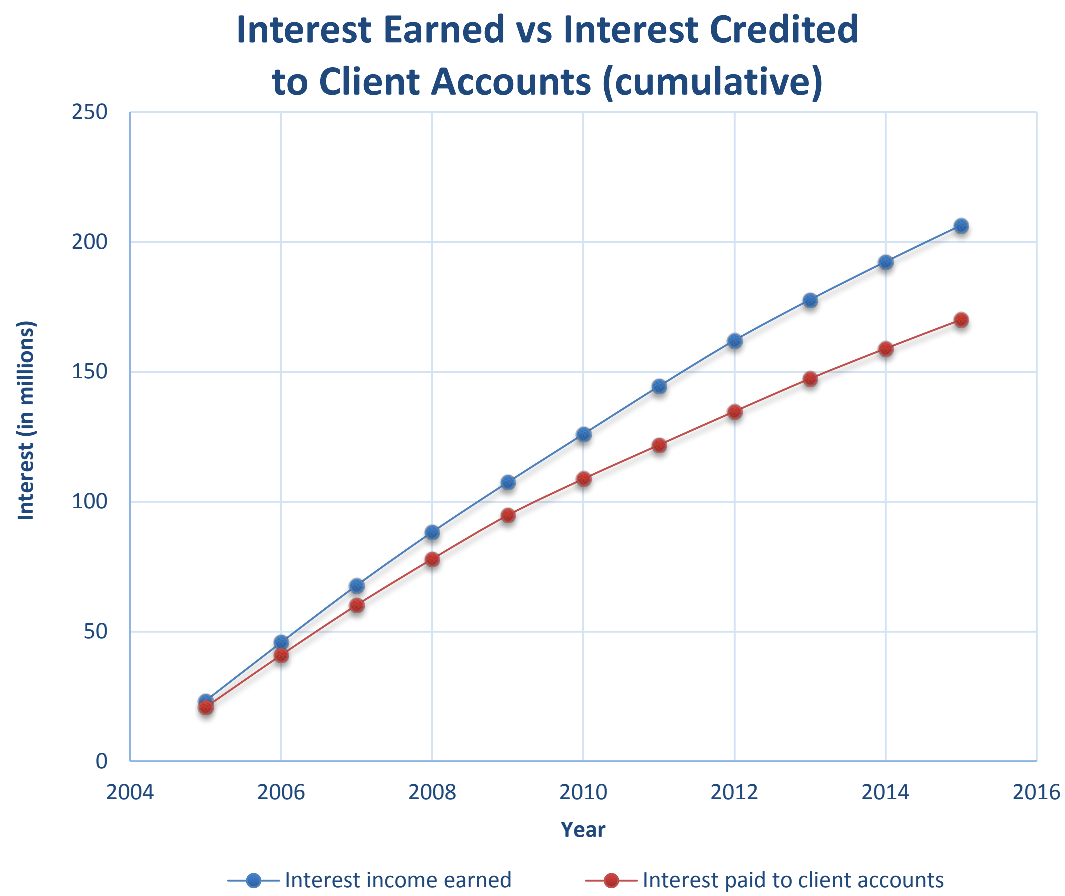
Under the Act, the Public Trustee is required to credit the client accounts' interest on a monthly basis. The rate of interest is set by the Public Trustee in accordance with the PTIR. The minimum amount objective set by legislation to be allocated to client accounts during a fiscal year is at least 90 per cent of the average reference rate.[9] The reference rate is a rolling average of the yield for the past five years on the Government of Canada five-year benchmark bond (CANSIM V39053). This benchmark bond paid a rate of return 1.81 per cent in 2015.

When setting the interest rate to allocate to client guaranteed accounts, the Public Trustee relies on recommendations from its Investment Advisory Committee, reviews rates paid in other provinces and monitors market conditions. In 2015, the Public Trustee paid 2.5 per cent to its clients' accounts, which exceeded the minimum statutory requirement of 1.63 per cent (90 per cent of the reference rate of 1.81 per cent). We reviewed the portfolios of the common fund as at March 31, 2015 and found that approximately 80 per cent of the investments held are generating returns in excess of 3 per cent and have maturity dates beyond one year.

We could not find any legislative provisions requiring an upper maximum on the amounts that could be transferred to client accounts. The actual earnings by the Public Trustee on its clients' assets was 3.3 per cent in 2015. The difference between actual earnings of 3.3 per cent and the amount of 2.5 per cent paid to clients was approximately $4 million. Since 2005, investment earnings of the Public Trustee have exceeded the earnings transferred to its client accounts. (See chart on the following page.)

---

9 *Public Trustee Investment Regulation,* Section 2(2).

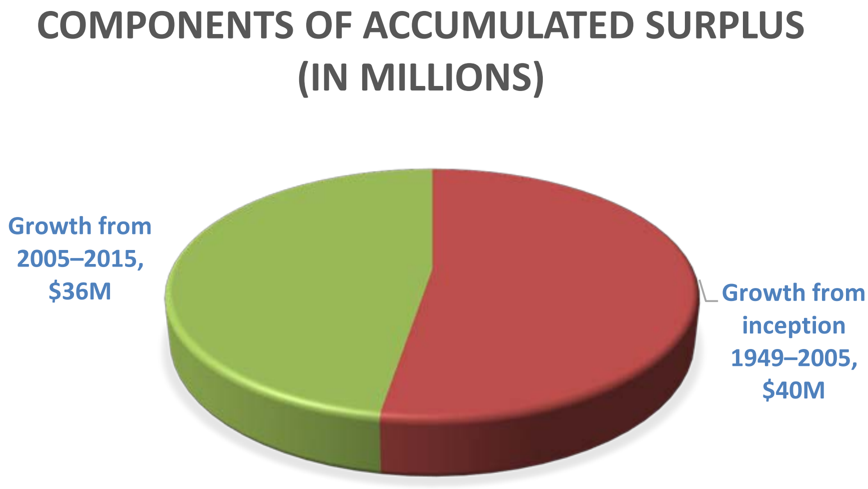


In recent years, as illustrated in the chart above, the relative percentage of earnings allocated to client accounts has been declining—with the difference being retained in accumulated surplus. Up until 2005, interest allocated to client accounts was approximately 90 per cent of interest earned on investments. Since then this allocation has been closer to 80 per cent. As a result of these ongoing reduced allocations to client accounts, the accumulated surplus has increased $36 million since 2005.

Errors and omissions

The Public Trustee does not have formal processes to analyze and forecast the amount required to cover the risk of errors and omissions. Errors and omission claims are paid from the accumulated surplus as they cannot be deducted from client guaranteed accounts. We would have expected to see a trend analysis to help the Public Trustee determine the amount that is required to mitigate this risk. We reviewed the history of incidents over the last five years. These amounts were not significant, averaging approximately $150,000 per year.

Management analysis of the current balance in the accumulated surplus was not documented. In the absence of this analysis, we analyzed the March 31, 2015 accumulated surplus balance of $76 million. As depicted in the chart on the following page, we determined $36 million of the $76 million represents the difference between the investment earnings on client assets (including earning on the prior surplus balance), and the amounts transferred to the clients for the period 2005 to 2015. The remaining $40 million represents the opening balance of the accumulated surplus in 2005 less the annual administration fees paid to the department for the cost of administering the Act.



It is important that the Public Trustee perform an analysis of the accumulated surplus given its growth and a low incidence of errors and omissions. It is also important to consider that amounts paid to clients for investment earnings has historically been less than earnings on investments. Since 2005, interest earned on investments has not dropped below the benchmark rate, demonstrating that large surpluses are not necessary.

Implications and risks if recommendations not implemented

If the Public Trustee does not complete an analysis of the accumulated surplus balance, there is a risk that the Public Trustee will hold in reserve more funds than are necessary to mitigate the risks of interest fluctuations, and errors and omissions. Further, the opportunity to maximize the return to client accounts may be missed.

Reporting

Background

Results analysis is a process to check how well a program is working and make improvements. Management examines program results and costs, and assesses what is working and what is not. Actual results are reviewed against planned results with reference to the actual and expected performance. This may lead to adjusting future plans, efforts and spending to improve results.

Albertans should be updated on results achieved by the Public Trustee in relation to its performance against its plan. The combination of annual plans and reports establish accountability for and transparency of results to Albertans.

The Public Trustee prepares annual financial statements that are included in the ministry annual report but has not prepared an annual report since 2012.

RECOMMENDATION 4: IMPROVE RESULTS ANALYSIS PROCESSES AND REPORTING

We recommend that the Public Trustee and Ministry of Human Services improve the performance reporting for the operations of the Public Trustee.

Criteria: the standards for our audit

The Public Trustee should report on the financial and non-financial results of its performance against goals, objectives and initiatives.

Our audit findings

KEY FINDING

The Public Trustee and ministry do not adequately report on the results of the operations of the Public Trustee.

Financial reporting

While there is public reporting of financial information, it is reported in a disaggregated manner in the ministry financial statements and the Public Trustee's estates and trusts financial statement. There is no one financial report that identifies the financial results of operations and the assets under the administration of the Public Trustee. This makes it difficult for Albertans and those providing oversight to understand the financial performance of the office.

The Public Trustee's operating costs are reported in aggregate as a single line item in the ministry financial statements. There is no breakdown of these costs. The estates and trust funds administered by the Trustee are included in a note in the ministry's financial statements. A separate financial statement is prepared by the Public Trustee which reflects the operations of the common fund and the assets held in trust and activity for the estates and trusts administered by the Public Trustee.

Integrated performance reporting

We did not observe reporting to the department or publicly on:

- relevant performance measures and indicators with targets
- the identification of significant achievements, results and outcomes
- the analysis and evaluation of results and outcomes with reference to goals, plans, key risks and targets
- financial and non-financial information linked in an integrated manner
- comparative information that includes trend considerations
- management commentary that is fair, balanced and complete

Other Public Trustee Offices in Canada[10] have set annual plans and prepare annual reports on the financial and non-financial achievements of their operations.

The reports prepared by these other provinces are directed to the ministers responsible. They focus on analysis of initiatives, results and outcomes that link to business plans and legislated responsibilities for the entire operations of the office.

[10] Examples include the provinces of British Columbia, Saskatchewan, Manitoba and Ontario.

The Public Trustee Offices of British Columbia and Saskatchewan use the following performance metrics to assess and report on their performance:

- return on investment against benchmarks
- service quality
- stakeholder satisfaction
- response time to client complaints
- tax filing and clearance certificate
- client disbursements
- time to secure physical assets
- processing times for personalized expenditure plans
- project management

Business Operating Support System—IT initiative

It is best practice that significant projects and priority initiatives be highlighted in performance reporting. We highlight a significant initiative funded by the accumulated surplus that was not highlighted in the Public Trustee's performance reporting. Reporting on the initiative may have positively impacted the success of the project and saved money.

In 2011 the Public Trustee entered into a significant fixed price contract to develop a new IT system to replace an aging system. It was to be delivered in March 2013. Adequate processes for reporting on the progress of the project to the Ministry of Justice were not in place. This failure resulted in the project continuing for several years at a cost of $10.6 million, without any benefits to clients or the Public Trustee.

Subsequent to government restructuring in 2012 and recognizing the project was in jeopardy, the Ministry of Human Services engaged an external consultant to complete a project review. The project review included assessing the contractor's ability to meet its contractual obligations. Several key milestones in the contract were not achieved and the delivery date was pushed to November 2013.

The Department of Human Services concluded that the project was not viable and the contract was terminated. Total capital and administrative costs for the failed IT project, for which the Public Trustee received no tangible benefit, amount to $10.6 million. This $10.6 million was funded from the accumulated surplus of the Public Trustee.

Implications and risks if recommendation not implemented

In the absence of quality results analysis reporting, stakeholders will not receive sufficient information to assess whether the Public Trustee is achieving its desired results. Further, an evaluation into whether the costs to achieve the results are reasonable cannot be performed because of insufficient information.

Justice and Solicitor General—Victims of Crime Fund—Systems to Manage Sustainability and Assess Results

SUMMARY

Victims of crime come from all walks of life and socio-economic groups. Crime victims are not only from vulnerable populations, they live in every neighbourhood and can be any age, gender or ethnicity. The Victims of Crime Fund (VOCF) provides funding for financial benefits paid to eligible victims of violent crime for physical and/or emotional injuries suffered. It also provides grant funding primarily to police-based Victim Services Units (VSUs) and specialized community-based assistance programs, to deliver programs that benefit victims during their involvement with the criminal justice process, as legislated under the *Victims of Crime Act*.

What we examined

We examined whether the department has adequate systems to manage the fund and meet the mandate set out in the *Victims of Crime Act* through:

- availability of adequate funding
- effectiveness of the financial benefits and grant processes
- effectiveness of management's process to determine if desired results are being achieved

Overall conclusion

The department and VOCF program have adequate systems and processes to manage the day-to-day administration of the fund. However, the department is not completing the necessary strategic planning, analysis and reporting to establish desired results, and the resources necessary to achieve those results.

There is also no plan how to appropriately and productively use the fund's growing accumulated surplus to best meet the needs of Albertans as intended by the Act. The government's and department's current budget process treats the fund like any other generally funded program even though it is self-financing and has its own independent funding source. Business and budgeting practices are potentially restricting operating decisions intended to better serve victims of crime.

What we found

The department has not completed the necessary analysis and forecasting of the financial resources required to achieve the desired results set out in the *Victims of Crime Act*. The department cannot presently answer the question: Are the resources currently available adequate and being used appropriately to deliver the desired result of accessible, appropriate and timely services to victims in accordance with the legislation?

The fund is growing at a rate faster than payments to victims are being made. The government's and department's current budget process, which is applied to the fund, is not designed to assess or consider its unique funding source, the changing needs of victims or increased fine surcharge revenue inflows. Because of this disconnect, and with revenue trending higher, the fund's accumulated surplus continues to grow and these excess funds are sitting unused, without the department having a clear plan for intended future use. Underlying this is the lack of an achievable, budgeted and approved plan to guide the priorities and direction of the fund.

VOCF program management has drafted planning documents to set the priorities and guide the direction of the fund. The documents outline how the program can become more accessible, appropriate and timely, and be more responsive to victims' needs. Additional funding would be required to fully implement these objectives. However, the program does not have the ability to access the surplus funds to maintain and expand services to victims without approval from the department.

What needs to be done

The department needs to develop a plan that:

- clearly identifies what the actual current needs of the victim of crime population are and are forecasted to be
- identifies gaps in service
- shows how much funding will be required to meet these needs and what the impact on Albertans will be if it is not made available
- can be monitored and measured for success, with the results publicly reported

The department also needs to determine an appropriate and productive use of the VOCF's accumulated surplus, which is supported by a proper financial analysis, as a necessary starting point to facilitate discussion with the Department of Treasury Board and Finance to show the impact current budgetary and business policies have on potential uses of the fund's surplus and victims of crime.

Why this is important to Albertans

The *Victims of Crime Act* creates the VOCF to provide financial benefits and fund support programs for individuals who have suffered as a result of violent crime. Victims of domestic violence, families of homicide victims, children who have been sexually abused and the elderly who have been physically harmed, are among the Albertans who receive benefits from the fund and support as their cases proceed through the judicial process. If the fund is not managed appropriately, there is a risk that victims of crime will not receive the assistance and financial benefits to which they are entitled under the law. Also, programs for victims of crime that are run by police-based VSUs and community organizations may not receive sufficient grant funding to deliver on the intent set out in the *Victims of Crime Act.*

AUDIT OBJECTIVE AND SCOPE

The objective of our audit was to assess whether the department has adequate systems to manage the VOCF and conclude if there is an approved business plan for the use of the fund which allows for the analysis of victims' needs and clearly sets out how much should be spent to meet the intent of the Act. We also examined whether the department has developed achievable and measurable goals for the fund in order to publicly report key results to Albertans.

We conducted our field work in August 2015 and we substantially completed our audit on November 13, 2015. Our audit was conducted in accordance with the *Auditor General Act* and the standards for assurance engagements set out in the CPA Canada Handbook—Assurance.

BACKGROUND

The VOCF is a regulated fund[1] and operates under the authority of the *Victims of Crime Act* and the *Victims of Crime Regulation.* The Minister of Justice and Solicitor General is responsible for the fund under the authority of the *Government Organization Act*, Statutes of Alberta. Section 2(1) of the Act outlines the principles that must be applied to the treatment of victims (see Appendix A).

The fund is primarily financed by a 15 per cent surcharge collected from all provincial statute fines and selected federal statute convictions as identified in the Act. The fund received $33.5 million in provincial fine surcharges and just under $2.2 million in federal statute offence surcharges in fiscal year 2014–2015. Section 10 of the Act sets out what these funds should be used for (see Appendix A). In fiscal year 2014–2015, the fund paid out $16.9 million in financial benefits to victims and $14 million in grants to assist community organizations and groups.

Financial benefits are paid out in accordance with the injury schedule and corresponding severity of injury prescribed in the Regulation. The Regulation contains detailed listings of the offences and criminal conduct offences which are eligible for financial benefits under the *Criminal Code of Canada*. These payments are not compensation based but are an acknowledgement benefit based on medically verifiable psychological and/or physical injuries.

Police-based VSUs and community-based victims' organizations are provided grants to deliver programs that benefit victims during their involvement with the criminal justice process. Police-based VSUs are independent non-profit agencies that are governed by a local volunteer board of directors and are staffed by a paid victim services program manager. VSUs also rely on trained volunteer advocates to deliver services, including providing crisis support to victims at crime scenes. Community-based victim programs deliver specialized assistance to deal with gaps in services for vulnerable victims like children, those subject to human trafficking, domestic violence and loved ones of homicide victims. As of March 31, 2015, there were 76 police-based programs that operated within 153 service delivery areas and 42 community-based victims' agencies and organizations that received funding.

In 2014–2015, victim services programs reported providing services to 79,358 individuals, of which 17 per cent were under the age of 18. Approximately 3,566 volunteer advocates provided a combined 192,290 volunteer hours to support victims of crime. The most frequently reported types of assistance included crisis response, death notification to next of kin or practical assistance at a crime scene.

The objective of providing financial benefits and support services to victims of crime is to reduce the overall impact of victimization.

FINDINGS AND RECOMMENDATIONS

Lack of an attainable plan, analysis of the needs of victims and results achieved

Background

The fund has two core expenses—financial benefits and assistance to victims' organizations (grants). The first funding priority is financial benefits, which are processed and paid out to eligible victims of violent crime. Victims are legally entitled to these financial benefits if their applications are approved.

---

[1] Section 1(1)(v) of the *Financial Administration Act* defines a regulated fund as a fund containing public money except public money (i) forming part of the General Revenue Fund (ii) received by a revenue officer for deposit in the General Revenue Fund that has not been deposited in the General Revenue Fund, or (iii) owned or held by a provincial agency.

After the financial benefits are paid, the remaining funding goes to the grant programs, as well as the Criminal Injuries Review Board and support services.[2]

Achievable, measurable goals and targets are typically set out in a plan. A plan should document what success looks like, how it will be achieved and what resources are required. Analyzing and reporting not only provides accountability for the results, but it allows management to assess whether it was successful in achieving the results it wanted and what might need to change if results were not achieved.

RECOMMENDATION 5: DEVELOP AND PUBLICLY REPORT ON A PLAN FOR THE VICTIMS OF CRIME FUND PROGRAM

We recommend that the Department of Justice and Solicitor General:

- develop and approve a business plan with measurable desired results for the Victims of Crime Fund
- publicly report on the results of this business plan

Criteria: the standards for our audit

The department should have an achievable plan and effective processes to assess whether desired results are being achieved.

Our audit findings

KEY FINDINGS

- The department does not have an updated documented strategy in place for the VOCF program. None of the three internal plans developed by fund management have been approved by the department. The plans do not clearly identify what the current needs of the victims of crime population are or what are forecasted. They also do not contain financial information about the cost involved to meet these needs.
- The department does not complete sufficient analysis to determine how its funding impacts victim services delivery.
- Current analysis and reporting of results achieved by the fund does not show if the department was successful in achieving its objectives for the dollars spent.

No updated or documented strategic direction for the VOCF program

The department does not have a current, approved strategy for the fund that sets out achievable, measurable goals or targets, including timelines and milestones, to determine if the fund is meeting its mandate as set out in the *Victims of Crime Act*.

In September 2002, the department released the Report of the Alberta Victims of Crime Consultation which outlined a ten year vision to enhance and expand programs and services for victims of crime in Alberta.[3] This report contained a number of recommendations to achieve this vision and noted:[4]

> *"The committee anticipates these goals can be achieved if the government ministries already providing relevant services to victims of crime pay for those services themselves and if all available funds within the VOCF are fully utilized."*

---

[2] For a full listing of expenditure permitted by statute, see *Victims of Crime Act*, Section 10, Section 10.

[3] https://www.solgps.alberta.ca/programs_and_services/victim_services/Publications/2004/Report%20of%20the%20Alberta%20Victims%20of%20Crime%20Consultation.pdf

[4] Report of the Alberta Victims of Crime Consultation, September 2002, page 3.

In July 2004, the Department of Treasury Board and Finance approved the release of funds to implement the report's approved recommendations not yet implemented.

Having a current strategy for the fund is important because demographics, population trends and demands on the fund can change, and they have changed over the 13 years since the crime consultation report was issued. For example, the fund provides grant funding to a number of police-based VSUs that are located across the province. When the original report was produced in 2002, there were only a few VSUs operating within several police jurisdictions, but as of 2014–2015 the number of VSUs receiving funding grew to 76.

Also, recent political and court decisions may have impacted the service delivery and financial resources of the fund.

- The new *Canadian Victims Bill of Rights* was passed on July 23, 2015 by House of Commons. Any potential impact on the fund will have to be assessed by management and incorporated into any strategic or operational plan.
- In May 2014 the department introduced The Counselling for Children Grant—a new grant program aimed at improving access to counselling for children who are victims of sexual exploitation and other criminal offences. Grant recipients would be eligible to receive up to $150,000 per year, per child advocacy centre, from the fund.[5]
- In November 2015 a class action lawsuit by Albertans allegedly abused while in the care of the provincial child welfare system was settled. As part of this settlement, identified victims can make an application to the fund, even if the established time limit to make claims has expired. Details of this process have yet to be established.[6]

Victims services operational plan is not achievable and has not been approved

VOCF program management has developed three plans to provide structure for its operations: a Victims Services Operational Plan (2015–2018), a three-year Victims Strategic Research Plan and a three-year training plan. The stated purpose of the operational plan is to outline the steps required over the next three years to ensure that all victims of violent crime in Alberta receive accessible, appropriate and timely services to minimize the overall impact of the criminal event. However, the operational plan does not identify the resources, financial and otherwise, needed to achieve the objectives and priorities it sets out.

None of these plans have been approved by the department and are only used internally by fund management for their own guidance. The plans do not clearly identify what the current needs of the victim of crime population are or what are forecasted. The plans lack financial information about the cost involved to meet these needs, support proposed new initiatives or enhance existing services.

Insufficient analysis to determine how funding impacts victim services delivery

The fund is required by legislation to provide financial benefits to eligible victims of crime. The total amount of these benefits can fluctuate from year to year based on the number of victims who apply and the severity of medically verifiable injuries. Whatever money is, or is anticipated to be, "leftover" after these financial benefits are paid is used to fund police-based VSUs and other community-based victim programs. Paying approved financial benefits to crime victims is mandatory, whereas how much funding

[5] http://alberta.ca/release.cfm?xID=363979D80949D-B7CA-4377-784B57BC086CB8AA
[6] http://edmontonjournal.com/news/local-news/judge-approves-settlement-in-alberta-child-welfare-lawsuit

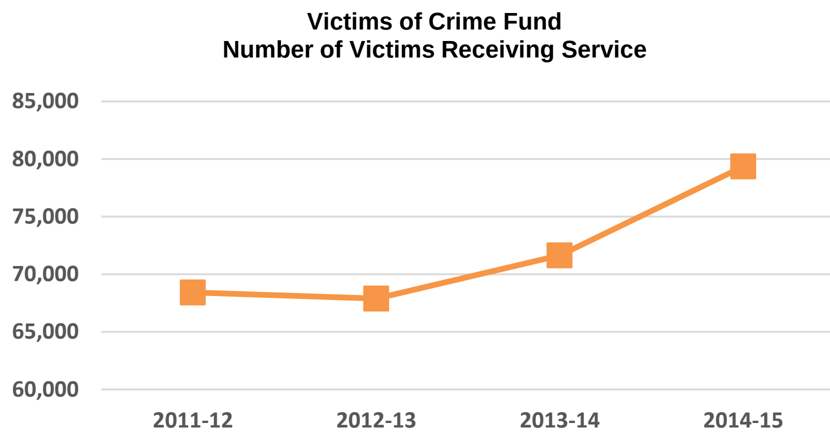
is given to grant programs, such as police-based VSUs or other community support programs, is discretionary.

The department has not completed a recent, sufficient analysis of the impact on these programs or the victims they serve, should there be an increase or decrease in the amount of grant payments.

Grant funding for police-based VSUs is capped at $300,000 (larger urban-based units) and $150,000 (smaller rural-based units). These amounts have not been adjusted for inflation or other factors since 2009. The department could not provide us with analysis to support the reason for these caps. As the population of various regions of the province has grown, the funding cap has left some police-based VSUs struggling to maintain the level of service. The number of victims receiving services is increasing, but that may not necessarily mean more resources are available for the police-based VSUs to adequately deal with this increased demand. The VOCF program requested a full review of the *Victims of Crime Act* in 2013, which was not supported by the department.

Some police-based VSUs engage in fundraising activities to supplement grant funding in order to have the money necessary to provide a level of service which meets local demand. The fundraising activities divert the time and energy of volunteers and staff away from the core purpose of the program. The department does not analyze the impact on crime victims as a result of this additional activity.

VOCF Service Delivery
From Fiscal 2012 to 2015



Results analysis and reporting on the VOCF needs improvement

The department annually prepares a Victim Services Status Report that outlines the various victim services programs, activities and initiatives that are funded by the VOCF. This report also contains high level information on victimization trends in Alberta and the number of clients served. There is no analysis which shows, for the dollars spent, if the department has been successful in achieving its objectives. The report does not include measures to help identify where improvements may be needed.

Without established targets and measures, it is difficult for the department to show if victims received appropriate, timely and accessible services and, if not, what and where changes need to be made to improve access to assistance. The department's annual report also does also not include this information.

Implications and risks if recommendation not implemented

If the department does not set out goals for the Victims of Crime Fund, with accompanying targets and measures, it cannot know whether the money being spent is achieving program objectives.

No defined plan for use of the VOCF accumulated surplus

Background

The revenue collected by the fund must be used to pay financial benefits, and to fund programs and services that support victims of crime—by legislation it may not be used for any other purpose (see Appendix A). If revenues received through fine surcharges are greater than the expenditures of the fund, the excess cash is deposited into a bank account.

The Department of Justice and Solicitor General's annual operating budget is determined by the Department of Treasury Board and Finance. JSG then decides how to allocate this funding between its various programs. Currently, the VOCF is treated like any other of the department's programs and given a fixed annual budget, even though it is unique since it has its own independent funding source and currently has an accumulated surplus. Under current government and department business practices and balanced budget requirements, VOCF management cannot use this accumulated surplus for programs to assist victimized Albertans.

Holding a reserve of cash is a common and prudent practice to manage the risk of revenue volatility or unforeseen expenses. If the reserve is too small, undesirable risk exposure may result. If the reserve is too high, opportunities to serve Albertans may be missed.

RECOMMENDATION 6: DETERMINE BEST USE OF VICTIMS OF CRIME FUND ACCUMULATED SURPLUS

We recommend that the Department of Justice and Solicitor General, supported by sufficient analysis, determine an appropriate use of the Victims of Crime Fund accumulated surplus.

Criteria: the standards for our audit

Funding should be available to provide financial benefits and services to eligible victims of crime. There should be processes to:

- ensure that sufficient funding is available to meet anticipated long-term obligations (Crimes Compensation Board and Severe Injury liability)
- assess the level of net assets that should be maintained for sustaining the fund
- determine if a reserve fund should be retained and, if so, of what magnitude

Our audit findings

KEY FINDINGS
• The fund is a regulated fund and the use of fine surcharge revenues paid into it is directed by the *Victims of Crime Act*. However, the department views it no differently than any other program and subjects it to the same budget treatment and spending targets. As a result, not all of the revenues being put into the fund are being used to provide services to crime victims as intended under the Act. • Over the last number of years, revenues have been increasing at a faster rate than expenses, resulting in a growing accumulated surplus. This surplus is projected to grow to \$56 million by 2016, an increase of \$23 million since 2012. • The government's and department's current budgetary practice, which is applied to the fund, does not permit these surplus funds to be used for purposes intended by the Act. Business and budgeting practices are potentially restricting operational decisions intended to better serve victims of crime. • The department has not determined or forecasted the financial needs of the fund in order to complete an analysis of the best possible use of this growing accumulated surplus.

VOCF accumulated surplus continues to grow

The revenue and expenses of the fund have different drivers. Revenue collected by the fund is based upon the extent of fines collected from provincial and federal offences which are subject to surcharge, while the money (expenses) allowed to be used by the fund is established by the department's budgetary process.

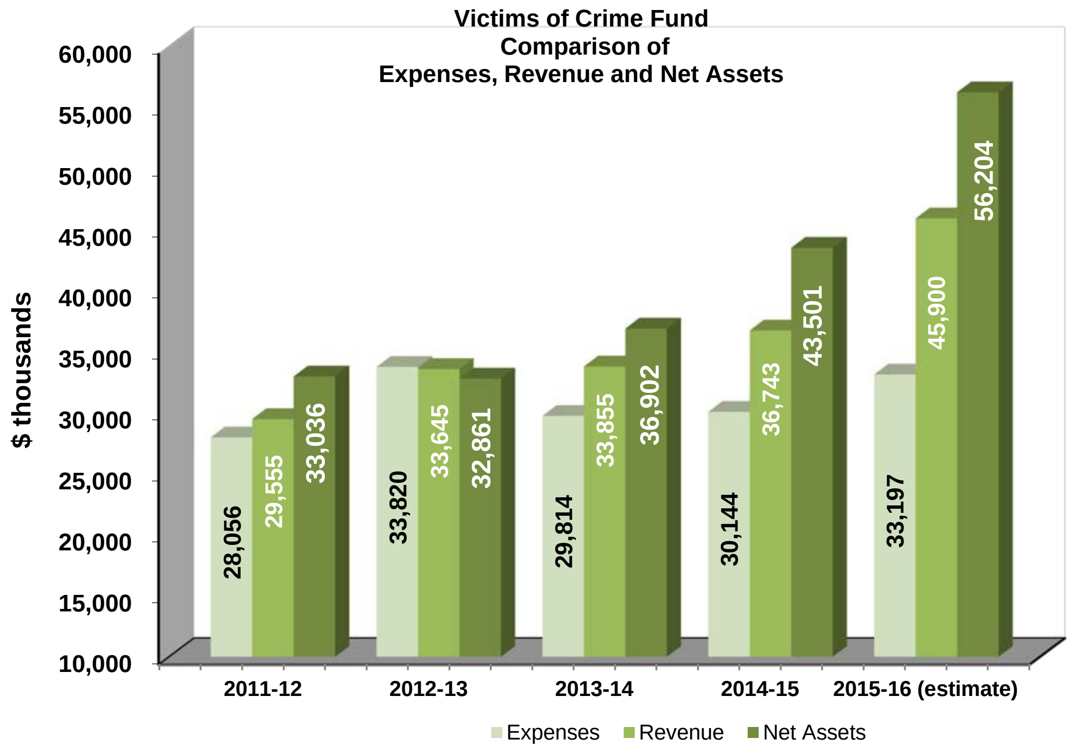
VOCF is a regulated fund which means that the use of the monies paid into it is directed by the *Victims of Crime Act.* However, the department views the fund no differently from any other program and it is subject to the same budgetary treatment as all other programs. As a result, the fund is subject to the department's spending targets and not all available revenues being put into it are being used to provide services to victims, as intended under the Act.

Over the last number of years, revenues have been increasing at a faster rate than permitted expenses, resulting in a growing accumulated surplus. A number of factors have contributed to this, including increases in fine amounts and population growth.

Budget 2015, released by the government in October 2015, stipulated that average traffic ticket fines would increase 35 per cent.[7] Thus, it appears that the trend of a growing accumulated surplus will continue. The accumulated surplus in the fund, based on Budget 2015, is projected to grow to \$56 million by March 31, 2016, which is an increase of \$23 million since March 31, 2012.

[7] http://finance.alberta.ca/publications/budget/budget2015-october/fiscal-plan-revenue.pdf, page 35.

VOCF Financial Information
From Fiscal 2012 to Estimated Fiscal 2016



For the year ended March 31, 2015, surcharge revenue increased by 8.5 per cent over the prior year. Meanwhile, the fund decreased spending by approximately 10 per cent of originally budgeted amounts to meet the department's spending targets. This budget reduction resulted in funding to the assistance to victims' organizations (grant funding) being decreased by $350,000 (compared to initial budget), the Criminal Injuries Review Board by $49,000 and programs for support services (staff training/research) by $170,000.

The government's and department's current budgetary considerations, which are applied to the fund, do not consider the changing needs of victims or increased fine surcharge revenue inflow. Because of this disconnect, and with revenue trending higher, the fund's accumulated surplus continues to grow. This budgetary practice does not permit surplus funds to be used for purposes intended by the Act. Business and budgeting practices are potentially restricting operational decisions intended to better serve victims of crime.

VOCF program management does not have the authority to access the funds in the accumulated surplus to fix any identified gaps in the accessibility, adequacy or timeliness of service delivery to victims. The department must approve the use of any funds over and above the annual budget it provides to the program—and under the current budgetary treatment this would require taking money from other programs to keep the department's overall budget balanced and in compliance with Treasury Board's budget process.

Analysis of the best use of the accumulated surplus has not been completed

The accumulated surplus provides protection for the fund in the event of unanticipated decreases in revenues or increases in expenses, including new initiatives announced and paid for by the fund. However, the department has not determined the size of reserve required to ensure the long-term sustainability of the fund. The department has not conducted a financial analysis that considers factors such as yearly fluctuations in fine surcharge-based revenue, how much of a reserve should be maintained to meet identified future liabilities and how to allocate any remaining surplus funds to support existing or new programs and services for victims of crime. This is a necessary starting point for the department to facilitate discussion with the Department of Treasury Board and Finance to show the impact current budgetary and business policies have on potential uses of the fund's surplus and victims of crime.

The fund had future commitments of $15 million due to multi-year grant agreements at the end of fiscal 2015. However, it is important to note that as commitments have come due in the past they have been fully financed by current revenues. As long as revenues exceed expenses, the accumulated surplus is not needed to pay for these future commitments.

If the reserve required is less than the current accumulated surplus, the excess funds could be used to increase funding for victim benefits and service programs, reallocated to earn a higher investment return, or repurposed. Present legislation currently requires money in the fund to be used for victims, but also allows for excess funds to be accumulated.

Opportunities to improve the lives of Albertans are missed if cash continues to accumulate, earning low returns, with no strategic direction on how to proceed to use this surplus.

Implications and risks if recommendation not implemented

If the potential uses for the accumulated surplus are not sufficiently analyzed and decided upon, potential opportunities may be missed—e.g., heightened and improved accessibility to service by victims of crime in Alberta. Further, questions will persist from Albertans about the purpose of this accumulated and growing surplus.

Appendix A

MANDATE—PRINCIPLES AND USE OF FUND AS SET OUT IN THE VICTIMS OF CRIME ACT

RSA 2000 – Chapter V-3

Principles

Section 2(1)

The following principles apply to the treatment of victims:

(a) victims should be treated with courtesy, compassion and respect;

(b) the privacy of victims should be considered and respected to the greatest extent possible;

(c) all reasonable measures should be taken to minimize inconvenience to victims;

(d) victims should promptly receive, in accordance with this Act and the regulations, financial benefits for the injuries that they have suffered;

(e) the safety and security of victims should be considered at all stages of the criminal justice process, and appropriate measures to protect victims from intimidation and retaliation should be taken when necessary;

(f) information should be provided to victims about the criminal justice system and the victim's role and opportunities to participate in criminal justice processes;

(g) information should be provided to victims, in accordance with prevailing law, policies and procedures, about the status of the investigation, the scheduling, progress and final outcome of the proceedings and the status of the offender in the correctional system;

(h) information should be provided to victims about victim assistance services, including the Victim Impact Statement Program, requesting restitution, means of obtaining financial reparation and other assistance and programs;

(i) the views, concerns and representation of victims are an important consideration in criminal justice processes and should be considered in accordance with prevailing law, policies and procedures;

(j) the needs, concerns and diversity of victims should be considered in the development and delivery of programs and services and in related education and training;

(k) information should be provided to victims about available options to raise their concerns when they believe that these principles have not been followed.

Section 2(2)

Victims should report the crime and co-operate with a police service.

RSA 2000 cV-3 s2;2005 c20 s2;2011 c15 s3

Use of Fund

Section 10

The minister may, in accordance with this Act and the regulations, make payments from the fund

(a) for grants relating to programs that benefit victims of crime;

(a.01) without limiting the generality of clause (a), for grants relating to programs that provide counselling to children who are victims of sexual exploitation or other criminal offences causing physical or mental harm;

(a.1) for programs that benefit victims of crime;

(b) for costs incurred by the Committee and the Review Board in carrying out their duties under this Act;

(c) for remuneration and expenses payable to the members of the Committee and the Review Board;

(d) for financial benefits payable pursuant to sections 13, 15 and 19(2);

(d.1) for death benefits payable pursuant to section 13.01;

(e) to pay the costs of administering this Act.

RSA 2000 cV-3 s10;2001 c15 s5;2006 c23 s81;
2011 c15 s9; 2013 cC-12.5 s22

Municipal Affairs—Disaster Recovery Program Transition

SUMMARY

Alberta has a history of disasters, including storms, wildfires, tornados and floods. In June 2013, southern Alberta experienced one of the worst disasters in Canadian history. Such disasters create a strong demand for government financial assistance for people affected.

The *Disaster Recovery Regulation*[1] allows the Minister of Municipal Affairs to provide disaster recovery financial assistance to residents, small businesses, agriculture operations, First Nations, provincial departments and municipal governments for uninsurable losses and damage caused by disasters. The minister may approve a disaster recovery program (DRP) if the disaster has caused widespread damage to property and the cause of the disaster was extraordinary. The department has paid $903 million under various DRPs since 2010.

Between 1995 and 2015, the Alberta government used a contracted service provider to provide evaluation, processing and administrative disaster recovery services. In March 2014, the minister[2] announced[3] that the department would not renew the service provider's contract. The contract expired in March 2014. The minister then signed a one-year transition contract with the service provider to complete open DRPs and transfer DRP administration to the department.

What we examined

The Department of Municipal Affairs started to transfer the administration of DRPs from the contractor to itself in 2014. We assessed whether the department had adequate systems to transition services previously delivered by its service provider. Transition refers to the department's decision to end its relationship with the service provider and it directly providing DRP services.

Overall conclusion

The department transitioned delivery of the disaster recovery program from the contracted service provider to itself. However, the department must further improve its program delivery systems to achieve the desired results. It has started making these improvements. We believe that once the department has completed implementing its transition work plan, Alberta will have in place a more effective and efficient disaster recovery program.

What we found

Changing the service delivery model

In April 2013 the department analyzed whether it should change the program's service delivery model. It evaluated the existing service delivery model and identified alternatives. The department recommended to the minister[4] that it should continue to use a contracted service delivery model, and that an in-house service delivery model should be further examined.

---

1 AR 51/1994 with amendments up to and including AR 196/2006.
2 The Honourable Ken Hughes, Minister of Municipal Affairs, December 2013 to April 2014.
3 Alberta Hansard, March 11, 2014, page 170.
4 The Honourable Doug Griffiths, Minister of Municipal Affairs, October 2011 to December 2013.

In June 2013 the southern Alberta floods occurred. The program received over 10,000 applications, an amount that far exceeded any previous disaster events. Elected officials, the media and the public were concerned that the program was not effectively responding to the needs of those Albertans impacted by the floods.

In November 2013 the department recommended that the minister extend the service provider's contract for two years, until March 2016. The department identified the significant risks of changing the service delivery model at that time including the volume of claims from the 2013 southern Alberta floods and the number of incomplete disaster recovery programs from previous years.

In March 2014 the minister announced that the department would deliver the disaster recovery program. The minister then approved a transition contract with its contracted service provider to expire March 2015. The department was solely responsible for administering and delivering the program after March 2015.

Managing the transition project

Although the minister did not follow the department's advice to continue using a contracted service delivery model, the department's responsibility is to implement the minister's decision. The department prepared a multi-phased transition plan in March 2014. The department was unsuccessful in implementing its March 2014 plan largely because it expected the contractor would complete the 2013 southern Alberta disaster recovery program. This expectation was not met for a number of reasons including the magnitude and complexity of the 2013 claims and a significant number of changes to program rules that occurred after the 2013 southern Alberta floods.

The department did not identify an adequate IT system early in its transition planning. This failure resulted in the department implementing an IT system that could not be integrated with its current financial system or generate payments. The system was subsequently replaced with the contracted service provider's IT system.

Late in 2014, the department began transitioning the IT system from the contracted service provider, over 17,000 files, and responsibility for the 2013 southern Alberta disaster recovery program and all legacy programs. This work was completed by March 2015.

The department's focus in early 2015 was on transitioning the IT system and files from the contracted service provider. It has not fully established the supporting processes to deliver the program. The department must upgrade the IT system it received from the contractor, finalize policies and procedures, develop staff training and obtain the technical resources required to deliver the program.

The department identified these improvements in its March 2015 transition work plan which it approved in July 2015. The department started implementing the work plan but has not yet obtained the skilled project managers, or established the project management practices and project oversight that will increase its chances of success.

Lessons learned

- The scope of the department's March 2014 transition plan was much broader than transitioning the services from the contractor to the department. The scope also included a re-design of the program delivery model, implementation of a new IT system and the initiation of a process to re-design Alberta's disaster recovery program—all while dealing with one of the largest disasters in Canadian history. The department did not have the capacity to deal with this magnitude of change. Working to achieve multiple priorities added complexity to the transition. It took away resources and focus from transitioning the services from the contractor to the department, the objective of the March 2015 transition work plan currently being implemented by the department.

- Large transition projects need skilled project managers, proper project oversight and dedicated resources to be successful. The few project managers and dedicated resources the department had working on the project were also dealing with the 2013 southern Alberta program.
- Now that the department is responsible for the program delivery, it should establish mechanisms to respond expeditiously when a disaster occurs. Its human resource, contracting and financial processes should be flexible to meet the expectations of program stakeholders.

What needs to be done

The department should implement its March 2015 work plan to fix the existing process gaps by:

- obtaining skilled project managers and implementing project management practices that will achieve the objectives outlined in the plan
- establishing the necessary project oversight to monitor the project's progress and ensure desired results are achieved within an acceptable timeframe

Good project management will not guarantee success. However, it will increase the likelihood that significant program or organizational changes achieve the desired results.

Why this is important to Albertans

Disasters can happen anytime—it is just a matter of when. The department must have adequate systems and processes to respond expeditiously when disasters happen. It must ensure that those affected receive the financial assistance necessary via the disaster recovery program, efficiently and consistently.

By improving its systems to deliver the program, the department will be better able to:

- respond to Albertans when disasters occur
- manage the program to ensure applications are dealt with efficiently and consistently
- meet federal requirements and maximize the available reimbursement from the Government of Canada

AUDIT OBJECTIVE AND SCOPE

Our objective was to determine whether the Department of Municipal Affairs had adequate systems to transition services to the department that were previously delivered by a service provider. Transition refers to the department's decision to end its relationship with the contracted service provider and the department's assumption of responsibility for program delivery.

We conducted our field work from June to September 2015. We substantially completed our audit on November 27, 2015. Our audit was conducted in accordance with the *Auditor General Act* and the standards for assurance engagements set out in the CPA Handbook—Assurance.

BACKGROUND

Disaster recovery programs

Alberta has a history of disasters that includes storms, wildfires, tornados and floods. In June 2013 southern Alberta experienced heavy rainfall that triggered flooding described as one of the worst disasters in Canadian history. These disasters create a strong demand for government financial assistance for people affected.

Under the *Disaster Recovery Regulation*,[5] the Minister of Municipal Affairs can provide disaster recovery assistance to residents, small businesses, agriculture operations, First Nations, provincial departments and municipal governments. The minister may approve a DRP if the disaster has caused widespread damage to property and the cause of the disaster was extraordinary.

The department has paid $903 million under various DRPs since 2010. Municipalities and provincial government departments received 82 per cent of total payments while residential and other applicants received 18 per cent. However, residential homeowners make up the vast majority of the applications. This means the department spends a significant amount of its time managing a relatively large number of smaller dollar value files.

Fiscal year	Number of disasters	Number of applications	Total DRP amount paid
2010/2011	12	4,615	$66,323,101
2011/2012	14	1,547	$84,724,840
2012/2013	15	1,306	$11,592,730
2013/2014	7	10,920	$736,692,011
2014/2015	2	382	$3,927,370
Total	**50**	**18,770**	**$903,260,052**

Source: Unaudited information obtained from department as at September 30, 2015.

An applicant is ineligible for DRP if the applicant's losses could reasonably have been prevented, if insurance for damages was available, if losses can be recovered through legal action or if damages are covered under other Government of Alberta programs.

Each applicant type has different eligibility requirements (see Appendix A—DRP applicant eligibility requirements). For example, a residential homeowner is eligible if the property is their principal residence where they were living on a daily basis at the time of the event.

The Government of Canada, through Public Safety Canada, provides cost sharing financial assistance to provincial governments through the Disaster Financial Assistance Arrangements (DFAA) Program. DFAA assists provinces in dealing with the costs of a disaster. Federal assistance is available when a province's eligible program costs exceed $3 per capita of the provincial population.

To illustrate using the cost sharing formula as of February 2015, assume Alberta's population is four million and a disaster occurs with DRP costs of $60 million. The first $12 million would not be eligible for DFAA reimbursement. The next $24 million would be eligible for cost recovery at 50 per cent, with the remaining $24 million at 75 per cent. The federal government audits all disaster financial assistance programs eligible for federal cost sharing.

The department must make a request for financial assistance under the DFAA within six months of the end of the event. The department must submit its final claim under the program within five years of the date of the approved Order in Council that establishes the DRP. Public Safety Canada subsequently audits the provincial submission for DFAA compliance. The DFAA guidelines state that contracted

[5] AR 51/1994 with amendments up to and including AR 196/2006.

private sector operators' wages are eligible. The cost of temporary staff positions to conduct disaster assistance surveys and assessments is also eligible for a six-month period after the disaster.

Department of Municipal Affairs and the Alberta Emergency Management Agency

In June 2001 the Government of Alberta created the Alberta Emergency Management Agency under the Emergency Management Act.[6] The AEMA is a division within the Department of Municipal Affairs. It leads the coordination, collaboration and co-operation of all organizations that prevent, prepare for and respond to disasters and emergencies.

FINDINGS AND RECOMMENDATIONS

Analysis to determine the DRP service delivery model

Background

The Government of Alberta solely handled program administration, management and service delivery of DRPs prior to 1995. It had approximately 200 administrative staff, building assessors and inspectors. It reduced this number to 13 in early 1995 in order to cut costs.

Shortly after the staff cut, a flood caused more than $40 million in damages in southern Alberta. Because the government lacked capacity to conduct damage evaluations, assessments and administration, a former Municipal Affairs executive director put together a team to establish and administer the 1995 Southern Alberta DRP using government processes.[7] The temporary team of former government employees and outside resources created the company LandLink Consulting Ltd., to perform the services on behalf of the government.

LandLink provided services to the government before, during and after disaster events. Before a disaster, LandLink updated training resources and reference material, as well as refined software and hardware resources. During an event, LandLink established local administration offices and claim processing facilities, and hired and trained temporary and contract staff. LandLink used its database to record and track municipal and non-municipal applications. It managed the evaluation and processing of all claims submitted by individuals, small businesses and not-for-profit organizations up to and including the request for final payment by the department.

For municipal applications, LandLink provided engineers to evaluate the damage and assess the reasonableness of the cost of returning assets to their original condition, without enhancements. Engineers checked that municipalities completed the necessary work in accordance with original estimates. For non-municipal applications, LandLink provided a team of evaluators to assess the damage. After disasters, LandLink prepared the claim for submission to the Government of Canada under the DFAA and responded to all queries from federal audit authorities.

Because a contracted service provider was involved, these costs qualified for the federal government's DFAA program. The department estimated since 1995 that it had received $30 million[8] in DFAA reimbursement for administrative costs.

---

6 RSA 2000, Chapter E-6.8.

7 This was a sole-sourced contract intended to be a one-time arrangement. The department did not anticipate that LandLink's services would be required after completion of the contract.

8 This figure excludes the 2011 Slave Lake wildfires and the 2013 Southern Alberta floods.

The department entered into several contracts with LandLink since 1995.

- Between 1995 and 2003, the department extended the contract each year.
- In 2003 the department issued a request-for-information for contractors to deliver DRPs. Because LandLink provided the only compliant response, its contract was extended to March 2004.
- In 2004 the department signed a contract with LandLink ending March 2005.
- In 2005 the department issued another request-for-information. Once again LandLink provided the only compliant response. The department negotiated a multi-year contract which ended in May 2009.
- In 2008 the department issued a request-for-proposal for contractors. LandLink was the only bidder and the department signed a five-year contract in June 2009. This contract ended in March 2014. It was subsequently extended for one-year to March 2015 to allow for an orderly transition.

Analysis to determine the DRP service delivery model

We have not made a recommendation to the Department of Municipal Affairs because the department met our audit criteria. The minister made a decision contrary to the department's advice which was his prerogative.

Criteria: the standards for our audit

The department should analyze whether it should change the disaster recovery program service delivery model. The department's analysis should:

- evaluate the DRP service delivery model
- identify alternatives
- assess the costs, benefits and risks associated with each alternative
- make a recommendation

Our audit findings

KEY FINDINGS

- The department met our criteria.
- The department's analysis of its DRP service delivery model included an evaluation of the current state, identification of alternatives and assessment of benefits and risks. The department recommended to the Minister of Municipal Affairs that the program delivery should continue to be outsourced.
- The minister decided that the department would deliver the DRP program. In effect, this decision meant accepting identified risks.

The department's analysis and recommendation

The department prepared several analyses on whether to continue outsourcing the DRP service delivery model. The department's analyses included an evaluation of the current state, identification of alternatives and an assessment of benefits and risks. It also identified key risks in areas such as continuity of service, knowledge transfer and human resources.

In February 2013 department staff told the minister that the cost of using a contracted service provider to administer the program were shareable under the federal government's DFAA program. Department staff also advised that a private company could scale up its operations and hire additional resources quickly, depending upon the disaster. Whereas, the department would take longer to hire and train temporary staff and provide office space and equipment.

In March 2013 AEMA developed a strategy[9] and suggested that the department consider the following three DRP delivery models:

- use a contracted service provider to deliver the program
- establish an in-house structure to deliver the program
- make Disaster Recovery Operations a government agency offering financial assistance programs

The strategy included an assessment of the risks, benefits and impacts of each alternative. For example, while using a contracted service provider would allow DFAA cost sharing and reduce AEMA staffing requirements, only a limited number of qualified service providers are available. In contrast, although delivering the program in-house would allow control of its performance standards, it would take significant time to achieve the desired program effectiveness and productivity results. Forming an independent government agency would provide a sense of autonomy, but would increase management and administrative costs and reduce government funding.

The AEMA recommended to:

- continue with the contracted service provider model for the next five years
- further review the in-house model and decide if it is viable in the future and begin to implement the in-house model over five years

In April 2013 the department prepared a briefing note with a recommendation on the DRP service delivery model to be adopted. It reviewed similar programs in other jurisdictions and in private and non-profit organizations. The department proposed the same three alternatives as suggested by AEMA's Disaster Recovery Operation. It also added a fourth alternative—use multiple service providers under multiple contracts. Staff analyzed the risks, benefits and impacts of the four alternatives. They recommended that the department continue with the current contracted service delivery model. The deputy minister approved this recommendation.

In June 2013 southern Alberta experienced unprecedented flooding. The program received over 10,000 applications, an amount that far exceeded any previous disaster events. Elected officials, the media and the public were concerned that the program was not effectively responding to the needs of those Albertans impacted by the floods.

Risks of not extending the contract

In November 2013 DRP staff asked the deputy minister to extend the contract from March 2014 to March 2016. This extension would let the department finish open DRPs with the federal government and finalize the 2013 program application files. The department identified several risks associated with not extending the contract to 2016, such as:

- continuity of file management could be lost in transferring files, given the scope of the 2013 southern Alberta flood DRP
- incomplete knowledge transfer could lead to unsuccessful federal audits of all DRP programs which could reduce the federal share under the DFAA
- under an in-house model, current government human resources practices lacked the agility to quickly hire and release staff in response to new disaster recovery programs
- insufficient time to implement an in-house option or any new contracting option

[9] Organizational Model and Procurement Strategy, March 2013.

The department's analyses, prior to the minister's decision, did not include an assessment of the transition costs. Subsequently, the department estimated the cost of transition to be approximately $13.4 million, which includes costs for accommodations, staffing, information technology solutions and program re-design.

The minister's decision

Although the deputy minister approved the department's November 2013 recommendation to extend the contract with LandLink, the former Minister of Municipal Affairs (Hon. Doug Griffiths) did not approve the recommendation.

In March 2014 then Minister of Municipal Affairs (Hon. Ken Hughes) announced that the department would not renew LandLink's contract. Instead, the department would rebuild the capability it had eliminated in 1995 and administer all DRPs subsequent to March 2014. The existing contract, due to expire in March 2014, was extended to March 2015 to permit the orderly transition of disaster recovery programs and prepare for the coming disaster seasons.

The minister is not bound by the department's advice and it was the minister's prerogative as to how to proceed. The department's role is to provide the minister with practical advice. However, ignoring such advice means accepting the risks.

Implementing the transition

Background

The DRP recovery operations is structured based on applicant type. Some staff work on public applications which include municipalities and provincial department files. Other staff work on private applications which include residential, small businesses and agricultural operations. The key phases in administering a DRP are:

- establish the DRP—obtain the necessary approval to create the DRP
- register and facilitate DRP applications—assist affected applicants with applying for DRP
- assess applicant qualification—screen and assess applications for completeness and eligibility
- perform filed evaluation—evaluate and validate the damages reported by the applicant to determine the amount of financial assistance to be provided. This can be an iterative process involving numerous steps, including creating geographical information files, arranging for onsite visits, completing evaluations and reports, coordinating and reviewing industrial hygienist/structural engineering assessments as appropriate, completing in-depth assessments and reviews, and finalizing reports and inspections.
- provide payment and quality assurance—batch payments and perform a final financial quality assessment
- close the DRP—prepare a DRP closure package when all files are closed, the federal audit is complete and there is confirmation of DFAA payment

(See Appendix B—DRP Processes—for details on these phases)

RECOMMENDATION 7: IMPLEMENT TRANSITION PLAN

We recommend that the Department of Municipal Affairs implement its transition work plan to improve its disaster recovery program delivery systems by:

- obtaining skilled project managers and implementing project management practices that will achieve the objectives outlined in the plan
- improving project oversight to monitor implementation of the plan to ensure desired results are achieved within an acceptable timeframe

Criteria: the standards for our audit

The department should adequately manage the transition of services from the contracted service provider to itself. The department should have systems to:

- determine the scope of the disaster recovery program transition project
- govern the disaster recovery program transition project
- obtain and manage the resources required to conduct the transition project
- implement, monitor and report on the progress of the transition project

Our audit findings

KEY FINDINGS

- The department was unsuccessful in implementing its March 2014 transition plan because the multi-phased plan was too broad. The department did not have the capacity or skilled project managers to implement the plan and deal with the 2013 southern Alberta floods. The plan was based on the department's expectations of its contractor, which were not met.
- The department did not identify an adequate IT system early in its transition planning. This resulted in the department implementing an IT system that could not be integrated with its current financial system or generate payments.
- The department has taken over program delivery from the contractor and is processing applications. However, it needs to improve its supporting processes to deliver the program more effectively and efficiently. For example, the department does not yet have adequate and complete policies and procedures, a staff training program or the technical resources required to deliver the program. The IT system it received did not meet the department's IT standards.
- The department identified these deficiencies in its March 2015 transition work plan. The department has not obtained the skilled project managers, nor fully established the project management practices and project oversight to implement the March 2015 work plan.

March 2014 transition plan

The department developed a DRP transformation plan in March 2014 to re-design and create an applicant-centred model and delivery system for future DRPs. The department's transformation plan would start in April 2014 and be conducted in three phases:

- Phase 1—administer 28 existing DRPs and close out the 2013 southern Alberta program. This was currently under way through LandLink.
- Phase 2—concurrently define, design and build an internal DRP delivery system capable of covering the 2014 disaster season
- Phase 3—re-design the disaster recovery program

Phase 1—The department entered into a one-year transition contract with LandLink in April 2014. The department expected LandLink to complete processing applications from the 2013 southern Alberta floods and legacy DRP application files, to perform forecasting and reconciliation, and provide support for the provincial and DFAA audits of the program.

The magnitude of the 2013 southern Alberta floods resulted in the department receiving over 10,000 applications. Also during that time, the Government of Alberta's Flood Recovery Task Force made numerous policy changes impacting the program that were implemented when announced and the new policies often experienced much iteration. This resulted in the contractor having to revisit and rework claims. The policy changes along with the magnitude and complexity of the applications impacted the scope of the transition contract. Because the department's transition contract with LandLink was a time and materials contract, the funding available within the contract was used before all of the department's expectations were met.

The department took over responsibility for the 2013 files when the contract ended. It had to redirect its resources from the transition project to processing 2013 applications.

Phase 2—The department planned to concurrently define, design and build an internal DRP delivery system to cover the 2014 disaster season. The department proposed building a team of approximately 44 permanent staff in roles such as program coordinators, evaluation analysts, re-design analysts, and payment analysts. It gradually staffed these positions using secondments from other government departments and temporary employees. However, the temporary nature of the positions, coupled with the pressures of recovery work, led to a high staff attrition rate.[10] The department's goal was to create a simplified application process where claimants would have a single point of contact. It implemented a case management claim processing model to eliminate multiple points of contact and minimize response times.

During this time, the department spent considerable resources implementing a case management IT system that could not be integrated with its current financial system or generate payments. In March 2014 the department contracted a vendor to provide a case management system that documented communications with applicants, managed workflow and stored supporting documents. The department wanted to use the system for 2014 and future DRPs. However, in July 2014 the department determined that the system had "significant deficiencies in the scalability and fit." Specifically, it could not process payments due to an absence of audit, reporting and financial controls. At that time, the department recommended replacing it with the existing DRP database that was being used by the contracted service provider.[11]

The department could not obtain access to the existing DRP database used by LandLink at that time. Therefore, it needed a system to use for the 2014 DRPs. It subsequently prepared an analysis recommending the use of the case management system. The recommendation contradicted its earlier assessment, highlighting in the analysis the numerous benefits such as its scalability and capacity to meet future needs of DRP programs. The department did not mention the tool's shortcomings.

The department proceeded to enter the 2014 DRP application data into the system and trained its staff in the fall of 2014. However, in early 2015 the department decided it would no longer use the case management system and would instead use the existing DRP database. As a result, the department had to re-enter into the DRP database it obtained from LandLink the hundreds of application files and thousands of attachments related to the 2014 DRPs.

Phase 3—In August 2014 the department engaged a consulting firm to re-design the disaster recovery program. The consulting firm's responsibilities were to review the current approach to disaster recovery programs, clarify the program's vision, innovatively re-design the program and the approach to delivery, and gather input from stakeholders to co-create the program.

The contract was scheduled to expire in March 2015, but was put on hold in October 2014. Departments were told to stop all stakeholder consultations due to the upcoming provincial election. The department later terminated the contract and as a result did not obtain all the expected deliverables.

---

[10] In 2014-15, the Recovery Branch's attrition rate was 24 per cent while that of the department was six per cent.
[11] July 18, 2014 unnumbered action request.

The department was unsuccessful implementing phases 1 to 3 of its March 2014 plan largely because:

- The department did not have the capacity or project management expertise to execute a plan with multiple objectives (re-design of the 2014 program delivery model and initiation of a process to re-design the program as a whole) while also responding to the largest DRP in Alberta's history.
- The plan was based on the department's expectation that the contracted service provider would close the 2013 program files and complete the legacy programs (i.e. the programs from 2007 through to 2012 that had not yet been closed). The department entered into a one-year transition contract based on time and materials. The transition contract did not contain performance incentives aligned with the department's expectations and the funding ran out before the work was complete.
- The department did not identify an adequate IT solution for the program when the decision was made in March 2014 to assume program delivery.

In November 2014 the department requested a re-negotiation of the one-year transition contract to allow LandLink to provide ongoing audit support services for the next two years. It stated that LandLink had the historical context and expertise to maximize the DFAA reimbursement recovery rate. The deputy minister did not approve the option to extended LandLink services for the next two years, but approved the option to reallocate the funding in their contract to allow them to complete the outstanding DRP files and transition the database to the department's servers.

Transition of the contracted service provider's IT system
In fall 2014 the department identified the need to obtain the contractor's IT system because it would be assuming responsibility for processing the 2013 southern Alberta flood files. However, the department's previous contracts with the contracted service provider were unclear as to who owned the IT system used by the contractor. Therefore, the department had to negotiate with the contractor to obtain the IT system.

In December 2014, prior to transitioning the information system from LandLink, the department performed a risk assessment of the existing DRP database.[12] The department's assessment identified 18 IT risks, which ranged from concerns about data integrity and confidentiality to lack of access and security controls.

In January 2015 the department started transitioning the IT system from the contractor to itself. The transition was completed by the end of March 2015. In July 2015 the department initiated a project to mitigate the identified risks, using secure and reliable enterprise-level database technology, and to develop a strategy to transition to the new database solution with minimal operational impact.[13]

March 2015 transition work plan
In March 2015 the department had a consultant prepare a work plan to identify the remaining process gaps that the department needed to fix in order to establish the service delivery capabilities, administration and management to the level of service delivery previously provided by LandLink. The plan identified 11 projects, such as the development of process manuals, staff training, records management, and tracking the development and approval of policies. The consultant created business cases to support these and other projects, including IT stabilization, information management, human resources, and the close out of the 2014, 2013 and legacy program files. The business cases provided justification for the projects, options, expected benefits, major risks and the projects' expected completion dates.

[12] DRP Database Threat Risk Assessment and Security Architecture Requirements, December 2014 and Business Impact Analysis DRP Database December 2014.
[13] SR-DRP Project 1—Technical Upgrade of DRP IT System.

In September 2015 the department approved the business cases for the 11 projects. It intends to develop project charters and project plans for each project. The department is also establishing a project management office and is looking for managers to oversee the projects.

DRP Steering Committee

The department created a DRP Steering Committee in July 2014 to deal with cross-departmental concerns and risks related to the transition. Its role was to “provide strategic direction for the project and ensure the projects are aligned with the DRP vision”.[14] The committee created various working groups to focus on specific subject matters such as information technology, records management, training and work processes. We found that the committee’s work was more focused on operational rather than strategic matters. For example, the committee discussed the transfer and receipt of hard copy DRP application files, the ownership of the existing DRP database, how to move it to the department’s servers and the need to identify who within DRP requires training and for what.

The DRP Steering Committee’s purpose was to funnel decisions and important matters to the executive level of the department for resolution. We found that committee members often delegated their responsibilities to lower levels of management within the department, making it difficult for the committee to focus on strategic matters.

We reviewed action items and deliverables from the committee and its working groups and found instances where promised deliverables were not achieved. For example, the training working group was responsible for developing training material, but it did not.

In September 2015 the department created the DRP Executive Board which will be responsible for providing strategic advice, approving project charters and plans for the 11 projects identified in the transition plan, ensuring project constraints are identified, and resolving risks. The board also created three task groups to manage human resources, procurement and contracting, and DRP processes.

DRP policies

After the 2013 southern Alberta floods, the Flood Recovery Task Force and the department made a number of policy decisions that impacted the program. For example, it changed its policies for well-maintained homes with pre-existing conditions, applicants with insurance holds and applicants who received partial insurance payments.

The department developed these policy changes outside of its normal policy development process. This resulted in many of these policies being revisited numerous times and applied inconsistently. The department has not finalized all of these policy decisions or consolidated them into one place. When it finalizes these policy decisions, the department will have to revisit all of the DRP applications that it approved and paid in order to ensure it has applied its policies consistently.

In August 2014 the department established a policy branch to consolidate and formalize all policies. This work is underway. Once complete, the department plans to complete a policy review of all applications to ensure policies are applied fairly and consistently to all applications.

[14] Disaster Recovery Program Steering Committee Terms of Reference, April 17, 2015, page 1.

Resources

The department operated without the necessary resources to support the transition. In March 2014 the department had one director for operations and another for strategic planning and design. The position responsible for strategic planning and design was more focused on daily operations rather than transition. By the time the department created a dedicated transition team in September 2014, several months had been lost.

The department obtained seconded staff from other government departments and has also recruited staff on a temporary basis because the costs of temporary employees are partially reimbursable under DFAA. However, the temporary nature of the positions coupled with the pressures of recovery work led to a staff attrition rate at the Recovery Branch which was four times higher than that of the rest of the department.

The department did not have engineers, a key resource to assess eligibility of DRP projects and reasonableness of project costs. The department sought engineers in March 2014 but didn't obtain an engineer until September 2015. Engineers are required at the initial onsite evaluation to determine the extent of damage based on the pre-disaster condition, and to determine reasonableness of project costs and work required to bring damaged sites to their pre-disaster condition. Engineers also conduct the final onsite evaluations to confirm whether approved projects were completed at the approved costs.

For the 2013 DRP files, the department relied on the contracted service provider's engineering work. In April 2015 the department developed an interim process to approve some municipal projects without the assurances of its own qualified engineers. This process was developed because the City of Calgary was eager to proceed with some of its projects. Department staff, who are not qualified engineers, relied on the applicant's submission and applied their judgment in approving applications. The process was initially applied to Calgary, but was subsequently expanded to other municipalities. The department's appeals group also dealt with appeals by relying on the work of the applicant's engineers because it lacked its own.

The department should have its own engineers to verify the applicant's claim information and should not rely on the applicant's information which may not be eligible or may have unreasonable costs. In August 2015, the department began developing statements of work for civil and structural engineers to assess municipal and residential projects. It also requested proposals for other technical resources such as industrial hygienists, mold specialists, adjustors and evaluators.

Strategy to scale operations

The department has a strategy to meet the challenges associated with the peaks and valleys in DRP work volume. However, it has not fully established the mechanisms required to execute the strategy. For example, the department identified that university students are a resource available to scale up its resources quickly in response to a disaster. However it does not have the processes established to recruit, train and onboard a large temporary workforce within the department's existing human resource processes.

The department acknowledged that one of the advantages of a contractor was that it could scale its operations up or down. LandLink would operate with a skeleton crew of a dozen staff during the winter and spring. When disasters occurred mainly during summer and fall, LandLink would estimate the number of claims expected based on best available information. Then it would determine how many evaluators, engineers and administrative people it would need. As it had a long history of working with these types of workers, it would contact them and engage them on short notice.

DRP procedures manual

The department has not finished its procedure manual for the program. Procedure manuals provide guidance to staff on receiving, evaluating, entering and processing applications. Although the department completed significant work on a pilot document, certain topics such as clarifying policy decisions, quality assurance and reporting are still incomplete.

As a result, staff created their own procedure documents. For example, the municipal group redrafted the procedure manual because they use different processes for municipal applications. In June 2015 department staff in Calgary developed their own operating procedures for processing payments. They continue to use these manuals even though the pilot procedure manual is available. The department plans to update its procedure manuals by March 2016.

DRP training

Although the department provided general orientation training, it has not provided consistent technical DRP training to staff. For technical training, all new staff are asked to read the procedures manual. Staff are then assigned to managers who are expected to train and mentor them. As there is no formal training plan or training material on DRP administration, managers train staff based on their personal preference and styles. Some staff shadowed their managers while others had to train themselves. Given the department's high staff turnover and the technical nature of the program, the department should have formalized training so staff can learn program rules and departmental processes.

The contracted service provider delivered formal training on DRP administration and its IT system to certain department staff. The department expected these staff to train those who did not attend. However, many staff who attended the training are no longer with the department.

Implications and risks if recommendation not implemented

The department is at risk of ineffectively responding to disasters should they occur, inefficiently using resources, not properly verifying or consistently administering claims, and losing federal funding.

Appendix A

DRP APPLICANT ELIGIBILITY REQUIREMENTS

DRP applicant type	Eligibility requirements
Residential homeowners and tenants (Owners and tenants whose principal residences and belongings have been damaged)	• Damages and losses must have been caused by the disaster and are uninsurable • Principle residence where the applicant was living on a day-to-day basis at the time of the event
Small business owners and landlords (Property owners and small businesses who have experienced damages)	• Annual gross revenues between $6,000 and $15 million • Employ fewer than 20 full-time employees or equivalent • Owners act as the day-to-day managers • Provides at least 50 per cent of the owners with 20 per cent of their gross personal income
Condominium organizations, institutions and not-for-profits (Charities, service clubs, schools, colleges and co-operatives with damage to essential property)	• Registered not-for-profit organization • Co-operative that operates according to the *Alberta Co-operatives Act* • Religious organization that provides a facility essential to the needs of the community • Provides a basic or essential services in the interest of the community as a whole • Allows members of the local community reasonable access to the facility
Agricultural operations (Farms, ranches and other agricultural operations that have lost essential agricultural assets)	• Generate revenue from the sale of agricultural goods • Annual gross revenues between $6,000 and $15 million • Owners act as the day-to-day managers
Provincial operations (Government of Alberta departments that support disaster response and recovery efforts)	• Emergency services • Response and recovery programs
Municipalities (Municipalities whose infrastructure was damaged)	• Must be widespread and an extraordinary disaster • All infrastructure • Emergency services • Nation owned housing

Source: Department of Municipal Affairs

Appendix B

DRP PROCESSES

Process	Description of process
Establish DRP	Gather the necessary approval to create the DRP: • conduct a community and environmental impact assessment • determine DFAA eligibility • recommend DRP to the Disaster Recovery Committee and Minister of Municipal Affairs • obtain funding and DRP approval from Treasury Board and Finance, Cabinet and the Lieutenant Governor
Register and facilitate DRP applications	Assist affected applicants in applying for DRP to restore property back to basic, pre-disaster functional condition. This includes: • set up the application intake centre and train staff • disseminate DRP information to potential applicants • assist the affected applicant in completing the application • enter applications into the DRP database
Assess applicant qualifications	Screen and assess application eligibility • review application to determine eligibility • discuss eligibility with the applicant • notify the applicant on eligibility decision • request an onsite evaluation if needed
Perform field evaluation	Evaluate the extent of and validate the damages reported by the applicant to determine the amount of financial assistance: • evaluators will perform an onsite evaluation • engineers or hygienists may be needed to perform an initial and final onsite evaluation of damages
Review application	Review application to verify it complies with regulations, policies and guidelines: • verify all documents are in the file • conduct an eligibility review of the application
Provide payment and quality assurance	Payments are processed. This includes a final financial quality assessment by DRP Finance, which will review 15 per cent of all files.
Close the DRP	Prepare claim for submission to the Government of Canada under the DFAA and respond to queries from federal auditors. Prepare and approve a DRP closure package when all files are closed, the federal audit is complete and there is written confirmation of a final DFAA payment.

Treasury Board and Finance—Economy and Efficiency of Cash Management in the Government of Alberta

SUMMARY

Cash management is critical for all organizations, including governments. Cash management touches every program, from how and when entities collect taxes, royalties and fees to how and when they pay suppliers, contractors, grant recipients and employees. Cash management requires forecasting when cash flows will occur to ensure cash is available when needed, to invest surplus cash at optimal returns, and to minimize debt, interest and administrative costs.

When we say economical cash management, we mean: pooling and using cash not needed in the short-term to minimize debt and borrowing costs; paying bills, grants and other cash outgoings no earlier than necessary; and maximizing the investment return on available cash needed in the short term.

When we say efficient cash management, we mean using information technology cost effectively to avoid people performing tasks that can be automated.

It would be wrong to assume that cash management is efficient and economical just because the Government of Alberta has historically had large revenues and cash balances and that it is able to collect taxes, royalties and fees, and pay its bills, employees and grant recipients. Furthermore, it would also be wrong to assume the way cash was managed in the past across the government as a whole, was or remains the best way to manage cash. Budget 2015[1] shows that government debt will increase to $36.6 billion by 2017–2018 and that by 2017–2018 debt servicing cost is expected to be about $1.3 billion annually. The key question to ask: Is the Department of Treasury Board and Finance managing cash across the government as a whole in the best way to minimize debt and debt costs?

What we examined

Departments have controls to manage cash, including revenue and expenditure controls. We did not test the effectiveness of these controls. Rather, we assessed if the Department of Treasury Board and Finance has systems to ensure cash management is efficient and economical. We also performed audit work at select departments, including Service Alberta.

Overall conclusion

The Department of Treasury Board and Finance monitors and manages cash of the general revenue fund and the Consolidated Cash Investment Trust Fund. However, the department can do more to ensure cash management across the government as a whole is efficient and economical. While some improvements have been made to banking practices in recent years, there are significant opportunities to make cash management, banking practices and payment practices more efficient and economical.

[1] http://www.finance.alberta.ca/publications/budget/budget2015-october/fiscal-plan-complete.pdf

What we found

The department has identified opportunities to improve government's cash management systems. For example, the department led the government's implementation of the payment card industry's security standards and worked with the Department of Service Alberta to establish processes to collect money through the new Alberta online service portal[2]. It is currently conducting a banking review to identify further improvements to banking and cash management practices across government. It also prepared a business case to request approval of funding to implement an integrated treasury management system. In May 2015 the department began a review of the Consolidated Cash Investment Trust Fund.

Despite these efforts, significant work and improvements remain. Improving cash management systems goes beyond the department's Treasury and Risk Management Division as many factors such as accountability structures of departments and government-controlled entities, budgets, and legislation affect cash management. Management at other government departments do not always consider the impacts their decisions and policies have on the government's cash management because they believe that is the Treasury and Risk Management's Division's job. Yet their decisions and policies directly affect the efficiency and economy of government's cash management systems.

Our report highlights the key factors impacting the efficiency and economy of the government's cash management systems.

Optimize use of excess liquidity

Treasury Board and Finance has not periodically evaluated and reported whether the government's cash management practices are efficient and economical. The department has not implemented mechanisms to utilize excess liquidity that exists within government-controlled entities. If cash on hand within the government as a whole is earning less than government borrowing costs, this results in an overall higher cost to government. The department has not periodically reviewed the Consolidated Cash Investment Trust Fund to identify opportunities to increase its use or modify its current structure to improve the efficiency and economy of the department's cash management format—see page 77.

Provide cash only when it is needed, not earlier

After optimizing the use of excess liquidity, the next best way to minimize unnecessary borrowing costs is to ensure government departments provide cash to government-controlled entities only when they need it. Treasury Board and Finance does not require government departments to monitor the cash flow needs of government-controlled entities to ensure this happens. Nor has it comprehensively analyzed the factors that may result in the accumulation of large cash balances in government-controlled entities or issued policies and guidance to departments when large cash balances do arise—see page 80.

Use information systems to manage cash

Treasury Board and Finance does not have an integrated treasury management system to manage cash efficiently and economically across the government. As a result, it still uses manually generated spreadsheets to manage cash. Staff have to manually gather and enter data. Treasury Board and Finance cannot analyze data to improve cash management. Managing the Government of Alberta's cash without an integrated treasury management system is like driving a car without a fuel gauge. You can drive the car, but you don't know how much gas you have, when to fill up or how much further you can drive. In addition, most departments reconcile bank accounts manually rather than using automated processes—see page 82.

---

2 https://eservices.alberta.ca/

Improving banking and related business practices
The current banking processes used by departments includes a significant number of bank accounts. Many of the banking structures that support these accounts were set up a long time ago, and have not kept pace with changes in banking practices. The government's results-based budgeting review also identified that many accounts were set up to compensate for weaknesses in business processes. Treasury Board and Finance has not regularly assessed whether the costs to administer the existing banking system outweighs the benefits. Staff told us that they cannot require other departments to implement leading banking practices as it may require additional changes to their financial policies, business processes and information systems. Implementing leading banking and related business practices would reduce administrative and banking costs—see page 84.

Improve payment policies and practices
Treasury Board and Finance does not monitor compliance with government payment policies and lead the implementation of best practices. Nor does it or the Department of Service Alberta (which processes transactions for departments) measure if entities use the lowest cost payment processes. For example, entities sometimes use cheques instead of electronic funds transfers. In some cases, the cost to process a payment is more than the payment itself—see page 86.

What needs to be done

While we direct the recommendations to the Department of Treasury Board and Finance to lead the transformation and modernization of the province's cash management systems, each department will have to actively participate and be willing to change its practices. As a result, Treasury Board and Finance needs the support of the Treasury Board Committee and Deputy Ministers' Council because:
- many factors, such as annual budgets, grant funding decisions, accountability requirements and legislation affect cash management systems
- roles, responsibilities and budgets are spread across many entities
- investment in information technology is required

Furthermore, Treasury Board and Finance and other departments will need to discuss existing cash management practices and proposed changes with boards and management of government-controlled entities.

We recommend that the Department of Treasury Board and Finance:
- implement mechanisms to use excess liquidity across the government as a whole to optimize returns and minimize debt and reduce debt costs
- evaluate the Consolidated Cash Investment Trust Fund and pursue opportunities to increase its use or modify its current structure to ensure it continues to be a relevant cash management tool
- issue policies and guidance to assist departments with monitoring the working capital needs of government-controlled entities to ensure departments only provide cash when needed
- implement an integrated treasury management system to manage treasury functions and processes, including cash pooling and management
- work with departments to implement leading banking and related business practices and to evaluate the benefits of maintaining existing bank accounts compared to the costs of administering them and make changes where the costs exceed the benefits
- periodically analyze payment data to identify non-compliance with policies and seek opportunities for improvement. Ensure that cost recoveries between government entities consider the costs and benefits and a transaction threshold.

Why this is important to Albertans

The government can reduce borrowing costs by better utilizing excess cash. Furthermore, the government can reduce administrative and banking costs if it follows leading cash management, banking and payment practices.

AUDIT OBJECTIVE AND SCOPE

The objective of our audit was to assess if the Department of Treasury Board and Finance has efficient and economical cash management systems. We focused on disbursements systems, banking services and cash forecasting, which are integral components of cash management.

The following provides definitions for:

- **efficiency**—use of financial, human and physical resources such that output is maximized for any given set of resource inputs, or input is minimized for any given quantity and quality of output provided
- **economy**—acquisition of the appropriate quality and quantity of financial, human and physical resources at the appropriate times and at the lowest cost

We also audited Service Alberta's systems and processes that support the government's cash management systems. We also performed work at select departments based on the samples we selected.

We conducted our field work from April to December 2015. We substantially completed our audit on December 18, 2015. Our audit was conducted in accordance with the *Auditor General Act* and the standards for assurance engagements set out in the CA Handbook—Assurance.

BACKGROUND

For the year ended March 31, 2015, the Government of Alberta had consolidated revenues and expenses of about $49.5 and $48.3 billion, respectively. Departments provided about $22.5 billion to regulated funds and agencies to deliver services. At March 31, 2015, the province's consolidated financial statements showed $8 billion in cash, including cash held by Alberta Health Services, school jurisdictions, universities and colleges.

Cash management involves:

- **inflows of cash**—policies and procedures for billings, collection of money, cash handling and deposits, including timing of cash flows and using cost effective collection methods such as electronic fund transfers and online payment options
- **outflows of cash**—policies and procedures for disbursements, including timing of cash flows and using cost effective payment methods such as procurement cards and electronic funds transfers when appropriate, and utilizing vendor discounts
- **banking services**—using government negotiated rates for banking services for all government entities, opening and closing bank accounts, transferring and pooling money, and reconciling bank accounts
- **cash forecasting**—forecasting cash flows in an effective and efficient manner using technology

Roles and responsibilities for cash management

The following entities are involved in cash management processes:

- **Department of Treasury Board and Finance**—the Treasury and Risk Management division is responsible for cash forecasting, banking services and issuing and managing government debt. It sets the investment policies for government endowment funds, general revenue fund and Consolidated Cash Investment Trust Fund. The Office of the Controller sets corporate financial and accounting policies, including maintaining the financial management manual.
- **Department of Service Alberta**—manages the government's enterprise resource planning system (IMAGIS) and the outsourced service provider who maintains the system. It offers financial services, which include revenue collection and banking services for some departments. It also prints cheques for certain departments.
- **Departments and other government entities**—departments collect revenues and pay salaries, grants or other expenses as part of their operations. Departments determine the cash flows for grant and contract payments when they develop and sign agreements.
- **Alberta Investment Management Corporation (AIMCo)**—provides investment management services for the government
- **IBM**—as a service provider maintains and operates IMAGIS, provides certain services related to banking such as electronic funds transfers, bank reconciliations and prints, sorts and distributes cheques

Cash management in the Government of Alberta

The Alberta government uses the following to manage cash for departments, regulated funds and certain provincial agencies:

- the general revenue fund
- Consolidated Cash Investment Trust Fund (CCITF)

Government-controlled entities, such as school jurisdictions, universities, colleges and Alberta Health Services do not have to use CCITF for their cash and short-term investments. Most of them do not. They use other financial institutions instead.

General revenue fund

The *Financial Administration Act*[3] established one general revenue fund that all public money must be paid to, except money over which the Legislature has no power of appropriation, or money that other legislation deals with. The principle of the Act is that all money the Legislature has power over should go into the general revenue fund so that the Legislature can decide, in the budget, how to spend it.

The Act refers to one general revenue fund, but this does not mean just one bank account. The general revenue fund has many bank accounts, consisting of:

- a general revenue account into which money flows from collection accounts and from where transfers are made to disbursements accounts
- collection accounts used to collect royalties, taxes and fees
- disbursement accounts used to pay employees, contractors, suppliers, and grant recipients
- designated accounts such as the contingency account

Through its bank service provider, balances in these accounts are pooled to determine the net cash position for the government on which interest will be charged or earned. This prevents interest being charged on one account when funds are available in another account.

[3] *Financial Administration Act*, Section 14(1).

Consolidated Cash Investment Trust Fund

The Department of Treasury Board and Finance manages the trust fund that was established in the 1980s. Its objective is to provide competitive interest to depositors and maintain appropriate security and liquidity of their capital. The fund held $5.4 billion at March 31, 2015 ($4.1 billion at March 31, 2014). The fund's return in 2015 and 2014 was 1.18 per cent and 1.17 per cent respectively. AIMCo invests money in the fund under investment policies the department sets and monitors.

Six types of participants make up the trust fund:
- cash held by the Department of Treasury Board and Finance related to the contingency account and an account that provides liquidity to the trust fund
- cash held by regulated funds and provincial agencies such as Alberta Social Housing Corporation
- accounts used to deposit money when AIMCo sells and buys investments as part of its investment management strategies
- public sector pension plans that use the fund for their short-term investments
- cash held by certain municipalities and other non-government entities
- endowments and other trusts

FINDINGS AND RECOMMENDATIONS

The Government of Alberta's cash management systems go beyond Treasury Board and Finance who manage the general revenue fund and the CCITF. All departments influence cash management systems by how and when they collect taxes, royalties and fees, and pay grants, suppliers and employees. Cash management becomes even more complex when government-controlled entities such as provincial agencies or school jurisdictions rely on all or a majority of their funding from departments, as departments must now also consider these government organizations' cash needs. Furthermore, there are annual budgets, grant decisions, accountability requirements and legislation that affect efficient and economical cash management.

Management at Treasury Board and Finance believe that changing cash management across the government as a whole can generate significant savings, minimize debt and debt costs and improve services to Albertans. We recognize that there are some good practices in place at departments to manage cash, but conclude overall that the Government of Alberta must modernize and transform its cash management systems. To do this Treasury Board and Finance will require the support of the Deputy Ministers' Council and Treasury Board Committee to take a strategic and coordinated government-wide approach.

We direct our recommendations to the Department of Treasury Board and Finance to lead this modernization. However, Treasury Board and Finance cannot implement the recommendations on its own. Some changes will require a cross-government approach, while others may be department specific. The modernization will require each department to actively participate and be willing to change its financial policies and business practices that will contribute to efficient and economical cash management across the government as a whole.

Improving cash management systems will also require departments to coordinate and work with the boards and management of government-controlled entities. Different approaches to cash management may be appropriate depending on the entity. For example, alternative approaches to cash management may be appropriate for regulated funds, provincial agencies and government-controlled school jurisdictions, universities, colleges and Alberta Health Services.

Furthermore, recommendations no. 8 (below), no. 9 (page 79) and no. 10 (page 82) are related. For example, Treasury Board and Finance needs to determine the mechanisms to utilize excess cash (below) so that it can develop the system requirements for an integrated treasury management system (page 82). Without an integrated treasury management system, Treasury Board and Finance is unable to utilize excess cash across the government as a whole to minimize debt and borrowing costs. Another example, if Treasury Board and Finance decides to pool cash of certain entities to minimize debt (below), it may not need to apply policies that prevent the early payment of funds to these entities (page 80). In addition, while recommendation 9 mainly deals with the funding provided to government-controlled entities, departments may also want to consider the cash flow needs of other third party organizations when making discretionary grant payments.

Optimize use of excess liquidity

RECOMMENDATION 8: EVALUATE CASH MANAGEMENT FOR EFFICIENCY AND ECONOMY

We recommend that the Department of Treasury Board and Finance:

- evaluate how it can use excess liquidity within government-controlled entities to reduce government debt and minimize borrowing costs, and implement mechanisms to utilize excess liquidity
- evaluate the Consolidated Cash Investment Trust Fund and pursue opportunities to increase its use or modify its current structure to ensure it remains a relevant cash management tool

Criteria: the standards for our audit

The department should evaluate and report on the economy and efficiency of its cash management practices.

Our audit findings

KEY FINDINGS

Treasury Board and Finance has not:

- periodically evaluated and reported whether the government's cash management practices are efficient and economical
- implemented mechanisms to utilize excess liquidity in government-controlled entities to reduce government debt costs
- periodically reviewed the CCITF to identify opportunities to increase its use or modify its current structure to improve the efficiency and economy of the department's cash management

Overall, the department has not periodically evaluated and reported whether the government's cash management practices are efficient and economical. It has not periodically evaluated whether it effectively utilizes cash across all departments, and government-controlled funds and entities, and has not developed plans or recommended changes to policies or legislation that may impede the department from utilizing that excess cash to minimize debt costs or maximize returns.

Excess liquidity

The department has not assessed how it can use excess liquidity across government-controlled entities to minimize debt costs, or whether existing policies and legislation may impede opportunities to utilize excess liquidity. The department has not implemented mechanisms to utilize excess liquidity in government-controlled entities to optimize returns or minimize borrowing costs. Two mechanisms that the department could use are a central deposit program or inter-company lending whereby it could borrow cash from government-controlled entities that have excess liquidity. Another mechanism is to allow certain government entities to deposit all their cash in the general revenue fund, as they already use the general revenue fund to pay their expenses. Implementing these mechanisms would likely require changes to existing legislation or policies.

We noted that the Government of British Columbia started a voluntary Central Deposit Program for schools, health authorities, colleges and universities in 2011–2012. The primary purpose of the program is for entities to deposit their excess cash in the Central Deposit Program. The Provincial Treasury pays a prime-based yield in excess of what participants would earn at their bank. This cost of funds remains lower than government long-term borrowing rates, thus: delivering two benefits to taxpayers: the program increases investment returns for participants and reduces borrowing costs for the government by replacing long-term debt with deposits in the Central Deposit Program. Deposits to the Central Deposit Program are liquid, requiring minimal notice to extract or deposit funds. To the end of November 2015, entities have deposited $1.8 billion in the Central Deposit Program.

The Government of British Columbia's Central Deposit Program is also an important component of a strategic debt management strategy and balance sheet management program. It reviews excess cash balances in government entities and uses it to minimize long-term debt, until entities need the cash.

Entities may rely on investment income to fund their operations. They may be concerned about reductions to their budgets if the department were to utilize any excess cash. The Government of British Columbia's Central Deposit Program still pays a competitive interest rate to depositors, but the deposits offset other government cash requirements, thus reducing overall debt costs for the government as a whole.

For example, the department can pay a competitive interest rate to entities on their deposits, but use the deposits to minimize debt costs in instances where the cost of those deposits are less than the cost of borrowing those funds in the marketplace. For example, at current interest rates the department could have avoided about $20 million in net interest costs if the department used $1 billion from CCITF to meet other government cash needs. Thus, using cash within CCITF for the government as a whole does not mean reducing budgets or funding to government entities. It means managing available cash across the entire government economically to reduce debt and debt costs.

Consolidated Cash Investment Trust Fund
The department has not periodically reviewed the Consolidated Cash Investment Trust Fund to identify opportunities to increase its use or modify its current structure to improve the efficiency and economy of the department's cash management.

Many regulated funds and some provincial agencies use the CCITF. Their cash balances in the CCITF at March 31, 2015 were about $1.7 billion. We found that government-controlled entities are not required or encouraged to use the CCITF. For example, school jurisdictions had $845 million in cash at August 31, 2014 that were deposited with private banks as allowed under current legislation, and not in CCITF. The department would increase the liquidity of the fund if it encouraged more participation in the fund. This would reduce the fund's reliance on the department for liquidity requirements when the fund requires additional cash. Another option would be to change the structure of CCITF to allow the fund to provide liquidity to the general revenue fund.

The *Financial Administration Act* (Section 16) allows the President of Treasury Board and Minister of Finance to issue directives on provincial agencies and funds' banking arrangements. However, no such directives have been issued to require agencies and funds to use the CCITF. Furthermore, other government-controlled entities such as school jurisdictions have not been encouraged to deposit their excess cash in the CCITF.

Implications and risks if recommendation not implemented

Inefficient and uneconomical cash management systems increase debt, interest and administration costs.

Monitoring the working capital needs of government-controlled entities

Background

Working capital management is key to any organization, including government and its controlled entities to ensure entities have sufficient cash to pay their expenses when they come due and to deliver their programs. Ensuring effective working capital and cash management in government is complex given the large number of entities, and the impacts of legislation, budget decisions, consolidated budgeting and financial reporting. Management of government-controlled entities are responsible to ensure appropriate working capital management. When departments provide all or the majority of funding to these entities, it is also important for departments to understand the working capital needs of these entities so they can determine when to provide them with cash.

RECOMMENDATION 9: DEVELOP POLICIES TO PREVENT EARLY PAYMENT OF GRANTS AND AN ACCUMULATION OF LARGE CASH BALANCES

We recommend that the Department of Treasury Board and Finance issue policies and guidance for departments to monitor the working capital needs of government-controlled entities to ensure departments only provide cash when needed.

Criteria: the standards for our audit

Treasury Board and Finance should:

- have clear policies and guidance to ensure efficient and economical cash management
- communicate policies and guidance to departments and monitor their compliance to ensure they use best practices for cash management

Our audit findings

KEY FINDINGS

Treasury Board and Finance has not:

- provided policies or guidance for departments to assist them with monitoring the working capital needs of government-controlled entities that receive all or a significant portion of their funding from departments
- comprehensively reviewed and analyzed all factors that may impede economical cash management. This may result in the accumulation of cash at government-controlled entities, some that they may not be able to spend for various reasons.
- issued policies and guidance to departments to help them decide what to do when cash accumulates at government-controlled entities

Provide cash to entities only when needed

Departments pay approximately $22.5 billion annually to government-controlled entities to provide services. Treasury Board and Finance has not issued policies or guidance for departments to monitor the working capital needs of these entities and to prevent departments from providing the cash to them before they need it. Providing more cash to entities than they need has a cost: entities may earn less on the idle cash than the government pays to borrow money to provide the cash.

Financial data from 2013 to 2015 shows that departments normally pay operating grants to government-controlled entities monthly or quarterly. Departments usually time these payments based on past practices and the annual operating grant that departments agreed to pay. However, departments are not required to review the entities' working capital needs when determining the timing of the payments. For example, for the fiscal year ending March 31, 2015:

- the former Department of Tourism provided the entire annual operating grant of $56 million to Travel Alberta at the start of the year. We noted that for the 2015-2016 fiscal year, Travel Alberta received its operating grant in three separate payments.
- the former Department of Innovation and Advanced Education provided about $43 million to two Alberta Innovates corporations in quarterly payments, although the corporations likely had enough cash at the start of their fiscal year to pay their anticipated annual operating expenses.
- the Department of Education provided cash to some school jurisdictions to build schools before the jurisdictions needed the cash to pay for the construction. It previously made the payments based on a predetermined formula when school jurisdictions reached certain milestones. This contributed to the accumulation of large cash balances at school jurisdictions. Education recently changed this practice and now only pays school jurisdictions when they require the cash.

Further, our data analysis shows that in April each year, departments paid government-controlled entities $640 million to $932 million more than the average monthly payments that departments make to these entities. Treasury Board and Finance management told us that they have analyzed this trend and attempted to change these practices but without success.

Treasury Board and Finance could have avoided interest costs it incurred for short-term borrowing if these departments timed the transfers to entities only when they needed it. Our discussions with several departments' senior management indicate that they do not always consider the cash management aspects of the funding they provide to government-controlled entities, as they believe that is Treasury Board and Finance's job. Departments mainly focus on the budget impacts when providing funding to government-controlled entities.

Of the $1.7 billion that government-controlled entities had on deposit within CCITF at March 31, 2015, about $1 billion belongs to entities that use the government's enterprise resource planning system. That saves them money compared to running their own systems. Departments often pay operating grants to government-controlled entities from the general revenue fund. Because these entities use the government's enterprise resource planning system, their expenses are paid from the general revenue fund—not their own bank account. Thus, the cash is just transferred back to the general revenue fund, incurring avoidable bank fees and administration costs. The general revenue fund also provides liquidity to the CCITF. However, Treasury Board and Finance cannot use any unspent cash of government-controlled entities in the CCITF to minimize debt if there is not enough liquidity in the general revenue fund.

In contrast, the Government of Saskatchewan's *Financial Administration Act* (Section 20) allows its Treasury Board to authorize any money not otherwise required to be paid into its general revenue fund, to be deposited into the general revenue fund. These funds are not available for appropriation, but the money is available to meet other liquidity needs. Agencies, boards and commissions are paid interest based on the government's 30-day borrowing rate.

Factors that may impede good cash management

Many factors such as legislation and accountability requirements such as balanced budgets influence economical cash management.

For example, prior to 2015 the *Access to the Future Act*[4] required the transfer of 4.5 per cent of the total amount allocated to the Advanced Education Endowment to the Access to the Future Fund. This endowment is an account in the Alberta Heritage Savings Trust Fund. Government budgets suspended payments from the Access to the Future Fund from 2011 to 2014. By March 31, 2014, the balance in the Access to the Future Fund increased to $171 million as the Act still required Treasury Board and Finance to transfer 4.5 per cent to the Access to the Future Fund.

Amounts transferred to the Access to the Future Fund were deposited into CCITF, which earned 1.17 per cent during 2014. The Alberta Heritage Savings Trust Fund five-year return in 2014 was 12.7 per cent. Treasury Board and Finance identified that had the money remained in the Alberta Heritage Savings Trust Fund, it could have earned significant investment returns. As a result, Treasury Board and Finance asked for changes to the *Act* so that up to 4.5 per cent of the total amount could be allocated, instead of exactly 4.5 per cent. From 2015 onwards, the Act now requires the transfer of up to 4.5 per cent to the Access to the Future Fund. While Treasury Board and Finance asked for changes to the *Access to the Future Act* to improve cash management, it has not done a broader and comprehensive review of all the factors and legislation that may impede economical cash management.

In addition, balanced budget requirements prevent certain entities such as post-secondary institutions from submitting deficit budgets, unless the minister approves it. Spending accumulated surpluses without receiving additional revenue results in deficits. To run a deficit means that the agency incurs more expenses during the year than it had in revenues. This in turn will have a negative impact on the province's financial results. While the deficit of an individual government-controlled entity may not have a significant impact on the province's financial results, in total across all entities may have a significant impact. Ministers may not approve certain entities from running deficits for this or other reasons.

Thus, entities with balanced budget requirements may not be allowed or able to spend the accumulated cash on additional operating expenses. Because of this and the funding of non-cash expenses such as amortization or pension costs, entities may accumulate cash balances that they cannot spend.

Treasury Board and Finance should analyze the factors that impede good cash management across the entire government, and consider their impacts when improving cash management systems.

Monitor accumulating cash balances

Under Section 33(2) of the *Financial Administration Act,* the President of Treasury Board and Minister of Finance can require agencies to pay all or parts of their net earnings and retained earnings to the minister. But Treasury Board and Finance has no policy or process to monitor if this happens or to guide departments in monitoring these balances, and the actions departments should consider.

Such a policy would tell departments how to conduct reviews, how often, what factors to consider, how to calculate excess cash and what to do with excess cash such as reducing future transfers or repaying

[4] Sections 7, 7(1) and 7(2)

any unspent funds. The Government of Western Australia has such a policy.[5] It defines the problems with accumulating surpluses and cash, states a clear objective, and has a formula for calculating excess cash balances. It also outlines what to do with excess cash such as spending it in agreement with the treasury department, reducing any future grants or transferring excess cash to the treasury department.

While the Act refers to specific agencies as defined in legislation, such policies may also help departments in monitoring cash balances in regulated funds and other government-controlled entities. Here are two examples why departments can use such policies:

- Revenue for the Victims of Crime Fund is based on a percentage of traffic fines. Automated enforcement, such as photo radar, have increased the fund's revenues. As revenues increase faster than expenses (some expense limits set in regulations), the fund has accumulated cash of $46 million by March 31, 2015 and with a 35 per cent increase, this is expected to grow even more.
- School jurisdictions had accumulated $1.1 billion in cash equivalents and portfolio investments at August 31, 2014. Some of this relates to funding that Education provided to build schools. In our October 2015 report,[6] we reported that Education has not analyzed the reasonableness of these balances and their correlation with future plans at the school jurisdictions to use these funds.

Implications and risks if recommendation not implemented

Providing cash to entities before they need it or allowing them to accumulate large cash balances, increases provincial debt and debt costs.

Lack of information systems to manage cash efficiently and economically

Background

Prompt, accurate information is critical to forecast cash flows, ensure excess cash is invested at optimal returns and minimize debt. Information technology can automate processes. We examined how Treasury Board and Finance forecast cash needs. We also assessed how other departments do bank reconciliations to ensure account balances in the government's enterprise resource planning systems are accurate.

RECOMMENDATION 10: IMPLEMENT AND USE INFORMATION TECHNOLOGY TO MANAGE CASH

We recommend that the Department of Treasury Board and Finance implement an integrated treasury management system to manage treasury functions and processes, including government-wide cash pooling and management.

Criteria: the standards for our audit

Treasury Board and Finance should have IT systems to manage cash efficiently and economically.

---

5 http://www.treasury.wa.gov.au/uploadedFiles/_Treasury/Publications/Cash_Management_Policy.pdf

6 *Report of the Auditor General of Alberta—October 2015*, page 84.

Our audit findings

KEY FINDINGS

- Treasury Board and Finance does not have an integrated cash management system. It relies on manual processes and Excel spreadsheets to manage the Government of Alberta's cash. As a result, the department lacks complete and timely information to manage cash.
- The Department of Service Alberta has an automated process to reconcile bank accounts for some departments, but other departments don't have to use it. They mostly do manual reconciliations.

Cash management involves many manual processes that depend on staff knowledge. Manual processes increase errors and are inefficient. We focused on two areas:

- cash forecasting
- bank reconciliation processes

Manual cash forecasting

In 2004 Treasury Board and Finance identified the need for an integrated and automated treasury management system to manage the government's cash more efficiently and economically. Nevertheless, 11 years later it still uses manual processes to collect data from various sources and enter it daily into forecasting spreadsheets, as it has not received funding to implement a system. The lack of an integrated treasury management system prevents the department from being able to manage cash across the whole government efficiently and economically. Furthermore, the spreadsheets also hamper Treasury Board and Finance in analyzing historical data to improve cash forecasts and limits forecasting to only the short term.

Treasury Board and Finance aims to have a daily minimum balance of $10 million in the general revenue fund, and to invest any excess cash in short-term investments. Holding more cash than needed comes at a cost. It is critical to have timely, accurate information to forecast cash needs. Treasury Board and Finance met its daily target only 35 per cent of the time over the last eight years. On average, the daily balances were $23 million, and for 120 days or 4 per cent of the time, balances exceeded $100 million. Treasury Board and Finance is not optimizing the returns on excess cash.

Treasury Board and Finance has made several requests for a treasury management system over the years, through government's capital planning processes. In 2014 it submitted a document as part of the government's IT capital planning processes to support a treasury management system. It estimated the capital cost of the system was $3 million, with $300,000 in annual operating costs. The document highlighted various benefits but did not quantify potential savings. Another department analysis estimates annual savings of $177,000 and another $1.3 million for every $100 million of redeployed working capital.

A treasury management system would also allow Treasury Board and Finance to manage the province's debt and related accounting processes more efficiently and economically, thereby eliminating current manual processes and other information systems. However, Treasury Board and Finance has not analyzed or quantified these other potential savings.

Manual bank reconciliations

Bank reconciliations are essential for timely and accurate information on cash balances. Cutting the number of bank accounts will also create significant efficiencies, but here we focus on how departments do bank reconciliations. Given the high number of bank accounts and technology available, we expected departments to use automated bank reconciliation processes that need less manual work. Then staff can analyze data, not do repetitive tasks.

Unfortunately, departments have a fragmented system that does not optimally use information technology or available shared services. There is significant room for improvement using technology or available shared services.

Service Alberta's mandate is to provide shared services to government departments. Only some departments use Service Alberta, as they are not required to use it. Service Alberta reconciles 37 bank accounts for some departments. It implemented an automated reconciliation process last year that now requires three employees instead of six. Management said the automated process reduced the time to reconcile each account from about three hours to only 15 minutes daily. Most departments we interviewed manually reconcile their bank accounts. They told us it takes between two to three hours for each account. As an example, Treasury Board and Finance's Financial Operations Branch performs daily and monthly bank reconciliations for 24 accounts for entities that use the government's enterprise resource planning system. Two people do this manually.

Furthermore, a service provider has reconciled the general revenue fund and several central disbursement accounts daily since 1997. Treasury Board and Finance's Financial Operations Branch reviews these reconciliations monthly to ensure the service provider performs them. However, Treasury Board and Finance has not done a cost benefit analysis to determine if this remains the best alternative.

Implications and risks if recommendation not implemented

Lack of information technology creates inefficiencies, inaccurate and stale information, and too many manual processes that increase errors and costs. It also prevents Treasury Board and Finance from managing cash efficiently and economically across the government.

Implementing leading banking practices

Background

Departments and certain provincial agencies and regulated funds together have many bank accounts. This includes a significant number of accounts that AIMCo uses to manage investments. Departments, funds and some provincial agencies use these accounts to collect taxes, royalties and fees, pay employees, contractors, suppliers, and grant recipients, and make investments. Treasury Board and Finance opens and closes bank accounts for other departments, maintains signatories for accounts and access to the online banking system, and transfers money.

There are costs associated with maintaining this many accounts. From bank fees to salary costs to maintain the accounts, record deposits and payments, transfer money between accounts and to reconcile them to ensure all transactions are recorded. They also create fraud risks, such as misappropriation of funds or fraudulent cheques.

RECOMMENDATION 11: USE LEADING BANKING AND RELATED PRACTICES AND EVALUATE COST BENEFITS OF BANK ACCOUNTS

We recommend that the Department of Treasury Board and Finance work with departments to implement leading banking practices and evaluate the benefits of existing bank accounts compared to the costs of administering them, and make changes where the costs exceed the benefits.

Criteria: the standards for our audit

Treasury Board and Finance should:
- have policies and guidance to ensure cash management is efficient and economical
- base policies and guidance on banking best practices
- ensure departments use efficient and economical cash management practices

Our audit findings

KEY FINDINGS
- Treasury Board and Finance has led some initiatives to improve banking practices. However, it has not continually worked with departments to assess if the existing banking practices remain the most efficient and economical options. As a result, government has a large number of bank accounts and related business practices that are not as efficient and economical as they could be.
- Treasury Board and Finance is now reviewing how it can improve banking practices. The department is responsible to maintain bank accounts and for cash management, but management told us it cannot require other departments to improve their banking practices as it may require changes to departments' financial policies, business processes or IT systems.

Treasury Board and Finance recently started to implement leading banking practices. For example, it led the initiative to ensure the government complied with the payment card industry's security standards, and worked with Service Alberta to develop banking requirements for the government's new online transaction portal. It is also now assessing the need for new accounts and working with departments to implement alternative options.

Treasury Board and Finance opened many accounts over the years to meet specific business needs of departments. Departments have developed many of their processes and information systems around these bank accounts. For example, the Department of Energy has 120 bank accounts as a way to collect revenues, one for each entity it receives money. It uses each bank account to identify who deposited the money so that staff can manually allocate the funds in the department's information systems.
We found that Treasury Board and Finance has not:
- continually worked with departments to assess if bank accounts remained the most efficient and economical option and to implement new changes in banking practices. It started a banking review in 2014 to identify opportunities to improve banking and related business practices. It has not completed its assessment of whether the costs to administer that many bank accounts is less than the benefits maintaining the existing structure, and whether departments' processes meet leading banking practices and provides effective services to Albertans.
- issued a request for proposals for banking services for several decades, although it did issue requests for proposals for government's merchant services and procurement card services. Management has not done an RFP for banking services because of the complexity of the existing account structures and the potential cost of changing the banking service provider. Treasury Board and Finance has extended the existing banking services contract until the banking review and stakeholder consultations are complete.

Treasury Board and Finance's banking branch staff told us that there are many opportunities to improve banking practices in departments. However, management told us that it cannot require departments to improve their banking practices as departments may need to change their financial policies, business processes and IT systems and that may require additional capital spending. But it may save costs over the long term and improve services.

For example, the Department of Justice and Solicitor General receives fine and other payments at each courthouse across the province. Staff at each courthouse deposit money into many accounts and the money is then transferred to several more accounts. Justice and Solicitor General is working with Service Alberta to consider using the government's new electronic services website[7] to allow Albertans to pay their fines online. Another option Treasury Board and Finance identified for payments not received through the new website may be to centralize the receipt of fines and payments.

Departments know that the banking branch has to open and close accounts. However, banking branch staff said that they have identified instances during the banking review where departments have opened bank accounts without the branch's involvement. This does not comply with the *Financial Administration Act* that requires Treasury Board and Finance to open, maintain and close bank accounts. It also does not let Treasury Board and Finance identify potential accounts it can use to provide liquidity to the general revenue fund, or to identify potential risks and non-compliance with legislation and policies.

Using new banking services or leading practices will improve efficiencies across government. It will also improve services to Albertans such as allowing Albertans to pay online or via electronic funds transfers. However, it will require a longer-term approach and spending on information technology. Departments can and should consider leading banking practices as they upgrade their IT systems, as this may be a way to cost effectively implement improvements. In addition, they should involve Treasury Board and Finance's banking staff in implementing leading practices.

Implications and risks if recommendation not implemented

Government is missing opportunities by not using leading banking practices.

Payment policies, terms and methods

Background

The *Financial Administration Act* and Treasury Board directives set out requirements for departmental payment policies such as expenditure officer and accounting officer review and approval of transactions. The procurement card program has been established to provide an efficient and economical method of purchasing and payment for supplies and services. The procurement card policy requires departments to use procurement cards as the primary payment method to purchase supplies and services under $10,000.

RECOMMENDATION 12: IMPROVE POLICIES FOR PAYMENTS

We recommend that the Department of Treasury Board and Finance:

- periodically analyze payment data to identify non-compliance with policies and seek opportunities for improvements
- ensure that cost recoveries between government entities consider costs and benefits, and a transaction threshold

[7] https://eservices.alberta.ca

Criteria: the standards for our audit

The Department of Treasury Board and Finance should ensure:
- payment of disbursements is based on best practices
- departments comply with policies and guidance

Our audit findings

KEY FINDINGS
- Treasury Board and Finance does not monitor compliance with government payment policies and practices. Nor does it, or the Department of Service Alberta, measure the economy of government payment processes to ensure departments are utilizing the most cost effective payment methods.
- There is no policy on cost recoveries for shared services between government entities. As a result, transactions occur where the cost to process the transaction is more than the value of the transaction.

Treasury Board and Finance, through the Office of the Controller, has issued guidance in the financial management manual to departments on using payment terms and considering the cash flow needs of recipients. However, neither Treasury Board and Finance nor Service Alberta (who processes payments for departments) regularly analyze payment data or measure the cost of payment processes to ensure payment methods result in the lowest overall cost.

Payment methods

Cheques and electronic funds transfers

Cheques cost more to issue than electronic fund transfers, increase the risk of fraud and increase administration costs if lost. They also create uncertainty for cash forecasting, as the department does not know when recipients will cash them.

Entities that use the government's enterprise resource planning system (IMAGIS) paid about 88 per cent of all payments for salaries, contracts, grants, and supplies and services by electronic funds transfer. Changes in the banking industry such as remote cheque deposits and elimination of cheques will require the government to change its processes. Treasury Board and Finance has not issued specific policies for departments to use the most economical payment method, nor has it developed comprehensive plans to adapt to changes in the banking and payment practices.

About 570,000 payments were made by cheque in 2014–2015. Of these, about 386,000 payments were made to companies where electronic funds transfers could have been used. The totals include payments to government-controlled entities. If entities had used procurement cards or electronic funds transfers, it would have saved money.

Procurement cards and other payment cards

These cards are cost effective. Information goes automatically from the card provider to IMAGIS. The government gets a rebate from the card provider. So using these cards more can save the government money and lower administrative costs. In 2015, departments received invoices for goods and services for about 50,000 transactions for less than $100 that were then paid using cheques or electronic funds transfers. However, neither Treasury Board and Finance nor Services Alberta has analyzed the data to determine if departments used the most cost effective payment method or to identify opportunities for improvements.

Timing of payments to suppliers
Treasury Board and Finance's guidance for departments to consider cash flow needs of recipients and pay invoices after 30 days unless there are discounts or if contracts require early payment are defined in the financial management manual, is out of date and for the most part not applicable. These practices allow better cash management, with more time to pay for goods and services and plan how to spend money. That in turn allows better short-term investing and less debt. IMAGIS pays vendors after 30 days from the invoice date, though departments may override this. Treasury Board and Finance does not monitor or analyze data to ensure these policies are met.

How fast payments are made
Payment data for supplies and services transactions during 2015, excluding transactions processed through procurement cards, employee expense claims and the electronic payment system, showed that 31 per cent ($1.8 billion) of payments were made within 15 days from the invoice date. The department cannot tell if these transactions were paid early to meet contract terms or get discounts, or whether they should have been paid later.

Cost recoveries between departments and other government entities

Treasury Board Directive 13/98 lets departments provide financial, administrative, human resource and information technology services to each other and recover the costs. Until 2013, when departments recovered the costs, they would often create a cheque or electronic funds transfer from the general revenue fund that was deposited back into the general revenue fund. This no longer occurs, but cheques and electronic funds transfers between departments and other government-controlled entities still occur.

Treasury Board and Finance has not issued a policy for cost recoveries between government entities although it knows transactions may not be economical. Such a policy should consider the cost and benefit of recovering the costs and establish a threshold. Most jurisdictions have a policy on cost recoveries for shared services.

Insignificant cost transfers occur when the cost to process a transaction is more than the transaction value. For example, departments processed about 3,700 journal entries for less than $100, with some including amounts under $1. The total value of these transactions was only about $160,000. Both entities (paying and receiving) have to manually prepare, process, and review these transactions and transfers. They also create more manual work for departments to reconcile balances between entities. Setting a transaction threshold for cost transfers will cut administration and costs.

Implications and risks if recommendation not implemented

When government does not use best practices for payment policies, terms and methods, it is missing opportunities to operate in the most efficient and economical way.

Stand-alone Systems Auditing—Follow-up Audit

REPORT OF THE AUDITOR GENERAL OF ALBERTA

February 2016

Environment and Parks—Drinking Water Follow-up

SUMMARY

In 2006 we audited the Department of Environment and Parks' systems to manage drinking water.

We recommended the department improve its drinking water information systems by:
- updating forms to meet standards and improving reporting capacity
- coordinating information systems at regions to avoid overlap
- using data to improve program effectiveness and efficiency

The department had previously implemented the six other recommendations from our 2006 report.[1]

What we examined

We followed up on the outstanding recommendation from our 2006 report.

Overall conclusion

The department has implemented our recommendation. Systems reporting capacity has improved and meets users' needs. An enhanced system for drinking water inspections helped improve the program efficiency and effectiveness. The department eliminated overlapping systems and implemented an effective process that ensures forms are up to date.

AUDIT OBJECTIVE AND SCOPE

Our audit objective was to determine if the department had implemented our 2006 recommendation to improve drinking water information systems.

Our 2012 follow-up audit found that the department planned to resolve the inherent limitations of its main drinking water information system through the system redesign or replacement. Therefore, this audit also examined the department's progress in acting on its plan.

We conducted our field work from June to October 2015 and substantially completed our audit on October 30, 2015. We conducted our audit in accordance with the *Auditor General Act* and the standards for assurance engagements set out by the CPA Canada Handbook—Assurance.

FINDINGS

Information Systems—implemented

Background

The department regulates 670 drinking water facilities and water distribution systems in Alberta. The department inspects all drinking water facilities at least every two years.

[1] *Report of the Auditor General of Alberta—October 2006,* no. 4, page 52.

The Environmental Management System is one of the key information systems for drinking water as well as other programs for which the department is responsible.

The department maintains inspections data in SharePoint, a system separate from EMS, as of 2011. The department continues to use EMS for all other information on the drinking water program, including its approval and some compliance actions.

The department delivers the drinking water program through its Edmonton office and regional offices.

Our audit findings

Using data to improve effectiveness and efficiency

In 2011 the department updated its risk-based inspection form and guidelines and implemented SharePoint[2] to improve the effectiveness of inspection planning for drinking water facilities. The guidelines require inspectors to analyze facility data, such as a turbidity and chlorine levels, in assessing the risk associated with a facility not meeting standards or approval conditions. Our testing confirmed inspectors comply with the guidelines.

Updating forms

The department implemented a process to monitor changes in standards and legislation to help ensure relevant forms are updated as needed. Our testing found the department's processes to be effective.

Improving reporting capacity

The department improved EMS capacity to provide standard and custom reports on various aspects of the drinking program, such as approval conditions and incidents. The department's drinking water staff use the reports, which meet their operational needs.

Coordinating information systems

Our testing found that regions use the two corporate systems, EMS and SharePoint, to maintain drinking water data. The implementation of SharePoint has resolved the EMS difficulties that caused some regions to maintain their own information systems.

Our interviews with inspectors determined that SharePoint is easier to use than EMS.

Finding long-term solutions for EMS

The department continues to improve EMS, by correcting known problems and limitations, to help ensure the system appropriately supports the program and meets user needs. SharePoint is a temporary solution for some of these EMS limitations. The department has not yet identified a long-term solution for the inherent limitations of EMS.

[2] SharePoint is a web-based system that contains the department's drinking water inspections data.

Other Audit Work

REPORT OF THE AUDITOR GENERAL OF ALBERTA

February 2016

Advanced Education—Report on Post-secondary Institutions

INTERNAL CONTROLS—A REPORT CARD

This report includes an update on our report card on internal controls over financial reporting, together with comparative assessments from our 2014 and 2013 audits of colleges, technical institutions, MacEwan University and Mount Royal University. Our October 2015 report provided our observations on Athabasca University, University of Alberta, University of Calgary and University of Lethbridge.[1]

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. Strong, sustainable processes improve management's decision making ability and provide opportunities to use results analysis to communicate to Albertans the institution's performance and accountability for results. The Minister of 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.

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

A post-secondary institution could have a yellow or red status yet still receive an unqualified audit opinion on its financial statements as management can correct errors and financial statement 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.

Our conclusion on the status of outstanding recommendations considers not just the number, but also the age and nature of the outstanding recommendations. A summary of outstanding recommendations by institution is provided on page 110. During the year, institutions implemented half of the total number of outstanding recommendations from one year ago. Thirteen of the 23 outstanding recommendations relate to our 2013 recommendation[2] to all institutions to improve systems to ensure compliance with legislation.

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.

---

1 *Report of the Auditor General of Alberta—October 2015*, pages 121-134.

2 *Report of the Auditor General of Alberta—February 2013*, no. 7, page 60. Individual institutions received the recommendation between February 2013 to February 2014 however, all institutions worked collaboratively to implement centralized process improvements to facilitate implementation of the recommendation within three years for all institutions. Seven institutions have fully implemented the recommendation to date.

Recommendations that are not implemented promptly 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 of 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.

Institutions where improvements are needed

Institution	Financial statements preparation Accuracy	Financial statements preparation Timeliness	Outstanding recommendations
Keyano College			
2015	◆	△	◆
2014	●	●	●
2013	△	◆	●
Red Deer College			
2015	●	●	◆
2014	●	●	●
2013	●	●	△
Northern Lakes College			
2015	△	●	●
2014	◆	●	◆
2013	◆	◆	◆
Olds College			
2015	△	●	●
2014	◆	◆	◆
2013	◆	◆	◆

Institutions with adequate internal controls and processes over financial reporting

Institution	Financial statements preparation Accuracy	Financial statements preparation Timeliness	Outstanding recommendations
Alberta College of Art + Design			
2015	●	●	●
2014	●	●	△
2013	◆	△	◆
Bow Valley College			
2015	●	●	●
2014	●	●	●
2013	△	●	●
Grande Prairie Regional College			
2015	●	●	●
2014	●	●	●
2013	△	●	●

Institutions with adequate internal controls and processes over financial reporting (continued)

Institution	Financial statements preparation		Outstanding recommendations
	Accuracy	Timeliness	
Lakeland College			
2015	●	●	●
2014	△	●	●
2013	●	●	●
Lethbridge College			
2015	●	●	●
2014	●	●	●
2013	●	●	●
MacEwan University			
2015	●	●	●
2014	●	●	●
2013	●	●	△
Medicine Hat College			
2015	●	●	●
2014	●	●	●
2013	●	●	◆
Mount Royal University			
2015	●	●	●
2014	●	●	●
2013	●	●	●
Northern Alberta Institute of Technology			
2015	●	●	●
2014	●	●	●
2013	●	△	●
NorQuest College			
2015	●	●	●
2014	●	●	●
2013	●	●	●
Portage College			
2015	●	●	●
2014	●	●	△
2013	●	●	◆
Southern Alberta Institute of Technology			
2015	●	●	●
2014	●	●	●
2013	●	●	●

Note: The fiscal 2015 report card for Athabasca University, University of Alberta, University of Calgary and University of Lethbridge is included in the Report of the Auditor General of Alberta—October 2015, page 123.

In concluding on our report card, we noted the following:

Financial statements preparation

The majority of institutions made improvements, in varying degrees, to internal controls and processes to promptly prepare reliable financial statements.

Olds College and Northern Lakes College implemented our recommendations to significantly improve their financial reporting internal controls and processes, resulting in better analyses and conclusions to support financial account balances. Management of these institutions should continue to make process improvements to ensure the sustainability of their reporting controls and processes for preparing timely and accurate financial statements.

Unanticipated changes in an organization can impact management's ability to sustain strong financial reporting annually. Keyano College had changes in key finance personnel which contributed to accuracy and disclosure deficiencies in the college's draft financial reporting. Given the significance of the improvements required, we recommend immediate action by college management to implement improvements to re-establish sustainable processes.

We issued unqualified audit opinions on the financial statements of all post-secondary institutions in fiscal 2015.

Outstanding recommendations

In addition to the financial reporting recommendations mention above, a number of institutions continued to improve internal control environments. Alberta College of Art + Design implemented four of five outstanding recommendations and Portage College implemented three of four outstanding recommendations. Six institutions joined the University of Alberta in having no outstanding recommendations at the end of their fiscal year.

We do not agree with Red Deer College management that it has fully implemented our recommendation to improve the college's general computer control environment (see page 108). We repeat our recommendation and encourage both the board of governors and management to prioritize improvements to process weaknesses first observed with the college in 2007.

FINDINGS AND RECOMMENDATIONS

SUMMARY

New recommendations were issued to:

- Keyano College to improve financial reporting controls
- Lakeland College to improve segregation of duties within its finance department
- Olds College to strengthen its information system access controls.

We repeat our recommendation to Red Deer College to improve general computer control environment.

Sixteen prior-year recommendations were implemented—Alberta College of Art + Design (4), Grande Prairie Regional College (1), MacEwan University (2), Mount Royal University (1), NorQuest College (1), Northern Alberta Institute of Technology (1), Northern Lakes College (1), Olds College (1), Portage College (3) and Southern Alberta Institute of Technology (1).

CROSS-INSTITUTION RECOMMENDATION

Matters from prior audits

Improve systems to ensure compliance with legislation

Starting in 2013, we recommended post-secondary institutions[3] improve systems to comply with legislation by implementing 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

The post-secondary institutions worked collaboratively to implement the recommendation in two phases. Initially in 2014, the institutions implemented a sector-wide initiative to engage an external legal firm to identify existing and recently changed or newly enacted legislation impacting post-secondary institutions. In the second phase of implementation, each institution used information obtained collaboratively to integrate compliance with legislation within their risk management systems and processes.

In 2015 we examined process improvements implemented at Grande Prairie Regional College, MacEwan University, Mount Royal University, NorQuest College, Northern Alberta Institute of Technology and Southern Alberta Institute of Technology.[4]

Our follow-up audit at each of these institutions included examining:

- the legislative compliance framework outlining management's processes to identify legislation with which the institution must comply
- management's process for monitoring to ensure compliance
- instances of non-compliance, along with corresponding mitigation plans
- reporting to board audit committee

We found management of each institution provided their board and executive committees at least an annual report on legislative compliance. The compliance report included instances of non-compliance along with corresponding mitigation plans. Significant legislative compliance risks were included in institution's enterprise risk management assessment and some institutions prepared separate legislation risk registers. Completion of the legislative compliance assessments was either by management or special management committee. At each institution, we did not identify any significant legislation related to financial reporting for the fiscal 2015 financial statements that management failed to consider in their reporting.

We conclude that the six institutions mentioned above have implemented processes to ensure compliance with legislation that are operating effectively.

---

3 *Report of the Auditor General of Alberta—February 2013*, no. 7, page 60, *October 2013, page 94 and February 2014, page 75.*

4 The University of Alberta also implemented the recommendation as reported in the *Report of the Auditor General of Alberta—October 2015*, page 127. Thirteen institutions have assessed the recommendation as not yet implemented.

ALBERTA COLLEGE OF ART + DESIGN

Matters from prior audit

Improve controls over expense claims and purchase card transactions—implemented

The college implemented our 2014 recommendation[5] to improve its controls over expense claims and purchase card transactions. In 2014 we found that the college did not have:

- adequate procedures and processes in place for the payment, review or approval of expenses
- regular reporting to the board of expense report activity of senior management
- processes to recover expenses that were not compliant with college procedures

The college implemented the recommendation by:

- creating appropriate procedures and processes for the payment of expenses
- effecting a process for independently reviewing and approving expense claims and purchase card transactions before making payments
- reporting periodically to the board the expense report activity of senior management
- recovering the cost of transactions that do not comply with college procedures

We tested samples of expense claims and purchase card transactions and found that controls were properly designed and operating effectively.

Strengthen controls over procurement card transactions—implemented

The college implemented our 2013 recommendation[6] to strengthen its processes over the authorization, review and approval of procurement card transactions by:

- establishing appropriate procedures outlining the acceptable practices for use of procurement cards
- implementing procedures for authorizing, approving and accounting for purchases made using the procurement cards

We examined the procedures management implemented and concluded their design was adequate. We tested a sample of procurement card transactions and found the controls were operating effectively with no exceptions identified.

Improve controls over contracts—implemented

The college implemented our 2013 recommendation[7] to improve controls over contracts.
We found in 2013:

- deficiencies in the contract procedures
- an absence of a central tracking system, legal counsel did not approve templates
- no effective processes to monitor compliance with contract terms
- staff did not seek appropriate signing authority approval.

The college implemented this recommendation by:

- developing, documenting and enforcing contract procedures and required approvals
- using contract templates approved by college's legal counsel
- maintaining a system to track and monitor all contracts prepared by all departments

[5] *Report of the Auditor General of Alberta—February 2014*, no. 4, page 76.
[6] *Report of the Auditor General of Alberta—February 2013*, no. 11, page 66.
[7] *Report of the Auditor General of Alberta—February 2013*, no. 9, page 64.

We tested a sample of contracts to assess the college's contracting processes and procedures and found no exceptions. We concluded that the controls over contracts were operating effectively.

Implement a disaster recovery plan—implemented

The college implemented our 2013 recommendation[8] to develop, implement and test an IT disaster recovery plan. We found in 2013 that the college did not have a:

- plan for the resumption of applications, data, hardware, communications and other IT infrastructure in the event of a natural or human-induced disaster
- defined IT continuity plan to reduce the impact of a major disruption on key business functions and processes

The college implemented the recommendation by:

- preparing an up-to-date disaster recovery plan based on a risk assessment. The assessment identified the consequences and impact, for each department or business unit of the college, in the event of significant failure of information technology services
- assessing the adequacy of its disaster recovery plan in 2015. Staff performed a tabletop exercise where key members of the disaster recovery team discussed different scenarios and responses, based on the college's disaster recovery plan

The college, as a best practice, should complete a full-scale test of the IT recovery plan periodically. The college's finance and audit committee agreed with management that the table top exercise was sufficient to test the adequacy of the IT disaster recovery plan and accepted the risks of not completing a full-scale test. The college's tabletop exercise identified which systems and applications to restore, how quickly the restoration must occur and the processes required to restore the needed systems and data after a disaster.

We examined the college's documentation from the tabletop exercise, including its risk assessment processes for Information Technology and Network systems, and found the exercise adequate to identify procedures to resume important business operations in the event of a disaster. The college plans to further evaluate completing a full-scale disaster recovery plan test as part of its long-term IT plan.

GRANDE PRAIRIE REGIONAL COLLEGE

Matters from prior audit

Improve systems to ensure compliance with legislation—implemented —see multi-institutional recommendation

[8] *Report of the Auditor General of Alberta—February 2013*, no. 10, page 65.

KEYANO COLLEGE

Matters from current audit

Improve financial reporting controls

Background

College management is responsible for preparing financial statements and accompanying notes in accordance with Canadian public sector accounting standards and ensuring effective internal control over financial reporting. Effective financial reporting processes provide timely and reliable financial information to management and the board. Effective processes should include members of the finance group documenting and understanding the accounting processes, financial reporting and changes in accounting standards impacting the college.

RECOMMENDATION 13: IMPROVE FINANCIAL REPORTING PROCESSES

We recommend that Keyano College improve its financial reporting by:

- training staff on Canadian Public Sector Accounting Standards (PSAS)
- improving its monitoring and reviewing processes to ensure accurate financial information

Criteria: the standards for our audit

The college should have effective systems to produce timely and accurate year-end financial statements and supporting working papers.

Our audit findings

KEY FINDING

- Material adjustments were required to the college's draft financial reporting
- Oversight processes did not exist due mainly to a key management position vacancy
- The impact of new accounting standards on the college's financial reporting were not adequately analyzed

College management was unable to prepare promptly, accurate financial reporting for fiscal 2015. A material adjustment was required to the financial statements for differences identified in areas including recognition of deferred revenue, recording and reconciliation of tangible capital assets, pension liabilities and salary and benefit disclosure. Disclosure deviations from the Department of Advanced Education's requirements were also not identified.

Management was also unaware at the start of the fiscal year of a new accounting standard that became effective in fiscal 2015. When management analyzed the standard to assess its impact on the college's financial statements, the analysis did not consider all relevant information. The college should ensure its financial reporting controls and processes include providing management periodic training to ensure their understanding of accounting standards is current and complete.

Proper oversight and review was not available to help junior finance staff with accounting concerns, partly because the chief financial officer position has been vacant since January 2015. During part of the year, the college's director of finance assumed the role of acting CFO. The college should ensure appropriate oversight processes and controls are included in financial statement reporting processes to sustain accurate financial reporting.

Implications and risks if recommendation not implemented

Without effective controls over its financial reporting processes, management and the board will not have reliable financial information on which to base their decisions.

LAKELAND COLLEGE

Matters from current audit

Improve segregation of duties within the finance department

Background

Strong financial reporting processes include segregation of incompatible duties. An example of incompatible duties is creating and approving journal entries. These two tasks should not be done by the same individual. Such incompatible duties increases the risk of fraud and error in financial reporting.

RECOMMENDATION 14: IMPROVE SEGREGATION OF DUTIES

We recommend that Lakeland College improve segregation of duties within the finance department.

Criteria: the standards for our audit

The college should ensure that:

- individuals responsible for oversight over financial reporting are not involved in the preparation of the financial statements or daily financial processes
- IT administration rights are segregated from those involved in the preparation of financial information. In the absence of complete segregation, sufficient mitigating controls should be in place and followed
- IT administration actions are monitored throughout the year

Our audit findings

KEY FINDINGS

- Individuals within the finance department have administration rights without appropriate mitigating controls.
- Nine of ten individuals in the finance department can both create and post (approve) journal entries.
- Review of journal entry approvals did not occur quarterly.

The assignment of roles and responsibilities within the finance department lack full segregation of duties:

- Two individuals within the finance department have administration rights. Users with administration rights have full abilities within the system to create, edit and delete user accounts. Members of the finance department with administration rights require regular monitoring due to the increased risk of fraud and error. There is no review of administration activity logs. Journal entry testing completed as part of our audit work did not identify any instances of fraud.
- Most individuals in the finance department have the capability to create and post journal entries; therefore, exposing the college to the risk of inaccurate and inappropriate journal entries. The college has designed two mitigating controls. The first control is that a member of the executive reviews and approves the annual financial statements. The second control is that the chief financial officer reviews journal entry approvals on a quarterly basis. We found that quarterly reviews were not performed throughout the year.

Given the IT administration rights currently in place, the college is not able to ensure the completeness of the journal entry activity available for review. We recognize that complete segregation of duties is not always possible due to limited resources in the finance department. In the absence of complete segregation of duties, there should be controls in place to mitigate the risk of fraud and error.

Subsequent to our audit, management asserted that it implemented changes to resolve weaknesses relating to creating and posting journal entries. We will examine these changes in our fiscal 2016 financial statements audit.

Implications and risks if recommendation is not implemented

Without appropriate segregation of key financial reporting duties, the college will have increased risk of undetected fraud, error and inappropriate transactions occurring.

MACEWAN UNIVERSITY

Matters from prior audit

Improve systems to ensure compliance with legislation—implemented —see multi-institutional recommendation

Systems governing costs for internal working session and hosting guests and improve procurement card policies and processes—implemented

The university implemented our 2010 recommendation[9] to implement policies and provide guidance on appropriate expenses for events related to internal working sessions and for hosting guests, and follow its policies and processes for employee expense claims and corporate credit cards.

The university implemented an updated Allowable Expense Policy and Procedures for Reimbursement of Allowable Expenses, effective September 1, 2014. The updated policy provides guidance for staff and the board on acceptable and reasonable practices for hosting guests external to the university, internal working sessions, and board meetings and retreats. The university communicated the updated policy to all staff via internal correspondence.

We examined the policy and noted it:
- defines special events for incurring hosting costs
- states which types or under what circumstances hosting costs be considered allowable expenses
- states that itemized receipts are required for claiming allowable expenses

We also examined a sample of expense claims processed during the year for proper approvals and supporting documentation, including itemized receipts and the basis for the expense claims. We did not identify any exceptions.

MOUNT ROYAL UNIVERSITY

Matters from prior audit

Improve systems to ensure compliance with legislation—implemented —see multi-institutional recommendation

NORQUEST COLLEGE

Matters from prior audit

Improve systems to ensure compliance with legislation—implemented —see multi-institutional recommendation

9 *Report of the Auditor General of Alberta—April 2010*, page 165.

NORTHERN ALBERTA INSTITUTE OF TECHNOLOGY

Matters from prior audit

Improve systems to ensure compliance with legislation—implemented —see multi-institutional recommendation

NORTHERN LAKES COLLEGE

Matters from prior audit

Improve processes for year-end financial report—implemented

The college implemented our 2014 recommendation[10] to improve processes for financial reporting. The college strengthened its year-end processes to produce accurate financial statements by:

- establishing documented processes and controls to avoid processing errors
- increasing staff capacity and enhancing training of staff on policies, processes and controls related to financial reporting
- improving its monitoring and review processes by senior members of management to ensure accuracy of financial reporting

Process improvements resulted in better analyses and conclusions to support significant account balances. Management evidenced its prompt oversight reviews of supporting documentation. We identified no material differences when examining the application of accounting standards on transactions as compared to past years. We encourage management to continue to improve processes to ensure sustainable financial reporting processes.

OLDS COLLEGE

Matters from current audit

Improve access controls to information systems

Background

Adequate controls over user access to information systems is critical for preventing unauthorized access, examination and changes to financial and student information. Strong user access controls require regular review of user access credentials and prompt removal of access to individuals no longer employed by the college.

RECOMMENDATION 15: IMPROVE ACCESS CONTROLS TO INFORMATION SYSTEMS

We recommend that Olds College strengthen its information systems access controls to ensure it:

- promptly removes system access privileges when staff or contractors leave the college
- discontinues the practice of leaving accounts open for email access after staff are terminated

Criteria: the standards we used for our audit

The college should ensure when staff or contractors leave the college, their system access credentials are removed promptly so that unauthorized access cannot occur.

[10] *Report of the Auditor General of Alberta—February 2014*, no. 9, page 87.

Our audit findings

KEY FINDING
• Thirteen of 35 terminated employees' access to the college's information systems, including finance systems, were not promptly removed • The college has an undocumented practice of leaving terminated employee accounts open for an indefinite period of time

The college did not promptly remove user access to its financial and student information systems. We tested the accounts of 35 terminated employees during the year to determine if the college had effective controls to remove access to its information systems. Thirteen terminated user accounts were still active in the college's systems after their termination dates:

- Six user accounts had email accessed after the users' termination date. Management provided evidence that authorized staff did access only three of the terminated employees' email for legitimate purposes. Management could not provide explanations for the other three accounts.
- Four user accounts were to the college's financial information system. Two of these users had two accounts each, none of which were disabled on the termination dates. One account was used by other college staff to access the system after the user's termination date.
- Three user accounts were used to access another financial information system. Management confirmed that financial data had not been changed by these accounts.

The college has an undocumented practice of keeping employee and contractor accounts active for an indefinite period of time after individuals leave the college so that their email can be accessed. The college should consider an alternate approach such as deactivating the account and then copying email files to a separate corporate email file for future reference and follow up by appropriate parties.

Implications and risks if recommendation not implemented

Without strong user access controls, the college cannot prevent unauthorized access to its applications and systems that could compromise the confidentiality and integrity of financial and student information.

Matters from prior audit

Improve systems on financial year-end reporting—implemented

The college implemented our 2010 recommendation[11] to improve its processes and controls over year-end reporting by:

- adopting a revised schedule to narrow the timelines for preparing financial statements
- applying stronger quality control processes that led to management reviews of draft financial statements, notes and supporting working papers
- providing adequate variance analysis for significant accounts
- implementing processes to prepare reliable draft financial statements

Management prepared accurate draft financial statements promptly after year end. Management significantly improved the completeness and accuracy of its financial supporting documentation and evidenced their review by the controller or the senior financial officer. We tested a sample of journal entries and year-end reconciliations for proper support and review and identified no exceptions. Based on the results of our examination, we conclude management's processes and controls over financial year-end reporting are operating effectively.

[11] *Report of the Auditor General of Alberta—April 2010, page 162 and April 2011,* page 68 (Repeated March 2012, no. 8, page 27 and February 2013, no. 29, page 95).

PORTAGE COLLEGE

Matters from prior audit

Follow access controls and remove access promptly—implemented

The college implemented our 2012 recommendation[12] to ensure that employees follow its system user access control procedures and that management promptly removes access privileges when staff leave the college.

Management implemented additional user access detect control procedures by performing monthly reconciliations to identify employees who should not have access to the college's system. Management compares the active directory, which grants access to users based on their roles and responsibilities, to the list of employees no longer paid through the college's payroll system.

We examined the monthly reconciliations for July and August 2015 and identified no exceptions.

Develop and test a business resumption plan—implemented

The college implemented our 2012 recommendation[13] to develop and test a business resumption plan. The plan ensures the college can resume IT services within a reasonable time after a disaster has occurred.

Management developed an IT disaster recovery plan in 2015 that identified critical services to the college and the recovery time requirements for those services. The plan also included recovery procedures, the roles and responsibilities of team members, and testing requirements of the recovery plan.

Management performed a test of its recovery plan in May 2015 and successfully recovered its financial application from its backup facility in St. Paul.

We examined the recovery plan, restoration procedures and recovery test results and identified no exceptions.

Improve information systems change management—implemented

The college implemented our 2013 recommendation[14] to develop and implement formal change management policies and control procedures. Change management policies and procedures ensure implemented changes are made in a consistent, controlled manner to systems and applications within the computing environment.

The college formalized its change management controls by documenting change management procedures and implementing a help desk ticketing system to manage all changes. The college also established a change advisory board to approve changes to the system before putting them into the production environment.

We examined the change management policies and control procedures and found them adequate. We tested change management controls by selecting a sample of changes made to the production

---

[12] *Report of the Auditor General of Alberta—March 2012*, no. 13, page 32.
[13] *Report of the Auditor General of Alberta—March 2012*, no. 14, page 33.
[14] *Report of the Auditor General of Alberta—February 2013*, no. 31, page 98.

environment. We verified business end users tested approved controls by the change advisory board before introducing the controls into the production environment.

RED DEER COLLEGE

Matters from prior audit

Improve general computer control environment—repeated

Background

In 2013[15] we recommended that Red Deer College improve its general computer control environment. We found that the college had not completed an IT risk assessment, a new executive committee to oversee IT had not met and the college disaster recovery plan was only in draft and incomplete.

We repeat this recommendation as the college has not fully improved general computer control environment weakness first reported to the college management in 2007.

RECOMMENDATION 16: IMPROVE GENERAL COMPUTER CONTROL ENVIRONMENT—REPEATED

We again 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
- managing changes to computer programs
- testing its disaster recovery plan and then assessing its adequacy

Criteria: the standards for our audit

The college should have:

- a documented risk assessment process and a completed risk assessment
- a documented IT control framework with supporting documented controls and processes to monitor those controls
- appropriate security over information and information technology assets
- a documented change management processes and evidence that those processes are followed
- a documented disaster recovery plan and evidence that those plans were tested

Our audit findings

KEY FINDINGS

The college has not:

- documented its IT risk assessment process
- documented its IT control framework
- fully implemented its new change management process
- tested its disaster recovery plans

The college completed an IT risk assessment but did not document the procedures to complete that risk assessment or determined how often to repeat an assessment. The college recently assigned the responsibility for monitoring the IT risk assessment to the Education and Information Technology (EIT) Committee. The EIT's purpose is to be a project management body governing significant changes to all projects with IT components. The EIT has not yet met to review the IT risk assessment.

[15] *Report of the Auditor General of Alberta—February 2013*, pages 99-101.

The college developed and approved a new set of policies and standards linked to the IT risk assessment. The college has not documented processes to monitor the IT control and governance framework to ensure it is current.

The college implemented IT general controls over information or information technology assets. Our testing found no exceptions and the operating effectiveness of the controls to be adequate.

The college has not finalized its new draft process for managing changes to IT systems. The college has not yet created a change advisory board required under the process to review significant changes to systems. Change requests made by email or in person are not logged in a central database and easily tracked. The college could not demonstrate it follows the IT change management policy and that all changes are documented and tested. We found no evidence of approved testing before implemented changes are put into production.

Subsequent to our audit, the college created an IT change management database which will track all changes and approvals from initiation, development, testing and implementation. The database will include all change management documents including emails, requests and sign-off forms. We will examine the database during our 2016 financial statement audit.

The college has upgraded a significant portion of its IT infrastructure and disaster recovery plans. Management has not completed testing of the disaster recovery plans.

Implications and risks if recommendation not implemented

Weakness in the general computer control environment poses a risk to the integrity and availability of the college's systems and data. Without accurate information, college management cannot perform its function efficiently.

SOUTHERN ALBERTA INSTITUTE OF TECHNOLOGY

Matters from prior audit

Improve systems to ensure compliance with legislation—implemented —see multi-institutional recommendation.

OUTSTANDING RECOMMENDATIONS

Institution	Outstanding Recommendations 3+ Years*	Other	Total
Alberta College of Art + Design	1	-	1
Athabasca University	2	1	3
Bow Valley College	1	-	1
Grande Prairie Regional College	-	-	-
Keyano College**	1	1	2
Lakeland College	1	1	2
Lethbridge College	1	-	1
MacEwan University	-	-	-
Medicine Hat College	1	-	1
Mount Royal University	-	-	-
NorQuest College	-	-	-
Northern Alberta Institute of Technology	-	-	-
Northern Lakes College	1	-	1
Olds College	1	4	5
Portage College	1	-	1
Red Deer College	2	-	2
Southern Alberta Institute of Technology	-	-	-
University of Alberta	-	-	-
University of Calgary	2	-	2
University of Lethbridge	1	-	1
Total Outstanding	**16**	**7**	**23**
Ready for follow-up audit***	6	0	6
Not yet ready for audit	10	7	17

* Originally issued in February 2013 report and earlier

** Outstanding recommendation to improve financial reporting processes

*** Based on management representations to January 29, 2016

The following is a detailed list of outstanding recommendations to public post-secondary institutions. The list does not include the University of Alberta, University of Calgary, University of Lethbridge, Athabasca University or the Department of Innovation and Advanced Education, which were included in our October 2015 report.

MULTI-INSTITUTIONAL RECOMMENDATION

Improve systems to ensure compliance with legislation—February 2013, no. 7, p. 60

We recommend that the post-secondary institutions[16] 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

KEYANO COLLEGE

Improve systems to ensure compliance with legislation—see multi-institutional recommendation

Improve financial reporting processes—February 2016, no. 13, p. 102

We recommend that Keyano College improve its financial reporting by:

- training staff on Canadian Public Sector Accounting Standards (PSAS)
- improving its monitoring and reviewing processes to ensure accurate financial information

LAKELAND COLLEGE

Improve systems to ensure compliance with legislation—see multi-institutional recommendation

Improve segregation of duties—February 2016, no. 14, p. 103

We recommend that Lakeland College improve segregation of duties within the finance department.

OLDS COLLEGE

Improve systems to ensure compliance with legislation—see multi-institutional recommendation

Improve access controls to information systems—February 2016, no. 15, p. 105

We recommend that Olds College strengthen its information systems access controls, to ensure it:

- promptly removes system access privileges when staff or contractors leave the college
- discontinues the practice of leaving accounts open for email access after staff are terminated

IT System Implementation at Olds College—Improve detailed project planning —October 2015, no. 3, p. 32

We recommend that Olds College develop a detailed project plan and define its criteria for each milestone to implement its enterprise resource planning system.

IT System Implementation at Olds College—Improve business change planning —October 2015, no. 4, p. 34

We recommend that Olds College:

- define the financial and other reporting capabilities required for implementation
- define automated business controls in the system configuration, and business controls affected by the use of the new system for training and production readiness
- develop and approve post-implementation sustainment plans and support agreements to ensure the college has adequate resources to support the new system

---

[16] As a result of our assessment, we made this common recommendation to all colleges and universities as part of our original audit in February 2013, and then followed up in October 2013, February 2014 and February 2016.

IT System Implementation at Olds College—Improve oversight on project risk management —October 2015, no. 5, p. 36

We recommend that Olds College define a formal project risk management process to identify, rank and mitigate all project risks.

RED DEER COLLEGE

Improve systems to ensure compliance with legislation—see multi-institutional recommendation

Improve general computer control environment—February 2016, no. 16, p. 108
(Originally February 2013, no. 32, p. 100)

We again 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
- managing changes to computer programs
- testing its disaster recovery plan and then assessing its adequacy

ALBERTA COLLEGE OF ART + DESIGN
BOW VALLEY COLLEGE
LETHBRIDGE COLLEGE
MEDICINE HAT COLLEGE
NORTHERN LAKES COLLEGE
PORTAGE COLLEGE

Improve systems to ensure compliance with legislation—see multi-institutional recommendation

AUDITOR GENERAL
Alberta

Glossary

REPORT OF THE AUDITOR GENERAL OF ALBERTA

February 2016

GLOSSARY

Accountability for results The obligation to show continually improving results in the context of fair and agreed on expectations. For Albertans to receive value for money, all those who use public resources must:
- set measurable results and responsibilities
- plan what needs to be done to achieve results
- do the work and monitor progress
- report on results
- evaluate results and provide feedback (results analysis)

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

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

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

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

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

Auditor A person who examines systems and financial information.

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

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

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

Capital asset A long-term asset.

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

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

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

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

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

Crown Government of Alberta

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

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

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

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

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

Expense The cost of a thing over a specific time.

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

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

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

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

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

Internal control A system designed to provide reasonable assurance that an organization will achieve its goals. Management is responsible for an effective internal control system in an organization, and the organization's governing body should ensure that the control system operates as intended. A control system is effective when the governing body and management have reasonable assurance that:
- they understand the effectiveness and efficiency of operations
- internal and external reporting is reliable
- the organization is complying with laws, regulations and internal policies

Management letter Our letter to the management of an entity that we have audited. In the letter, we explain:
1. our work
2. our findings
3. our recommendation of what the entity should improve
4. the risks if the entity does not implement the recommendation

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

Material, materiality Something important to decision makers.

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

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

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

Oversight The job of:
- being vigilant,
- checking that processes/systems, including the accountability for results system, are working well, and
- signaling preferred behaviour,

all in the pursuit of desired results.

Performance measure Indicator of progress in achieving a desired result.

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

Performance target The expected result for a performance measure.

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

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

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

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

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

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

Sample A sample is a portion of a population. We use sampling to select items from a population. We perform audit tests on the sample items to obtain evidence and form a conclusion about the population as a whole. We use either statistical or judgmental selection of sample items, and we base our sample size, sample selection and evaluation of sample results on our judgment of risk, 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 the criteria. Then we do our work to gather audit evidence. Next, we match our evidence to the criteria. If the audit evidence matches all the criteria, we conclude the system or procedure is operating properly. But if the evidence doesn't match all the criteria, we have an audit finding that leads us to recommend what the ministry or organization must do to ensure that the system or procedure will meet all the criteria. For example, if we have five criteria and a system meets three of them, the two unmet criteria lead to the recommendation. A systems audit should not be confused with assessing systems with a view to relying on them in an audit of financial statements.

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

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

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

Office of the Auditor General of Alberta
8th Floor, 9925 109 Street NW
Edmonton, Alberta, Canada T5K 2J8

Phone: 780.427.4222
Fax: 780.422.9555
Email: info@oag.ab.ca
This report is available at
www.oag.ab.ca ISSN 1927-9604