Auditor General
OF ALBERTA

Report of the Auditor General

February 2018

Photo Credit: Paul Buckingham

Auditor General
OF ALBERTA

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

I am honoured to send my *Report of the Auditor General of Alberta—February 2018* to Members of the Legislative Assembly of Alberta, as required by Section 20(1) of the *Auditor General Act*.

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.

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

Auditor General

Edmonton, Alberta
February 22, 2018

Report of the Auditor General

February 2018

Introduction by the Auditor General

The February 2018 Report of the Auditor General to Members of the Legislative Assembly (MLAs) has eight reports on topics of interest and importance to all Albertans, including:

- our seventh annual update—or “report card”—on the financial control systems and processes of 16 of Alberta’s post-secondary institutions
- an audit of the processes to manage the Class Size Initiative in Alberta’s schools, an initiative in which $2.7 billion has been invested since 2004
- a progress report on improving student attendance in Northland School Division
- an audit of the management by the Alberta Petroleum Marketing Commission (APMC) of the $26 billion commitment to supply bitumen to the Sturgeon refinery over a 30-year period
- an audit, prompted by a request from a Member of the Legislative Assembly, of the contracting processes for two Alberta Health grants
- our follow-up audit on whether the Department of Transportation is consistently applying its policy of progressive sanctions against commercial carriers that persistently fail to comply with transportation legislation
- and an audit of six departments’ systems to verify compliance with policies for travel, meal and hospitality expenses of the offices of the premier, ministers and their staff. We examine the compliance systems in an annual rotation.

This document also includes an initial audit on Alberta’s Climate Leadership Plan (CLP), the findings of which will be included in a National Collaborative Audit on Climate Change to be released in the coming weeks.

Each of these reports contains significant matters that need to be brought to the attention of MLAs and Albertans for them to urge improvement in accountability for the cost-effective use of public resources.

The Importance of Oversight—by Albertans, their MLAs, their government and their public service

Despite the diversity of the departments, agencies and topics of the eight reports that make up this document, there is a common underlying theme to our findings in each of them—that is, oversight is the glue that holds results management together. Good oversight will invariably produce better systems to achieve desired results. Think of oversight as the exchange of resources for expectations.

We continue to state that those who are responsible for oversight need to:

- be vigilant
- check that processes and systems, including the accountability-for-results system, are working well
- signal and model preferred behaviour

all in the pursuit of desired results.

Oversight should exist at multiple levels—in other words, cascading oversight. Ministers, with the assistance of their deputy ministers, exercise oversight of their departments and the boards put in place to oversee provincial agencies. And Albertans together with their MLAs (responsible for legislative oversight) should exercise oversight of government ministers’ oversight of boards and the public service working to deliver desired results.

Oversight, at multiple levels, is a recurrent theme in this report. Our findings show where oversight is working, but unfortunately, we also found many cases where it needs to be improved. Improvement will result in better risk management and increased likelihood of identifying waste and missed opportunities.

An excellent example of where oversight at different levels has worked to achieve results is Alberta's Climate Leadership Plan. The government established a Climate Leadership Policy Committee, comprising five ministers, to make recommendations to Cabinet on initiatives and programs. Before matters were brought to the committee, a cross-ministry committee of deputy ministers and a separate cross-ministry committee of assistant deputy ministers reviewed the proposals to ensure their alignment. This rigour undoubtedly contributed to the progress so far. We have recommended the government develop and use comprehensive implementation plans for the Climate Leadership Plan and for each of its programs. Such plans are essential when there are a large number of actions, multiple parties and complex interrelations. Such plans are the means by which those responsible for their execution can demonstrate accountability for their commitments to achieve desired results. It is therefore troubling that the Climate Leadership Policy Committee has now been disbanded. The potential of such an oversight committee in terms of ensuring objective monitoring of benefits and costs and encouraging learning and corrective action from that information is the key to ongoing success.

The findings reported in our annual report card on post-secondary institutions demonstrate where oversight has led to improvements at the majority of Alberta's public colleges and technical institutes. In the cases of the Alberta College of Art + Design, Keyano College, MacEwan University and Northern Lakes College, our findings indicate that oversight needs to be improved. The report card should help those boards and management groups to focus their efforts, which we believe in turn will also better inform their decision-making.

Legislative oversight, by the Standing Committee on Alberta's Economic Future, of the budget estimates of the Ministry of Education has not caused consideration of the Class Size Initiative. The Department of Education has not been held to account for its spending of billions of dollars to reduce class sizes, without publicly explaining why school jurisdictions have been unable to achieve the target for the K 3 grade group over the past 13 years.

Regarding student attendance at Northland School Division, the Department of Education has taken a number of actions supporting the division broadly and focusing on attendance in schools generally. These actions are important, but the division still needs help with its attendance right now. The department must ensure it oversees the immediate implementation of an effective plan to improve attendance in the division. In our opinion, this oversight by the public service of Alberta is the key to not failing another generation of the division's children.

The APMC's management of the agreement to process bitumen at the Sturgeon refinery is management of a complex, significant investment with a long-term impact on the government and Albertans. By its very nature it presents significant potential benefits and risks to Albertans. For an agency like the APMC to be successful and demonstrate stewardship when managing substantial commercial agreements, three elements are essential: the agency must have highly developed processes for managing risk, as well as the expertise and capacity to act on those processes; the agency should be subject to strong oversight processes to ensure risk management processes and staffing requirements are in place to support the success of the agreements; and the agency has an obligation to report on its operations to Albertans, whose resources it uses. We found improvements are needed both in risk management processes and in the need to report important information to Albertans.

Oversight is also critical to Alberta Transportation's commercial vehicle safety program. It is the means to assuring Albertans that reasonable steps are being taken to identify high-risk carriers, deal with them appropriately, and ultimately help reduce risks while ensuring the goods transported on our highways make it to their destination. The Department of Transportation was still not, as of July 1, 2017, consistently following its policy of taking timely and appropriate enforcement action against non-compliant carriers. In the eight years since we conducted an initial audit on this program, the department has made improvements to certain aspects of its systems. However, in this second follow-up audit since the original audit in 2009, we again found insufficient improvement in the consistency of enforcement actions. Senior management in the department was not aware of this continued deficiency.

In the case of the first of two Pure North grants we audited at Alberta Health, in 2013 oversight was voided through ministerial override of departmental grant processes. The department did follow its processes to award the 2016 grant to Pure North.

In conclusion, and to summarize, oversight is at the very core of good government. It is the means by which those who serve, either through being elected or as members of the public service, can earn the public's confidence that they are managing public resources wisely.

Our identification of areas in which oversight is weak should be of concern to MLAs and the public. The opportunity to demonstrate, with evidence, cost-effective short- and long-term management of public resources has been missed.

Acknowledgments

On behalf of everyone at the Office of the Auditor General, I thank the staff of all the government entities we worked with to complete the performance audits included in this report.

I also extend our thanks to the members of the Provincial Audit Committee for their ongoing work to review our audit results and provide us with advice on relevancy and understandability, and whether our recommendations are practical.

Also, our thanks to the members of the Public Accounts Committee of the Assembly. By discussing our work with public services managers and seeking assurance that they are taking meaningful steps to implement our recommendations, the Committee plays a critical role in holding the public service accountable for results and ensuring our work is acted upon.

This report is a significant undertaking. I truly appreciate the contributions of our legislative auditors and our operations staff.

Merwan N. Saher FCPA, FCA
Auditor General of Alberta

Auditor General
OF ALBERTA

Summary of Recommendations

February 2018

Introduction

The auditor general is the auditor of every ministry, department and regulated fund, and most provincial agencies. 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.

We support the all-party Standing Committee on Public Accounts in ensuring the cost-effective use of public resources by holding government accountable for implementing our audit recommendations. In most Canadian jurisdictions the reports of the legislative auditor are referred for review to a Public Accounts Committee, which is made up of elected members of the legislature. The Public Accounts Committee is a significant part of the financial accountability cycle of government. The committee is concerned with value for money in the administration of government policy rather than with policy itself, and it assists the legislature in holding the government to account for spending taxpayers' money and for stewardship over public funds. The committee helps to make sure the government accounts for its operating policies and actions and for its management and use of public funds.

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

Reporting the status of recommendations

We follow up on all recommendations. The timing of our follow-up audits depends on the nature of our recommendations. To encourage timely implementation and assist with the planning of our follow-up audits, we require a reasonable implementation timeline on all recommendations accepted by the government or the entities we audit. We recognize that 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.

Summary of 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. 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.

This report contains 11 new recommendations and one repeated recommendation. The repeated recommendation has been made because we do not believe there has been sufficient progress implementing the original recommendation. We also confirm in this report that one recommendation reported previously has been implemented.

Alberta Advanced Education

Report on Post-Secondary Institutions

Page 33

RECOMMENDATION:
Consistently enforce purchasing procedures

We recommend that the Alberta College of Art + Design enforce consistent compliance with its purchasing procedures.

Consequences of not taking action

Without effective processes to ensure compliance with its purchasing procedures, the college is unable to demonstrate that the contracts it enters into provide value for money.

Page 36

RECOMMENDATION:
Strengthen controls supporting key financial and business processes

We recommend that MacEwan University improve its processes for management to regularly communicate to the board of governors and its committees the adequacy and operating effectiveness of the university's internal control environment.

Consequences of not taking action

Without sufficient, timely information on the university's internal controls and processes designed to mitigate risks, the board of governors and its committees cannot govern effectively.

Page 37

RECOMMENDATION:
Promptly remove system user access of terminated employees

We recommend that Northern Lakes College consistently apply procedures to promptly remove terminated employees' system access.

Consequences of not taking action
Unless terminated employees have their system access removed promptly, the college risks unauthorized access to its critical personal, business and financial information.

Alberta Education
Processes to Manage the Student Class Size Initiative

Page 47

RECOMMENDATION:
Develop an action plan and improve monitoring and reporting processes

If the Department of Education continues the Class Size Initiative, the department should develop an action plan and improve processes to regularly monitor and report on the initiative.

Consequences of not taking action
The department will continue to invest money without knowing if it is effectively achieving the desired results of the initiative.

Alberta Energy
Alberta Petroleum Marketing Commission's Management of Agreement to Process Bitumen at the Sturgeon Refinery

Page 74

RECOMMENDATION:
Develop processes for risk management and staff capacity, and ensure board oversight

We recommend that:

- the Alberta Petroleum Marketing Commission develop and document effective processes for managing risk and for ensuring the commission has sufficient expertise to manage its business arrangements
- the board of directors exercise oversight by ensuring the Alberta Petroleum Marketing Commission has these processes in place

Consequences of not taking action
The financial risk to Albertans will be intensified if the APMC does not have proper processes and sufficient staffing capacity to manage the risks of its business arrangements.

Page 79

**RECOMMENDATION:
Improve reporting to Albertans**

We recommend that the Alberta Petroleum Marketing Commission prepare a business plan and an annual report that are made publicly available to Albertans. The APMC must be able to demonstrate it has given appropriate consideration to the nature and extent of information it will share with Albertans.

Page 79

**RECOMMENDATION:
Establish performance measures and targets**

We recommend that the Alberta Petroleum Marketing Commission develop performance measures, set targets and compare results against planned performance.

Page 79

**RECOMMENDATION:
Complete a lessons-learned analysis**

We recommend that the Alberta Petroleum Marketing Commission complete an analysis of the lessons learned from its significant agreements, at a point in time when the commission deems it useful to do so.

Consequences of not taking action

In order for Albertans and legislators to be able to hold government accountable for results and understand the implications of significant contracts, sufficient information must be available. Albertans could be unfairly surprised if significant risks manifest themselves. Conversely, Albertans may be unaware of some of the important direct and indirect benefits obtained from significant commercial contracts used to promote strategic objectives.

Also, the potential value of learning through previous successes and failures could be lost if the APMC does not adequately analyze and document lessons learned.

Alberta Environment & Parks

Design of Systems to Manage the Climate Leadership Plan and Adaptation

Page 102

RECOMMENDATION:
Develop and use an implementation plan, improve quality of the monitoring data and report on the total cost

We recommend that the Department of Environment and Parks:

- develop and use comprehensive implementation plans for the Climate Leadership Plan and for each of its programs
- implement efficient processes to sufficiently reduce the risk that the data used to monitor and report on progress is not accurate or complete
- provide clear and complete reporting on the expected and actual costs of programs and the Climate Leadership Plan overall

Consequences of not taking action

An implementation plan is a fundamental and critical planning document. It provides a clear path for any task, and especially one involving a large number of actions, multiple parties and complex interrelationships. Further, it helps ensure that those responsible can demonstrate accountability for their commitments.

The absence of active overall and individual implementation plans creates a risk that the planned actions do not align with the overall objective, programs are not effectively implemented, and their progress is not properly monitored. As a result, the risk that individual programs and the CLP overall will not achieve their objectives, or achieve them but not cost effectively, is increased.

Without complete and accurate information on the progress of programs, and the CLP broadly, the department cannot efficiently and effectively monitor progress and identify the necessary corrective actions.

And without clear and complete reporting on the costs of the CLP, Albertans cannot hold the government accountable for its commitments.

Alberta Health
Pure North Grants

Page 111

RECOMMENDATION:
Improve conflict of interest processes

We recommend that the department improve its conflict of interest processes by:

- improving the supplementary code to clearly outline the disclosure requirements of the deputy minister
- centrally managing conflicts in the department to ensure adherence to the conflict of interest policies
- providing advice to department staff on conflict of interest matters when necessary

Consequences of not taking action
The department could suffer significant reputational damage if Albertans believe grant awards are influenced by potential conflicts of interest.

Alberta Transportation
Commercial Vehicle Safety Follow-Up

Page 119

RECOMMENDATION:
Progressive sanctions—repeated

We recommend for the third time that the Department of Transportation consistently comply with its policy to take disciplinary and enforcement action against non-compliant carriers.

Consequences of not taking action
Without timely and appropriate enforcement action taken against high-risk carriers, commercial vehicles that are a potential risk to public safety may continue to operate, and carriers may not believe there are meaningful consequences of being non-compliant.

Alberta Treasury Board and Finance—Various Ministries
Travel, Meal and Hospitality Expenses of the Premier, Ministers and Their Staff

Page 125

RECOMMENDATION:
Improve processes for preparing, reviewing and publicly disclosing travel, meal and hospitality expenses

We recommend that the Department of Indigenous Relations improve its processes to prepare, review and publicly disclose travel, meal and hospitality expenses.

Consequences of not taking action
If the department does not properly review expenses, then errors and non-compliance with policies could go undetected. There would be a risk that taxpayers could be subsidizing expenses that are not related to government business. There is also a risk that the public disclosure is not complete or accurate.

Auditor General
OF ALBERTA

Alberta Advanced Education
Report on Post-Secondary Institutions

Executive Summary

February 2018

Who

Alberta Advanced Education

What

Annual update on internal controls over financial reporting for Alberta's post-secondary institutions.

NOTE: *This report does not include Athabasca University, University of Alberta, University of Calgary or University of Lethbridge, the results of the audits for which were published in our October 2017 public report.*

When

Financial statement audits were completed for the post-secondary institutions included in this report in September and October 2017, and based on their fiscal year-end dates of June 30, 2017.

Why a report card

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.

Consistent with our previous reporting on post-secondary institutions, we completed a 2017 update on the report card on internal controls over financial reporting, together with comparative assessments from the past two years' audits of colleges, technical institutes, MacEwan University and Mount Royal University.

What we concluded

Most of Alberta's post-secondary institutions continue to build sustainable internal controls and processes to promptly prepare reliable financial reporting.

Post-secondary institutions where improvements are needed in relation to accuracy, timeliness and outstanding recommendation for internal controls and processes over financial reporting include:

- Keyano College (accuracy; timeliness; outstanding recommendations)
- Alberta College of Art + Design (accuracy)
- MacEwan University (outstanding recommendations)
- Northern Lakes College (accuracy)

Why this is important to Albertans

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. Weak control environments impact the quality of management's and the board of governors' decision-making, and can result in an institution not achieving its goals by operating in a cost-effective manner and managing operating risks.

Alberta Advanced Education
Report on Post-Secondary Institutions (continued)

What we examined

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

What we found

We issued unqualified audit opinions on the fiscal 2017 financial statements of the 15 post-secondary institutions where our audits are complete. These opinions are in addition to the unqualified opinions we provided on all four universities we reported on in our October 2017 report.

We also identified four post-secondary institutions where improvement is needed:

Keyano College

Keyano College still must make significant improvements in its financial reporting processes. Our audit continues to find material differences in the college's draft financial reporting.

The board of governors must oversee and hold management accountable for the prompt improvement of these processes.

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MacEwan University

Management does not:

- adequately assess whether there are gaps in existing controls
- adequately assess whether changes in processes may introduce weaknesses to the control environment
- provide sufficient regular reporting to the board and its committees on the operating effectiveness of its internal controls

Alberta College of Art + Design

The college has not consistently applied its tendering policies to obtain proper approvals or business cases on all sole-sourced contracts.

Northern Lakes College

The college does not consistently remove the system access of terminated employees promptly.

We have made observations to management of Northern Lakes College and the Alberta College of Art + Design to improve their operating and financial reporting processes. Weaknesses in these processes increase the potential for errors in the accuracy of future financial reporting.

Four prior-year recommendations were implemented: Lakeland College (1), Northern Lakes College (1), Olds College (1) and Portage College (1).

Eleven of the 16 institutions we examine in this report have no outstanding recommendations. Overall, 14 of the 20 public post-secondary institutions we audit have no outstanding recommendations.

What needs to be done

There were three new recommendations that we issued to institutions, including that:

- MacEwan University strengthen its controls for supporting key financial and business processes
- the Alberta College of Art + Design enforce compliance with purchasing procedures
- Northern Lakes College promptly remove the user access of terminated employees

Consequences of not taking action

Effective control environments include clear policies, well-designed processes and controls to implement and monitor compliance with policies, and secure information systems. Such a control environment helps provide timely and accurate financial and non-financial information to manage and govern the institution.

Recommendations not implemented promptly erode the effectiveness of the institution's control environment.

Read the full report at:

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Alberta Education
Processes to Manage the Student Class Size Initiative

Executive Summary

February 2018

Who

Alberta Education

What

Performance audit

When

We conducted our field work from March to September 2017 and examined records and activities from September 2004 to July 2017.

Why we did this audit

In the early 2000s, the Department of Education examined analysis that reducing student class sizes can have a positive impact on improving learning outcomes. The department decided in 2004 it would implement the Class Size Initiative to reduce average student class size in each school jurisdiction.

The department provides funding to school jurisdictions through the Class Size Initiative to hire and retain teachers to reduce class sizes. School jurisdictions do not need to meet the guidelines in every classroom; instead, each jurisdiction is expected to meet the guidelines on average across its schools.

The Class Size Initiative is ongoing with a budget of over $293 million for fiscal 2018.

Our audit objective was to examine the design and operating effectiveness of the Department of Education's processes to define the desired results of the Class Size Initiative, to develop an action plan to achieve those results, and to measure, monitor and report on the initiative.

What we concluded

We concluded that the Department of Education did not, in all significant respects, have effective processes as of July 2017 to define the desired results of the Class Size Initiative, to develop an action plan to achieve those results, and to measure, monitor and report on the initiative.

Based on our audit findings, it appears the department has, over time, converted Class Size Initiative funding to additional base instructional funding.

Why this is important to Albertans

The department has accepted that having small class sizes is most beneficial to students in their early years. The department has spent billions of dollars to reduce class sizes, but it does not know why school jurisdictions have been unable to achieve the target for the K-3 grade group over the past 13 years.

The department should be reporting to Albertan families why it has not achieved its desired result and what it plans to do differently in the future.

What we examined

We examined the department's processes to define desired results, to develop an action plan, and to measure, monitor and report on the Class Size Initiative. To assess the design and operating effectiveness of these processes we:

- interviewed key staff and reviewed documents to understand goals, objectives and results
- examined the department's processes to collect and report on data
- examined the department's processes to provide oversight of the school jurisdictions and ensure accountability for results to Albertans

What we found

- Despite the $2.7 billion in funding spent on the initiative since 2004, the number of school jurisdictions that met the department's class size targets in 2017 is lower than in 2004.
- The department's use of average class sizes as its target has an inherent limitation as it obscures the actual number of classes that have not met the ACOL suggested levels.
- The department:
  - does not have an action plan to achieve the desired results of the initiative since the end of the 2006–2007 school year
  - stopped requiring school jurisdictions, from the 2008–2009 school year onwards, to report on how they were using initiative funding
  - has not analyzed why school jurisdictions have not achieved the department's desired result for the K-3 grade group for the last 10 years

What needs to be done

If the Department of Education continues the Class Size Initiative, the department should develop an action plan and improve processes to regularly monitor and report on the initiative.

Consequences of not taking action

The department will continue to invest money without knowing if it is effectively achieving the desired results of the initiative.

Read the full report at:

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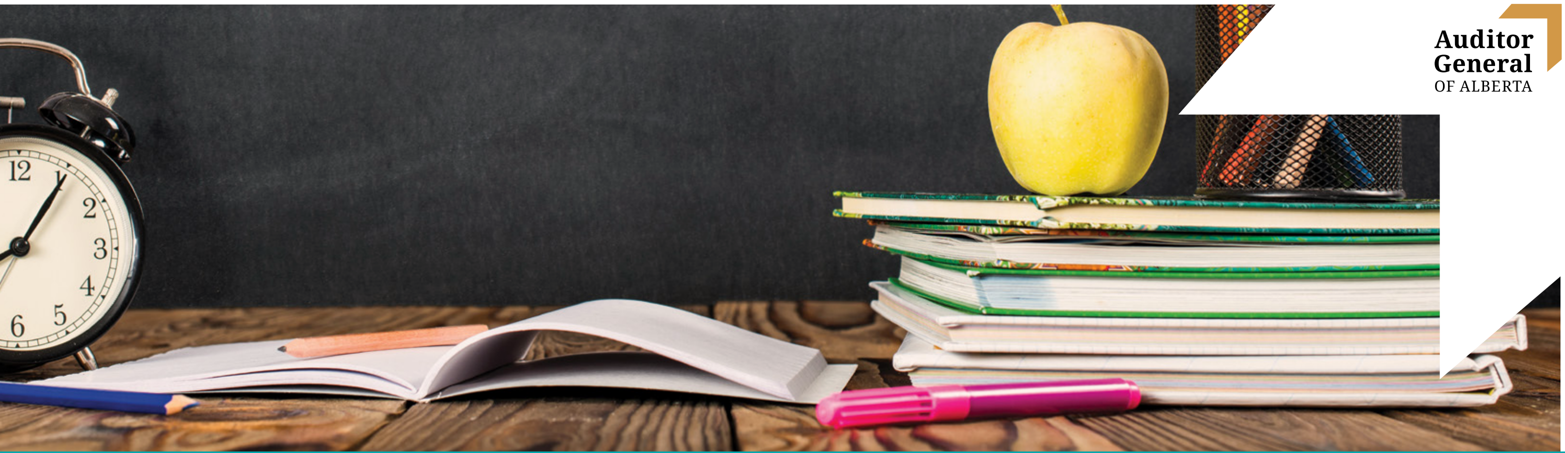

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Alberta Education
Systems to Improve Student Attendance in Northland School Division

Executive Summary

February 2018

Who

Northland School Division
Alberta Education

What

Progress report

A progress report is not an audit. We do not perform detailed audit procedures in a progress report. Instead, we base our assessment on interviews, analytical procedures and a review of management's documents.

When

We conducted our field work between January and September 2017. We substantially completed our work on October 12, 2017.

Why we did this progress report

In March 2015, we reported on the systems to improve student attendance in Northland School Division. We found a system that accepted poor student attendance as the status quo. The division's schools and central office did not have adequate systems to improve student attendance, and no one, at any level, was taking responsibility for poor attendance results. At that time, we made two recommendations to Northland School Division and one recommendation to the Department of Education, saying the division must develop a plan to guide its efforts to improve attendance, and the department must ensure the division does so.

When we make recommendations to government, we usually wait until management has told us they have implemented the recommendations we originally reported on or a reasonable period of time has passed to implement the recommendations. However, sometimes we believe there is enough risk of inaction to justify providing a progress report. There has been a history of inaction over the division, and we want to make sure that the division and department take the action necessary. We are using this progress report, therefore, to understand management's actions to date and their plans to complete implementation.

We will use what we found in this progress report, along with information we will gather over the next year or two on improvements made by the department and the division, to plan our follow-up audit on the implementation of our three outstanding recommendations.

Systems to Improve Student Attendance in Northland School Division (continued)

What we found

- The division still does not have a comprehensive plan to improve student attendance.
- In its role as a key oversight body, the Department of Education has not ensured the division created a plan to improve attendance and put it into operation.

Since March 2015, the division and the department have not been idle. The division has new leadership and management structures. The department has amended the *Northland School Division Act*, returning local governance of the division to its communities with the election of a school board in October 2017. The division and department have also been working collaboratively on a number of fronts, including securing the approval for increased funding to help the division stabilize and begin making targeted investments in key areas, among them attendance.

These achievements are substantial, and they form a foundation capable of supporting improved student attendance—but the division still does not have a comprehensive plan for attendance. Without a plan to guide its efforts and actions, the division will not be successful in making meaningful and sustainable improvements in student attendance.

Why this is important to Albertans

All students in Alberta have a right and a responsibility to attend school and receive an education. The Department of Education has to ensure appropriate systems are in place to make this happen. Attendance systems are not working in Northland School Division. Improving these systems is critical to the future success of the children.

What needs to be done

The department must ensure it oversees the division's immediate implementation of an effective plan to improve attendance.

Consequences of not taking action

Without a specific plan to improve attendance, the division is less likely to put resources into the most critical areas to implement programs and processes to optimize student success.

Without appropriate oversight by the department, the division's likelihood of success is reduced and the risk of failing another generation of the division's children increases.

Without systematic monitoring and reporting on attendance, the division will not consistently identify and support those students with chronic non-attendance.

Read the full report at:

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Alberta Petroleum Marketing Commission
Management of Agreement to Process Bitumen at the Sturgeon Refinery

Executive Summary

February 2018

Who

Alberta Petroleum Marketing Commission

What

Performance audit

When

We conducted our field work between November 2016 and June 2017 and substantially completed our audit on July 31, 2017.

Why we did this audit

Business arrangements in the energy sector are of a high-stakes nature. The benefits can be very large, but so are the risks. Contracts can be worth billions of dollars, but success in the arrangements can depend on factors that are difficult to predict, such as the price of oil.

Since 2011, the Government of Alberta has considered a number of energy arrangements of this high-benefit, high-risk kind, entering into two of these arrangements. One is a $26 billion commitment for the government to supply bitumen to the Sturgeon refinery over a 30-year period. In another arrangement, the government planned to pay about $4.6 billion over 20 years to have oil transported to the east coast through the Energy East Pipeline. Subsequent to our audit, TransCanada cancelled this project.

These arrangements are managed by the Alberta Petroleum Marketing Commission (APMC), a commercial agency of the Government of Alberta. Although the Sturgeon arrangement is currently the only large-scale arrangement the APMC manages, the government has given the agency a mandate to explore new arrangements. In particular, the mandate allows the APMC to seek new energy markets and promote value-added activities, such as oil refining. These ventures should align with government policies, and they require approval from the Government of Alberta.

For an agency like the APMC to be successful and demonstrate stewardship when managing substantial commercial agreements, three elements are essential:

- First, the agency must have highly developed processes for managing risk, as well as the expertise and capacity to act on those processes.
- Second, the agency should be subject to strong oversight processes to ensure risk management processes and staffing requirements are in place to support the success of the agreements.
- And third, the agency has an obligation to report on its agreements to Albertans, whose resources it uses.

What we concluded

We concluded that the APMC does not have well-designed systems to manage and communicate the risks of its business arrangements and the agency does not have sufficient evidence to demonstrate that its risk management systems are operating effectively.

Management of Agreement to Process Bitumen at the Sturgeon Refinery (continued)

Why this is important to Albertans

The APMC's mandate has a long-lasting impact on the resources of Alberta. The agency is managing a complex, long-term business arrangement that has significant financial impacts for Albertans today and in the future. The existing business arrangement the APMC is entrusted to manage will commit approximately $26 billion of Albertans' resources over the next 30 years in pursuit of a favourable return.

Because of the structure of the North West Redwater Partnership (NWRP) arrangement, there is no plausible scenario where it would make financial sense to pull out of it. Albertans' resources are therefore committed. Strong oversight and risk management are consequently all the more important.

The government entered into the NWRP arrangement on Albertans' behalf, and ultimately Albertans assume all the associated risks and benefits over a long period of time. They should be confident that the APMC has adequate systems to manage the arrangement in the best interests of the province. Albertans should also receive sufficient public reporting on this arrangement to be able to keep current with the risks they assume and the benefits they receive.

What we examined

We examined the APMC's systems to manage risks, analyze results and report to the board and public on its business arrangements.

What we found

- The APMC has poorly designed risk management processes with limited evidence that risk management is operating effectively.
- Certain areas of contract monitoring need improvement.
- Staffing needs for today and the future are in the process of being developed.
- Board oversight of risk management functions could be improved.
- The APMC's current public reporting through its website and the Ministry of Energy's annual report is insufficient given the significance of the agreements.
- The APMC does not prepare a business plan, nor does it make its annual report public.
- The APMC has not defined what success means for it to be able to measure its performance.
- The APMC's assessment of business development opportunities is supported with good processes.

What needs to be done

We recommend that:

- the APMC develop and document effective processes for managing risk and for ensuring the commission has sufficient expertise to manage its business arrangements
- the board of directors exercise oversight by ensuring the APMC has these processes in place

We also recommend that the APMC:

- prepare a business plan and an annual report that are made publicly available to Albertans. The APMC must be able to demonstrate it has given appropriate consideration to the nature and extent of information it will share with Albertans.
- develop performance measures, set targets and compare results against planned performance
- complete an analysis of the lessons learned from its significant agreements, at a point in time when the commission deems it useful to do so

Consequences of not taking action

The financial risk to Albertans will be intensified if the APMC does not have proper processes and sufficient staffing capacity to manage the risks of its business arrangements.

In order for Albertans and legislators to be able to hold government accountable for results and understand the implications of significant contracts, sufficient information must be available. Albertans could be unfairly surprised if significant risks manifest themselves. Conversely, Albertans may be unaware of some of the important direct and indirect benefits obtained from significant commercial contracts used to promote strategic objectives.

Also, the potential value of learning through previous successes and failures could be lost if the APMC does not adequately analyze and document lessons learned.

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Alberta Environment and Parks

Design of Systems to Manage the Climate Leadership Plan and Adaptation

Executive Summary

February 2018

Who

Alberta Environment and Parks Climate Change Office

What

Performance audit

When

We conducted our field work between April 2017 and December 2017, and substantially completed the audit in December 2017.

Why we did this audit

Climate change is a global challenge, caused by both human activities and natural factors. A changing climate due to greenhouse gas emissions is likely to have consequences for Albertans, the economy and the environment. The world has already witnessed some of the impacts of climate change, such as increased frequency of heat waves, wildfires, droughts and flooding.

With the November 2015 release of the Climate Leadership Plan (CLP), the government committed to taking action on emissions in the context of an economy that both uses and produces significant amounts of fossil fuels. The CLP is an ambitious and complex strategy: it aims to reduce emissions while diversifying the economy and improving the well-being of Albertans. Since the government announced the CLP in late 2015, significant policy changes have been made and programs rolled out, led by many government departments and coordinated by the Alberta Climate Change Office (CCO) in the Department of Environment and Parks.

Canada's provincial auditors and the Office of the Auditor General of Canada partnered to examine and report on progress on climate change action within their governments. This audit report contributes to that project.

What we concluded

We conclude that, as of December 2017, the Department of Environment and Parks had implemented adequate systems to lead and coordinate the implementation of the Climate Leadership Plan, including planning, monitoring progress and reporting on results.

The department implemented multiple tools to plan and deliver on the commitments under the CLP. However, the department lacks an overall implementation plan for the CLP and for individual initiatives and programs. The lack of such a plan could negatively impact the cost-effective implementation of the CLP going forward. The systems used to monitor and report on progress should be more rigorous and efficient in order to ensure that management has reliable and complete information to track progress and identify required corrections. The first progress report on the CLP contains detailed and important information, but future reports should more clearly and completely describe the actual and expected costs of the CLP and its initiatives and programs.

Design of Systems to Manage the Climate Leadership Plan and Adaptation (continued)

Alberta's adaptation strategy is still in development and has not been approved by the government. As a consequence, the department does not have adequately designed systems for adaptation. We will examine the department's systems once, and if, the government adopts an adaptation strategy.

We acknowledge that the government tasked the department with implementing a number of significant policies and programs, while at the same time the department had to develop the necessary processes to carry out its responsibilities. To ensure that the desired results of the CLP and the underlying initiatives and programs are achieved, well-designed and effective processes will be key

Why this is important to Albertans

Failing to reduce greenhouse gas emissions and take measures to adapt to climate change may endanger lives and increase costs to Albertans. The department leads and coordinates the government's actions to mitigate those risks. Without well-designed systems to plan, monitor progress and report on the results of the efforts to reduce emissions and adapt to climate change, the desired results may not be achieved cost effectively or at all.

What we examined

Our audit focused on the responsibilities of the Climate Change Office (CCO) within the Department of Environment and Parks. We interviewed the responsible officials at the CCO and other ministries implementing the CLP programs, reviewed and analyzed documents, and examined the CCO's systems and processes.

What we found

The Climate Leadership Plan

- The CCO is not maintaining an overall implementation plan for the CLP, and only some lead ministries have implementation plans for programs.
- Oversight by senior management and Cabinet supported implementation of the CLP.
- The CCO implemented processes to monitor the progress of programs, but those processes are not sufficiently rigorous or efficient.
- The CLP progress report contains important and detailed information; however, clear and complete information on the cost of the CLP is missing.

Adapting to the Impacts of Climate Change

- The department does not have a final or approved adaptation strategy.
- The department was unable to provide evidence that its draft strategy focuses on the risks identified through previous risk assessments.

What needs to be done

We recommend that the Department of Environment and Parks:

- develop and use comprehensive implementation plans for the Climate Leadership Plan and for each of its programs
- implement efficient processes to sufficiently reduce the risk that the data used to monitor and report on progress is not accurate or complete
- provide clear and complete reporting on the expected and actual costs of programs and the CLP overall

Consequences of not taking action

An implementation plan is a fundamental and critical planning document. It provides a clear path for any task, especially one involving a large number of actions, multiple parties and complex interrelationships. Further, it helps ensure that those responsible can demonstrate accountability for their commitments.

The absence of active overall and individual implementation plans creates a risk that the planned actions do not align with the overall objectives, programs are not effectively implemented, and their progress is not properly monitored against the plan. As a result, the risk that individual programs and the CLP overall will not achieve their objectives, or achieve them but not cost effectively, is increased.

Without complete and accurate information on the progress of programs, and the CLP broadly, the CCO cannot efficiently and effectively monitor progress and identify the necessary corrective actions.

And without clear and complete reporting on the actual and expected costs and benefits of the CLP, Albertans cannot hold the government accountable for its commitments.

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Alberta Health
Pure North Grants

Executive Summary

February 2018

Who

Alberta Health

What

Performance audit

When

We conducted our field work between July and October 2017.

Why we did this audit

In December 2013, the department awarded a $10 million grant to Pure North S'Energy Foundation (Pure North) to increase enrolment in its seniors' wellness and prevention outreach program. The program included nutritional supplementation and lifestyle advice for participants. The department also awarded $4.2 million to Pure North in October 2016 to support a primary care clinic led by nurse practitioners. The clinic was part of the department's pilot initiative to expand the role of nurse practitioners in the province.

On May 5, 2017 we were asked by a Member of the Legislative Assembly to investigate the granting process and merits of grants awarded to Pure North. We indicated we would examine these grants to assess whether the Department of Health followed its granting processes.

Our objective was to assess the adequacy of the Department of Health's grant processes to award the $10 million grant to Pure North in December 2013, and the $4.2 million grant in October 2016. This review included examining the department's processes around conflict of interest and determining whether those processes were followed.

We did not audit the rationale for awarding the grants, such as the medical merits of the programs.

What we concluded

We concluded that the Department of Health did not follow its grant processes to award the 2013 grant to Pure North.

The department did follow its grant processes to award the 2016 grant to Pure North.

We also concluded that the department's processes around conflict of interest need improvement.

Why this is important to Albertans

Albertans expect government to adhere to the highest ethical standards. If department grant processes are not followed, public resources could be wasted and program objectives not achieved.

What we examined

In this audit we examined:

- the department's policies and procedures for its granting process
- the department's policies and procedures on conflicts of interest
- the grant agreements for the 2013 and 2016 Pure North grants
- documentation created by the department to support entering into and monitoring the Pure North grant agreements
- required reporting to the department from Pure North

What we found

Relating to the 2013 Pure North grant agreement, we found:

- The department did not follow its grant policy when it awarded the 2013 grant to Pure North.
- The department did not establish appropriate performance measures and reporting requirements in the grant agreement.

Related to the 2016 Pure North grant agreement, we found:

- The department followed its grant policy when it awarded the 2016 grant to Pure North.
- The department does not have a central process to manage potential conflicts of interest once they have been disclosed.
- It was only after the former deputy minister signed the Pure North grant agreement that he disclosed he had a potential conflict of interest.
- The department's supplementary code is not clear on the disclosure responsibilities of a deputy minister.
- The department terminated the 2016 Pure North grant early without cause in accordance with the terms of the grant agreement.

What needs to be done

We recommend that the department improve its conflict of interest processes by:

- improving the supplementary code to clearly outline the disclosure requirements of the deputy minister
- centrally managing conflicts in the department to ensure adherence to the conflict of interest policies
- providing advice to department staff on conflict of interest matters when necessary

The department may benefit from formally designating one or more individuals to provide advice within the department when potential conflicts of interest arise.

Consequences of not taking action

The department could suffer significant reputational damage if Albertans believe grant awards are influenced by potential conflicts of interest.

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Alberta Transportation
Commercial Vehicle Safety

Executive Summary

February 2018

Who

Alberta Transportation

What

Follow-up performance audit

When

We conducted our field work between July and October 2017.

Why we did this audit

The *National Safety Code* requires carriers with commercial vehicles to have a safety fitness certificate before these vehicles operate on Canadian highways. Through the *Motor Vehicle Transport Act*, Transport Canada delegates monitoring and enforcement of the code to the provinces and territories.

In Alberta, the Department of Transportation is responsible for regulating and enforcing carriers with commercial vehicles that travel within the province, wherever they are registered. The department monitors whether carriers comply with various acts, regulations and codes. When a carrier does not comply, the department can suspend the carrier's safety fitness certificate until it takes corrective measures. Non-compliance does not automatically mean there are unsafe commercial vehicles on the road. It means a carrier is not operating within all required transportation legislation.

The department has a *Progressive Intervention and Discipline Policy*, which provides guidance to department staff regarding what actions to take when carriers fail to comply with the law. When notified of non-compliance, carriers are given a reasonable period of time to remediate identified deficiencies. If a carrier still does not comply, the department will suspend its licence to operate until the carrier completes remediation.

Our 2009 audit and 2014 follow-up audit found that the department's processes to monitor and enforce safety standards for commercial vehicles were inadequate. We found the department did not:

- consistently comply with its policy to take progressive disciplinary and enforcement action against non-compliant carriers
- have a reliable process to identify and follow up on carrier-related complaints received and entered into the system by the Department of Justice and Solicitor General

The objective of this follow-up audit was to determine whether the Department of Transportation had implemented our outstanding 2009 recommendation to consistently apply its policy of progressive sanctions against carriers that persistently fail to comply with transportation legislation.

What we concluded

We conclude that the Department of Transportation was still not, as of July 1, 2017, consistently following its policy of taking timely and appropriate enforcement action against non-compliant carriers. In the eight years since our original audit, the department has made improvements to its systems. The department has improved its processes to identify and follow up on all carrier complaints received. However, we found insufficient improvement in the consistency of enforcement actions from our 2014 follow-up audit findings, and senior management was not aware of these continued inconsistencies.

Why this is important to Albertans

With economic expansion and a growing population, more commercial vehicles are on Alberta's roads than ever before. Albertans need to know that Alberta's commercial vehicle safety programs will identify high-risk carriers, deal with them appropriately, and ultimately help reduce risks while ensuring the goods transported on our highways make it to their destination.

What we examined

Our follow-up audit examined the department's processes to apply its *Progressive Intervention and Discipline Policy* on carriers that do not comply with transportation legislation. We also examined the department's process to identify and follow up on carrier complaints received through Justice and Solicitor General. Department management asserted to us prior to our follow-up that they had implemented the recommendation.

We reviewed the policies and procedures for each process and examined samples to assess if the department had implemented our recommendation.

What we found

The department is still not consistently applying its *Progressive Intervention and Discipline Policy*.

What needs to be done

We recommend for the third time that the Department of Transportation consistently comply with its policy to take disciplinary and enforcement action against non-compliant carriers.

Consequences of not taking action

Without timely and appropriate enforcement action taken against high-risk carriers, commercial vehicles that are a potential risk to public safety may continue to operate, and carriers may not believe there are meaningful consequences of being non-compliant.

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Alberta Treasury Board and Finance, Various Departments

Travel, Meal and Hospitality Expenses of the Premier, Ministers and Their Staff

Executive Summary

February 2018

Who

Alberta Children's Services
Alberta Community and Social Services
Alberta Indigenous Relations
Alberta Labour
Alberta Seniors and Housing
Alberta Treasury Board and Finance

What

Performance audit

When

We conducted our field work between August and October 2017, and substantially completed the audit on October 30, 2017.

Why we did this audit

Public servants may incur expenses for travel, meals and hospitality related to government business, and can claim expense reimbursements and certain allowances. They have to follow government policies on these types of expenses, as well as policies on procurement cards and credit cards.

We established an annual rotational audit of departments' systems to verify that the expenses of the premier, ministers, associate ministers and their staff comply with policies and to support the Treasury Board Committee oversight process. Under this rotational process we audit each department once every three years.

Our May 2017 report describes the new Treasury Board Committee oversight process of the premier's, ministers' and associate ministers' travel, meal and hospitality expenses, and also includes the results from the first year of our rotational audit. This is the second year of our rotational audit, and includes the expenses for the offices of the ministers of **Children's Services, Community and Social Services, Indigenous Relations, Labour, Seniors and Housing,** and **Treasury Board and Finance**.

What we concluded

Over two years, we have audited the expense systems at 13 departments. Given that these systems relate to basic expense processes, training, guidance, forms, checklists and internal controls, we expect that departments would have effective systems.

Despite this, we continue to find deficiencies in departments' processes for these expenses. The effectiveness of the Treasury Board Committee's oversight process depends on departments having effective systems.

Why this is important to Albertans

Albertans expect ministers and public servants to spend taxpayers' dollars responsibly and prudently when conducting government business. Effective systems are needed to ensure that people are complying with the expense policies. Albertans need the assurance that these systems are well-designed and working effectively.

Travel, Meal and Hospitality Expenses of the Premier, Ministers and Their Staff (continued)

What we examined

The audit objectives were to assess whether departments have effective systems to:

- verify that the travel, meal and hospitality expenses of ministers, associate ministers and their staff comply with policies
- support the new Treasury Board Committee process to oversee these expenses of the premier, ministers and associate ministers

We examined a sample of travel, meal and hospitality expenses incurred between November 19, 2015 and June 30, 2017 at each department included in our scope. Our work included reviewing documents and interviewing staff. We did not examine remuneration, employment and termination benefits, or other office expenses, such as office supplies. The detailed testing procedures we performed were consistent with the testing we executed in the prior year.

What we found

Of the departments we examined in this rotation, we did not identify any significant weaknesses in the systems for **Children's Services**, **Labour**, and **Treasury Board and Finance**.

The Department of **Indigenous Relations** has systems to verify that expenses comply with policies and are publicly disclosed, but these systems are not well designed and are not applied consistently.

We provided the Department of **Community and Social Services** with some observations to improve its processes. The nature of those observations did not warrant a recommendation.

The Department of **Seniors and Housing** has systems to verify that expenses comply with policies and are publicly disclosed. However, improvements are needed specifically in the documentation of expenses. Management at the department had already begun to implement changes to processes as a result of our prior-year audit of ministers' expenses, and we saw fewer deviations in the more recent samples. Because of the progress made before we began our audit, we have not made a recommendation.

What needs to be done

We recommend that the Department of **Indigenous Relations** improve its processes to prepare, review and publicly disclose travel, meal and hospitality expenses.

Consequences of not taking action

If the department does not properly review expenses, then errors and non-compliance with policies could go undetected. There would be a risk that taxpayers could be subsidizing expenses that are not related to government business, and there would also be a risk that the public disclosure is not complete or accurate.

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Alberta
Advanced Education

Alberta Advanced Education

Report on Post-Secondary Institutions 2017

February 2018

Internal Controls—a Report Card

This report includes an update on the report card on internal controls over financial reporting, together with comparative assessments from our 2016 and 2015 audits of colleges, technical institutes, MacEwan University and Mount Royal University. Our October 2017 report included the results of our audits at Athabasca University, the University of Alberta, the University of Calgary and the 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. We occasionally make observations to management at the end of our financial statement audits. The observations usually relate to the less significant control weaknesses that do not require immediate remediation like recommendations do. We would consider noting a caution in the report card, typically over financial statement accuracy, if we make more than two observations to a particular institution. Numerous observations would be a strong indication that the institution's overall financial processes and internal controls may not be sustainable.

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 on page 38. Three of the eight outstanding recommendations to institutions are older than three years.

1 *Report of the Auditor General of Alberta—October 2017*, page 9.

Effective control environments include clear policies, well-designed processes and controls to implement and monitor compliance with policies, and secure information systems. Such a control environment helps provide timely and accurate financial and non-financial information to manage and govern the institution. Recommendations not implemented promptly erode the effectiveness of the institution's control environment. Weak control environments impact the quality of management's and the board of governors' decision-making, and can result in an institution not achieving its goals by operating in a cost-effective manner and managing operating risks.

The Report Card

◆ Significant improvement is required.

△ 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 any significant weaknesses in the control environment.

Institutions where improvements are needed

Institution	Preparation of financial statements		Outstanding recommendations
	Accuracy	Timeliness	
Keyano College			
2017	◆	◆	◆
2016[2]	◆	N/A	◆
2015	◆	△	◆
Alberta College of Art + Design			
2017	△	●	●
2016	△	●	●
2015	●	●	●
MacEwan University			
2017	●	●	△
2016	●	●	●
2015	●	●	●
Northern Lakes College			
2017	△	●	●
2016	△	●	◆
2015	△	●	●

2 We did not assess Keyano College's timeliness in our 2016 audit as the Fort McMurray wildfire of May 2016 significantly impacted college operations and the timing of the college to complete its annual financial reporting.

Institutions with adequate internal controls and processes over financial reporting

Institution	Preparation of financial statements		Outstanding recommendations
	Accuracy	Timeliness	
Bow Valley College			
2017	●	●	●
2016	●	●	●
2015	●	●	●
Grande Prairie Regional College			
2017	●	●	●
2016	●	●	●
2015	●	●	●
Lakeland College			
2017	●	●	●
2016	●	●	◆
2015	●	●	●
Lethbridge College			
2017	●	●	●
2016	●	●	●
2015	●	●	●
Medicine Hat College			
2017	●	●	●
2016	●	●	●
2015	●	●	●
Mount Royal University			
2017	●	●	●
2016	●	●	●
2015	●	●	●
Northern Alberta Institute of Technology			
2017	●	●	●
2016	●	●	●
2015	●	●	●
NorQuest College			
2017	●	●	●
2016	●	●	●
2015	●	●	●

Institution	Preparation of financial statements		Outstanding recommendations
	Accuracy	Timeliness	
Olds College			
2017	●	●	●
2016	●	●	◆
2015	▲	●	●
Portage College			
2017	●	●	●
2016	▲	●	◆
2015	●	●	●
Red Deer College			
2017	●	●	●
2016	●	●	●
2015	●	●	◆
Southern Alberta Institute of Technology			
2017	●	●	●
2016	●	●	●
2015	●	●	●

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

Preparation of financial statements
Alberta's post-secondary institutions continue to build sustainable internal controls and processes to promptly prepare reliable financial reporting. Sustaining good financial reporting directly impacts the ability of institutions to report better results analysis of their performance from measurable targets. Management of institutions must continuously evolve their financial reporting controls and processes to identify and mitigate emerging and changing risks to their operations, particularly in areas such as information and related technology.

Sustaining strong financial reporting controls and processes is challenging. Keyano College still must make significant improvements in its financial reporting processes. Our audit continues to find material differences in the college's draft financial reporting. We expect to complete our audit of the college's 2017 financial statements in February. When our audit is complete, we will repeat our prior recommendation to improve financial reporting processes. The board of governors must oversee and hold management accountable for the prompt improvement of these processes.

We found that the Alberta College of Art + Design and Northern Lakes College prepared accurate 2017 financial reporting. However, we have made observations to management of both institutions to improve their operating and financial reporting processes. Weaknesses in these processes increase the potential for errors in the accuracy of future financial reporting. Management of these institutions should promptly rectify these weaknesses and continue to build on sustaining the internal controls and processes they have implemented in the past few years.

MacEwan University also promptly prepared accurate financial reporting for 2017. Subsequent to the university's year-end, management disclosed a significant potential loss of funds resulting from a breakdown in internal control around vendor master files. Management immediately examined the university's processes for changing vendor master files and what improvements to identified weaknesses were required. As a result, we conclude that a recommendation to management to take action is not necessary. We performed additional procedures to assess the impact on the 2017 financial statements as a result of the internal control breakdown. We concluded that the presentation and disclosure in the 2017 financial statements are accurate and consistent with the information we obtained during our audit.

We issued unqualified audit opinions on the fiscal 2017 financial statements of the 15 post-secondary institutions where our audits are complete. These opinions are in addition to the unqualified opinions we provided on all four universities we reported on in our October 2017 report.

Outstanding recommendations

Northern Lakes College, Olds College and Portage College have implemented our sector-wide recommendation to improve systems to ensure compliance with legislation. Keyano College is the only institution that has not yet implemented this recommendation. Lakeland College has implemented a recommendation to improve segregation of duties.

We issued one new recommendation to MacEwan University relating to improving processes for management to regularly communicate with the board of governors and its committees on the adequacy and operating effectiveness of the university's internal control environment. The effectiveness of the board of governors' oversight suffers if management does not provide regular and complete information on changes to risks, internal controls, and processes at the institution. Management should implement this recommendation promptly as gaps in the information that management provides to the board may significantly increase the risks to the institution over time.

We also issued one new recommendation to the Alberta College of Art + Design and one to Northern Lakes College.

Eleven of the 16 institutions we examine in this report have no outstanding recommendations. Overall, 14 of the 20 public post-secondary institutions we audit have no recommendations.

Findings

Summary

There were three new recommendations that we issued to institutions.
We recommended that:

- the Alberta College of Art + Design enforce compliance with purchasing procedures—page 33
- MacEwan University strengthen its controls for supporting key financial and business processes—page 36
- Northern Lakes College promptly remove the user access of terminated employees—page 37

Four prior-year recommendations were implemented: Lakeland College (1), Northern Lakes College (1), Olds College (1) and Portage College (1).

Multi-Institution Recommendation

Matters from prior audit

Improve Systems to Ensure Compliance with Legislation

Starting in 2013, we recommended to all post-secondary institutions[3] to 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 into their risk management systems and processes.

We previously reported that 16 institutions had implemented our recommendation.[4] In 2017, we examined process improvements implemented at Northern Lakes College, Olds College and Portage College.

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

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

We found management of each institution reported on legislative compliance at least once a year to the board and executive committees. The compliance report included

3 *Report of the Auditor General of Alberta—February 2013*, no. 7, page 60; *October 2013*, page 94; *February 2014*, page 75.
4 University of Alberta: *Report of the Auditor General of Alberta—October 2015*, page 127. Grande Prairie Regional College, MacEwan University, Mount Royal University, NorQuest College, Northern Alberta Institute of Technology and Southern Alberta Institute of Technology: *Report of the Auditor General of Alberta—February 2016*, page 99. Athabasca University, University of Calgary and University of Lethbridge: *Report of the Auditor General of Alberta—October 2016*, page 64. Alberta College of Art + Design, Bow Valley College, Lakeland College, Lethbridge College, Medicine Hat College and Red Deer College: *Report of the Auditor General of Alberta—May 2017*, page 85.

instances of non-compliance along with corresponding mitigation plans. Significant legislative compliance risks were included in each institution's enterprise risk management assessment, and some institutions prepared separate legislation risk registers. The legislative compliance assessments were completed by either management or a special management committee. At each institution, we did not identify any significant legislation related to financial reporting for the fiscal 2017 financial statements that management failed to consider in its reporting.

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

Alberta College of Art + Design

Matters from current audit

Compliance with Purchasing Procedures

Context

The Alberta College of Art + Design uses contracts, as part of its purchasing process, to acquire goods or services from other organizations. The college has a clearly defined procedure to administer purchasing activities through contract. For any purchase contract greater than $75,000, the college is required to secure competitive price quotations by tender invitation. The college's Director of Facilities and Ancillary Services is required under the procedure to administer all tendering information and processes. The college's procedures allow for sole-sourcing of goods and services but have additional requirements for documentation of qualifications. Approval is required from the Director of Facilities and Ancillary Services and either the responsible vice-president or the president.

Criteria: the standards of performance and control

The college should have controls to ensure its prescribed purchase procedures are enforced.

Our audit findings

Key Finding

The college has not consistently applied its tendering policies to obtain proper approvals or business cases on all sole-sourced contracts.

We tested a sample of contracts greater than $75,000 and found that not all followed the tendering process as prescribed by the college's purchasing procedures document. In addition, none of the contracts tested was approved by the Director of Facilities and Ancillary Services. We found no documentation to explain the deviation from the college's procedures and the business reason for sole-sourcing the contracts. All the exceptions were related to acquisition of IT services. The contracts were appropriately approved by the vice-president overseeing IT operations.

RECOMMENDATION:
Consistently enforce purchasing procedures

We recommend that the Alberta College of Art + Design enforce consistent compliance with its purchasing procedures.

Consequences of not taking action
Without effective processes to ensure compliance with its purchasing procedures, the college is unable to demonstrate that the contracts it enters into provide value for money.

Lakeland College

Matters from prior audit

Improve Segregation of Duties Within the Finance Department—Implemented

Context
In 2016,[5] we recommended that Lakeland College improve its segregation of duties within the finance department to ensure that:

- those involved in preparing financial information do not have IT administration access privileges
- monitoring of IT administrator actions occurs throughout the year
- review of journal entries into the financial system occurs throughout the year

Our audit findings
Lakeland College has implemented our recommendation to improve the segregation of duties within the finance department.

Management limited administration rights to one individual who is not responsible for processing transactions. In addition, management continues to monitor administrator activities.

We examined the access permissions of finance personnel and confirmed that administrator privileges were segregated from responsibilities for processing transactions. We examined transactions recorded in the general ledger subsequent to the change and confirmed that the administrator was not involved in posting or approving journal entries. We also tested management's monitoring of reports of administrator and transaction activity. We observed that the monitoring was completed regularly.

MacEwan University

Matters from current audit

Strengthen Controls Supporting Key Financial and Business Processes

Context
Strong internal controls and processes ensure reliable financial reporting, effective and efficient operations, and compliance with laws and regulations. Management designs, implements and maintains an entity's internal controls and processes.

While a strong internal control environment will mitigate many risks within an entity, over time they may fail to effectively mitigate new and emerging risks. Changes to existing controls may also introduce new risks, causing unintended consequences. To limit the possibility of weaknesses in internal control environments from newly introduced risks, management must design internal controls well, re-examine the processes and controls regularly, and periodically test whether the processes and internal controls are operating effectively.

5 *Report of the Auditor General of Alberta—February 2016*, no.14, page 103.

The board of governors and its audit committee play a critical role in overseeing the entity's risk management processes. Board members need to understand what management is doing to regularly identify potential gaps in the control environment and the related processes. Board members also need to understand the changes in controls that management has decided to make, or not make, in response to risks.

Management should regularly report to the audit committee on the operating effectiveness of its internal control processes. In some board-governed entities, boards require senior management to regularly certify that internal controls and related processes are well-designed and operating effectively. The board of governors and its committees should not, as part of their governance roles, take on management's responsibilities in implementing internal controls and processes. Board members need sufficient information from management so that they can ask appropriate oversight questions about what processes and controls are in place and signal where changes in preferred behaviour and internal controls may be required.

Appropriate and sufficient information allows the board and its committee members to identify where specialist help may be required. However, the board, its committees and management cannot assume that they have mitigated the university's risks and exposure just by using specialists, including external or internal auditors. Board members and management need to be clear on their respective roles and responsibilities and the level of assurance they can derive from the work of a specialist.

Criteria: the standards of performance and control

The university should have processes to:

- identify risks and implement adequate controls to mitigate the risks in its key financial and business processes
- document changes made to its internal control processes and explain to the board of governors and its committees the rationale behind significant changes
- regularly report on the operating effectiveness of its internal control system to the board of governors and its committees

Key Findings

Management does not:

- adequately assess whether there are gaps in existing controls
- adequately assess whether changes in processes may introduce weaknesses to the control environment
- provide sufficient regular reporting to the board and its committees on the operating effectiveness of its internal controls

Our audit findings

We examined recent board and audit committee meeting agendas as well as information that management provided to the audit committee. We note that management regularly provides the board of governors and its audit committee with information on the university's operations, including operational variances during the year and an annual update on the university's enterprise risk management register.

However, management did not always inform the audit committee of significant changes in the university's internal controls and processes. The university's process to change its existing internal controls does not include assessing whether a change may introduce weaknesses to the control environment.

During the year, management decided to change its controls surrounding approval of journal entries. Previously, documentation was required to show which individual staff member approved a given journal entry. However, since management has given only authorized individuals access in the system to approve journal entries, management considers documentation of who does the approval unnecessary and therefore no longer requires this documentation. Documentation of approvals is a fundamental control to provide evidence that the appropriate approver has ensured the accuracy and legitimacy of journal entries. Senior-level approvals were also removed from processes related to changes to vendor master files. We found no evidence that management communicated to the audit committee this change in fundamental control, or its conclusion on why the change would not introduce risks or weaknesses to the university's control environment.

Changes to internal control processes may create risk exposures to the university that management may not identify. While management need not report every change in processes to the board and its related committees, management does need to identify and report when those items impact the university's overall risk environment.

RECOMMENDATION:
Strengthen controls supporting key financial and business processes

We recommend that MacEwan University improve its processes for management to regularly communicate to the board of governors and its committees the adequacy and operating effectiveness of the university's internal control environment.

Consequences of not taking action

Without sufficient, timely information on the university's internal controls and processes designed to mitigate risks, the board of governors and its committees cannot govern effectively.

Northern Lakes College

Matters from current audit

Promptly Remove System User Access of Terminated Employees

Context

System access controls are a foundation for data security to ensure that users cannot make unauthorized changes to systems, applications or data within them. Effective access controls typically include procedures such as formal access requests, approvals, access monitoring and segregation of duties.

Criteria: the standards of performance and control

Northern Lakes College should have effective controls to ensure it removes the system access of terminated employees promptly.

Our audit findings

Key Finding

The college does not consistently remove the system access of terminated employees promptly.

We examined system user access controls for the college's network and applications. We found instances where the college deviated from documented processes and did not appropriately remove access privileges once employment was terminated. Deficiencies included the IT group not receiving or promptly processing user access terminations from the system.

RECOMMENDATION:
Promptly remove system user access of terminated employees

We recommend that Northern Lakes College consistently apply procedures to promptly remove terminated employees' system access.

Consequences of not taking action

Unless terminated employees have their system access removed promptly, the college risks unauthorized access to its critical personal, business and financial information.

Outstanding Recommendations

Institution	Outstanding recommendations		
	3+ years*	Other	Total
Alberta College of Art + Design	-	1	1
Athabasca University	2	-	2
Bow Valley College	-	-	-
Grande Prairie Regional College	-	-	-
Keyano College**	1	1	2
Lakeland College	-	-	-
Lethbridge College	-	-	-
MacEwan University	-	1	1
Medicine Hat College	-	-	-
Mount Royal University	-	-	-
NorQuest College	-	-	-
Northern Alberta Institute of Technology	-	-	-
Northern Lakes College	-	1	1
Olds College	-	1	1
Portage College	-	-	-
Red Deer College	-	-	-
Southern Alberta Institute of Technology	-	-	-
University of Alberta	-	-	-
University of Calgary	-	-	-
University of Lethbridge	-	-	-
Total outstanding	3	5	8
Ready for follow-up audit***	0	0	0
Not yet ready for follow-up audit	3	5	8

* Originally issued in March 2015 report and earlier.
** Outstanding recommendation to improve financial reporting processes.
*** Based on management representations to January 31, 2018.

The following is a detailed list of outstanding recommendations to public post-secondary institutions. The list does not include Athabasca University, the University of Alberta, the University of Calgary, the University of Lethbridge or the Department of Advanced Education, which were included in our October 2017 report.

Alberta College of Art + Design

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

Consistently enforce purchasing procedures—February 2018, page 33
We recommend that the Alberta College of Art + Design enforce consistent compliance with its purchasing procedures.

Keyano College

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

Improve systems to ensure compliance with legislation—February 2013, no. 7, page 60
We recommended that Keyano College implement systems to:

- understand what legislation it must comply with
- develop appropriate policies, procedures and controls to ensure compliance with legislation
- monitor and report non-compliance to senior management and the board audit committee

Improve financial reporting processes—February 2016, no. 13, page 102
We recommend that Keyano College improve its financial reporting by:

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

MacEwan University

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

Strengthen controls supporting key financial and business processes—February 2018, page 36
We recommend that MacEwan University improve its processes for management to regularly communicate to the board of governors and its committees the adequacy and operating effectiveness of the university's internal control environment.

Northern Lakes College

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

Promptly remove system user access of terminated employees—February 2018, page 37

We recommend that Northern Lakes College consistently apply procedures to promptly remove terminated employees' system access.

Olds College

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

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

Alberta Education

Alberta Education

Processes to Manage the Student Class Size Initiative

February 2018

About This Audit

In the early 2000s, the Department of Education examined analysis that reducing student class sizes can have a positive impact on improving learning outcomes. In particular, the department reviewed the 2003 Alberta Commission on Learning (ACOL) report,[1] which concluded that smaller student class sizes in the lower grade levels can contribute significantly to improving academic results. The department decided in 2004 it would implement the Class Size Initiative to reduce average class size in each school jurisdiction. The department set targets for average class size, basing them on numbers set out in the ACOL report:

- K-3 classrooms: 17 students
- grade 4-6 classrooms: 23 students
- grade 7-9 classrooms: 25 students
- grade 10-12 classrooms: 27 students

The department provides funding to school jurisdictions through the Class Size Initiative to hire and retain teachers to reduce class sizes. School jurisdictions do not need to meet the guidelines in every classroom; instead, each jurisdiction is expected to meet the guidelines on average across its schools.

The Class Size Initiative is ongoing with a budget of over $293 million for fiscal 2018.[2]

Audit Objective and Scope

Our audit objective was to examine the design and operating effectiveness of the Department of Education's processes to define the desired results of the Class Size Initiative, to develop an action plan to achieve those results, and to measure, monitor and report on the initiative.

We limited our audit scope to examining the department's processes related to the Class Size Initiative. We did not audit individual schools or school boards. We based our audit criteria on our Results Management Framework.[3]

Audit Responsibilities

Management of the Department of Education is responsible for processes to manage the Class Size Initiative. Our responsibility is to express an independent conclusion on whether the Department of Education has effective processes to define the desired results of the Class Size Initiative, to develop an action plan to achieve those results, and to measure, monitor and report on the initiative.

We conducted our audit in accordance with Canadian Standard on Assurance Engagements 3001 issued by the Auditing and Assurance Standards Board (Canada). The Office of the Auditor General applies Canadian Standard on Quality Control 1 and,

1 Alberta Commission on Learning, *Every Child Learns. Every Child Succeeds: Reports and Recommendations*, October 2003.
2 Education, 2017–18 Government Estimates, page 100.
3 *Report of the Auditor General of Alberta—October 2015*, page 176.

accordingly, maintains a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. The Office complies with the independence and other ethical requirements of the Chartered Professional Accountants of Alberta Rules of Professional Conduct, which are founded on fundamental principles of integrity and due care, objectivity, professional competence, confidentiality and professional behaviour.

What We Examined

We examined the department's processes to define desired results, to develop an action plan, and to measure, monitor and report on the Class Size Initiative. To assess the design and operating effectiveness of these processes we:

- interviewed key staff and reviewed documents to understand goals, objectives and results
- examined the department's processes to collect and report on data
- examined the department's processes to provide oversight of the school jurisdictions and ensure accountability for results to Albertans

We conducted our field work from March to September 2017 and examined records and activities from September 2004 to July 2017.

Conclusion

Because of the significance of the findings described below, we conclude that the Department of Education did not, in all significant respects, have effective processes as of July 2017 to define the desired results of the Class Size Initiative, to develop an action plan to achieve those results, and to measure, monitor and report on the initiative. Based on our audit findings, it appears the department has, over time, converted Class Size Initiative funding to additional base instructional funding.

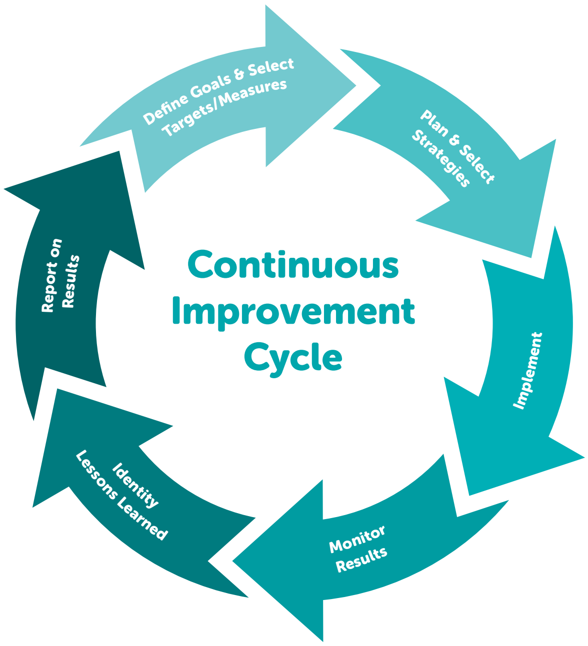
Why This Conclusion Matters to Albertans

The department has accepted that having small class sizes is most beneficial to students in their early years. The department has spent billions of dollars to reduce class sizes, but it does not know why school jurisdictions have been unable to achieve the target for the K-3 grade group over the past 13 years. The department should be reporting to Albertan families why it has not achieved its desired result and what it plans to do differently in the future.

Findings and Recommendations

Context

An initiative is an organization's way of setting a priority to improve results in a particular area. To be successful, an initiative should have effective processes for continuous improvement. Management should:



- identify desired results and strategies to achieve the results
- create relevant performance measures and targets for internal and external reporting
- analyze the current results for the performance measures against the targets, as well as analyzing trends in relation to prior years
- identify, develop and implement ways to improve
- report results in relation to desired outcomes, including lessons learned and plans for improvement

Through the Class Size Initiative the department expected all school jurisdictions to meet the department's average class size targets for all grade groups within a three-year period. School jurisdictions' use of initiative funds was to be restricted to hiring and retaining teachers in order to reduce class size averages. This restriction made the initiative different from base instructional funding, which is funding that school jurisdictions can spend at their discretion on teachers' and support staff's salaries and on classroom materials.

Criteria: the standards of performance and control

The Department of Education should have processes to:

- define a desired result for the Class Size Initiative and develop an action plan to achieve it
- regularly measure, monitor and report on the Class Size Initiative

Our audit findings

Key Findings

- Despite the $2.7 billion in funding spent on the initiative, the number of school jurisdictions that met the department's class size targets in 2017 is lower than in 2004.
- The department's use of average class sizes as its target has an inherent limitation as it obscures the actual number of classes that have not met the ACOL suggested levels.
- The department:
  - does not have an action plan to achieve the desired results of the initiative since the end of the 2006–2007 school year
  - stopped requiring school jurisdictions, from the 2008–2009 school year onwards, to report on how they were using initiative funding
  - has not analyzed why school jurisdictions have not achieved the department's desired result for the K-3 grade group for the last 10 years

Overview

Our audit findings over the chronology of the initiative show the department does not have effective processes to achieve the desired result, to develop an action plan, and to measure, monitor and report on the Class Size Initiative.

Over the 13-year history of the initiative, the lack of planning, ongoing monitoring and reporting resulted in the targeted funding being treated as additional base instructional funding, effectively nullifying the initiative.

2004—Start of the Class Size Initiative

The department's desired result for the Class Size Initiative was to lower class size averages to levels recommended by the ACOL report, by providing funding to school jurisdictions to hire additional teachers. The department wanted to achieve these class size targets by the end of the 2006–2007 school year. At the start of the initiative, school jurisdictions were already achieving the required average class size targets for the grade groups 7-9 (69 per cent) and 10-12 (88 per cent).

The department supported the theory from various studies that, generally, reducing class sizes will have a positive impact on improving learning outcomes particularly in the early years. The department did not identify a measure that would clearly demonstrate reducing class sizes improved learning outcomes, as the improvement of learning outcomes is dependent on a number of factors. As a result, the department's desired outcome of the initiative was limited to achieving the recommended class size levels, assuming that would positively impact learning outcomes in Alberta schools.

The department's plan for the initiative estimated that school jurisdictions would need to hire 2,265 teachers at a cost growing to $149 million annually to meet the ACOL guidelines by the end of the 2006–2007 school year. In determining funding, the department incorporated class size averages into the initiative funding model. Funding for each school jurisdiction was calculated to be the higher of:

- a dollar amount calculated based on the jurisdiction's 2003–2004 class size average, or
- a combination of per-student funding and the above dollar amount

The department required school jurisdictions to provide a three-year outline on how they would achieve the department's class size targets and also to annually report on average class sizes by grade group. As the initiative was designed to reach the department's targets in three years through hiring additional teachers, it is important to note that maintaining those targets would require funding in perpetuity to maintain the smaller class sizes. Thus, the funding required by school jurisdictions would need to extend beyond the initiative's original three-year period.

We found the department's plan for the initiative was not effective, as it did not include:

- an action plan to be implemented if the desired result was not met within the three-year period
- how it would retain teachers hired through the initiative to maintain class size averages in perpetuity

At the end of the 2003–2004 school year, 6.9 per cent of school jurisdictions met the department's target for average class sizes in the K-3 grade group. By the end of the 2006–2007 school year, 18.8 per cent of school jurisdictions had achieved the K-3 target (see Appendix A). During the three years, school jurisdictions were able to maintain class size averages at or below the targets for the other grade groups.

At the end of the third year, the department required explanations from school jurisdictions that did not meet its targets. Analysis of how school jurisdictions used the funds would have assisted the department in considering adjustments to where funding was required and how much, and might have identified where positive improvements were made at jurisdictions that could be seen as best practices for other jurisdictions. We found the department was unable to provide any analysis it performed on the information provided by the school jurisdictions to identify, develop and implement ways to improve.

2007—Continuation of the Class Size Initiative

With the desired results not achieved by the end of the original three-year period, the department decided to continue with the Class Size Initiative. We would have expected that the department, having decided to continue, would analyze how to achieve the desired result—for example, by:

- considering whether the original class size targets are achievable
- incorporating lessons learned over the first three years
- establishing new timelines
- performing a cost-benefit analysis
- identifying how to retain teachers to maintain class size averages
- assessing the effectiveness of reporting requirements

However, department management was unable to provide us evidence it completed this analysis to support the decision to continue the initiative.

School jurisdictions had informed department management that the initiative's reporting requirements were too burdensome as they required jurisdictions to track teachers hired through the initiative and provide reasons for not achieving the targets. In response, department management decided to no longer require school jurisdictions to report on anything other than publicly posting annual grade-group class size averages.

The department's internal reporting consists of management providing the minister with annual briefing notes containing information on class sizes but no assessment on continuing or improving the initiative. We would have expected the department to have effective monitoring processes that analyze current results against targets and identify specific trends. Effective processes would also identify what works and where improvements can be made.

2011—Change in Class Size Initiative funding model

By the end of the 2010–2011 school year, only 24.3 per cent of school jurisdictions had achieved the average class size target for the K-3 grade group (see Appendix A). Similar to the first three years of the initiative, school jurisdictions were able to maintain the average class size targets for the three other grade groups during this time.

At the end of the 2010–2011 school year, department management re-examined how school jurisdictions received funding under the initiative. School jurisdictions felt the department's funding model penalized jurisdictions that had made a conscious effort to reduce class sizes, as jurisdictions with lower class size averages received less funding.

In response, the department changed the Class Size Initiative funding formula from one that incorporated class size averages to a simple per-student allocation, as it believed this would be more equitable for jurisdictions. The department also changed its funding to focus solely on the grade groups K-3 and 4-6 rather than all grade groups. Funding was further refined the following year to focus strictly on the K-3 grade group.

As a result of the funding formula change, the department now provides funding to school jurisdictions based on the number of students (in K-3) rather than which specific jurisdictions need assistance to reduce student class size levels. If two schools in a particular jurisdiction had the same number of K-3 students, they would be allocated the same amount of initiative funding from the department regardless of their class size averages.

For example:

	School A	School B
Number of K-3 students	240	240
Number of K-3 classes	15	10
Class size average per K-3 class	16	24
Department's K-3 target	17	17
Meeting K-3 target?	**YES**	**NO**
Funding provided to jurisdiction*	$46,792	$46,792

* Based on the *Funding Manual for School Authorities for the 2016–2017 School Year.*

By no longer incorporating current class size averages as a determining factor in the initiative funding calculation, it is unclear how the department intends school jurisdictions to achieve its class size targets. With the initiative funding now based solely on number of students, it has evolved to mirror the department's base instructional funding.

In the year following the change in how the department determined eligible funding, the number of school jurisdictions achieving the K-3 target decreased from 24.3 per cent to 14.3 per cent (see Appendix A).

Current Class Size Initiative

The department has provided over $2.7 billion to school jurisdictions since 2004 to achieve and maintain the average class size targets. The K-3 grade group on average has never achieved the department's desired result of 17 students in a classroom. Only 7.2 per cent of school jurisdictions have achieved the department's target in the K-3 grade group, a slight decrease from the percentage at the start of the initiative. The provincial averages for the 4-6, 7-9 and 10-12 grade groups have met the department's jurisdictional targets throughout the 13 years of the initiative. While this is positive, the number of school jurisdictions that have achieved the grade group targets has decreased since year one of the initiative (see Appendix A). The department's use of average class sizes as its target has an inherent limitation as it obscures the actual number of classes that have not met the ACOL suggested levels. For example, it is possible for a school jurisdiction to meet the department's average target while more than half of the classes in that jurisdiction do not meet the class size target.

We also analyzed the provincial class size averages and noted that class size averages in all grade groups have increased since year one (see Appendix B). We have been unable to find in the department's annual report or other public reporting the department's analysis of these trends and resulting changes to the Class Size Initiative. Because of the department's lack of public reporting throughout the initiative, Albertan families have remained uninformed about how effective that funding has been in achieving the desired class size targets.

Department management told us that "the government remains committed to the Class Size Initiative, recognizing that small class sizes are most beneficial to students in their early years." However, we found no evidence that the department has incorporated key components of the continuous improvement cycle, such as:

- identifying strategies to achieve results
- analyzing current results and trends in relation to prior years
- identifying, developing and implementing ways to improve

Since 2004, changes to how the department funds, monitors and reports on the initiative have resulted in funding restricted for improving class size averages becoming another layer of base instructional funding. Albertans may feel misled, because the ministry budget gives the impression that the minister and department continue to focus on achieving K-3 class size averages through specific targeted funding.

RECOMMENDATION:
Develop an action plan and improve monitoring and reporting processes

If the Department of Education continues the Class Size Initiative, the department should develop an action plan and improve processes to regularly monitor and report on the initiative.

Consequences of not taking action

The department will continue to invest money without knowing if it is effectively achieving the desired results of the initiative.

Appendix A:

Percentage of jurisdictions meeting department's targets

Percentage of Jurisdictions Meeting the Department's Targets				
	Grade groups			
	K-3	4-6	7-9	10-12
School year				
2004–2005	8.8%	76.1%	95.7%	100.0%
2005–2006	15.9%	83.1%	100.0%	100.0%
2006–2007	18.8%	93.0%	98.6%	100.0%
2007–2008	20.3%	93.0%	97.1%	100.0%
2008–2009	24.3%	91.7%	95.7%	100.0%
2009–2010	21.4%	81.9%	95.8%	100.0%
2010–2011	24.3%	76.4%	95.8%	100.0%
2011–2012	14.3%	68.1%	93.0%	98.4%
2012–2013	17.1%	75.0%	93.0%	100.0%
2013–2014	14.5%	73.2%	91.4%	96.8%
2014–2015	7.2%	70.4%	92.9%	96.8%
2015–2016	7.2%	69.0%	91.4%	96.8%
2016–2017	7.2%	71.8%	94.3%	98.4%

Based on data provided by the Department of Education.

A jurisdiction will meet the target if the "average" class size for the jurisdiction as a whole is at or below the target level.

Meeting the target does not necessarily mean all the individual classes within the jurisdiction have met the class size target level.

Appendix B:

Provincial class size averages

Provincial Class Size Averages				
	Grade Groups			
	K-3	4-6	7-9	10-12
Department Target	**17.0**	**23.0**	**25.0**	**27.0**
School Year				
2004–2005	19.7	22.3	22.7	23.0
2005–2006	19.4	22.0	22.7	23.0
2006–2007	18.6	21.4	22.6	23.1
2007–2008	18.4	21.3	22.5	22.7
2008–2009	18.2	21.2	22.4	22.7
2009–2010	18.5	21.5	22.5	22.8
2010–2011	18.8	21.7	22.5	22.3
2011–2012	19.4	22.3	23.1	22.5
2012–2013	19.4	21.9	22.8	21.8
2013–2014	19.9	22.4	23.2	23.2
2014–2015	20.2	22.7	23.4	23.3
2015–2016	20.3	22.6	23.4	23.0
2016–2017	20.4	22.7	23.6	23.4

Class size average data provided by the Department of Education.

Calculated as the total number of students in all classes divided by the total number of classes for each grade group. As a result, the number of students in an individual class may be significantly below or above the “average” (i.e., one class of 10 students and one class of 30 students would result in an “average” of 20 students).

Alberta Education

Systems to Improve Student Attendance in Northland School Division *Progress Report*

February 2018

About This Progress Report

A progress report is not an audit. We do not perform detailed audit procedures in a progress report. Instead, we base our assessment on interviews, analytical procedures and a review of management's documents. Therefore, in a progress report we do not provide audit-level assurance on our conclusions as we provide in our audit and follow-up audit reports.

We will use what we found in this progress report, along with information we will gather over the next year or two on improvements made by the department and the division, to plan our follow-up audit on the implementation of our three outstanding recommendations.

Summary of our previous work

In March 2015,[1] we reported on the systems to improve student attendance in Northland School Division. We found a system that accepted poor student attendance as the status quo. Despite decades of government studies, reports, recommendations and well-meaning statements, progress had been limited. The division's schools and central office did not have adequate systems to improve student attendance, and no one, at any level, was taking responsibility for poor attendance results.

We made two recommendations to Northland School Division and one recommendation to the Department of Education (see Appendix A). We said the division must develop a plan to guide its efforts to improve attendance, and the department must ensure the division does so.

Northland School Division

The Government of Alberta formed Northland School Division in 1960. The division brought several former Métis schools and First Nations mission and residential schools together under the provincial education system. The division is Alberta's only primarily Indigenous school division—more than 95 per cent of its students are Indigenous.

The division serves approximately 2,700 students. There are 23 schools in the division, spread across an area of Northern Alberta larger than Great Britain.

The Minister of Education dismissed the division's school board in January 2010 because of concerns over student performance, including attendance, staff turnover and governance. For seven years, the division reported to an Official Trustee appointed by the Minister of Education. In October 2017, the minister returned oversight of the division to an elected board.

Recent changes in Northland School Division

Since our March 2015 report, the senior leadership and management structure in the division has changed significantly. In mid-2016 the minister appointed a new Official Trustee and the division hired a new superintendent. In 2017, the division also made a change to its operating structure: it hired three new associate superintendents and designated each with responsibility for a particular geographic region and set of schools within the division.

Accountability for attendance

The division's superintendent is ultimately responsible for ensuring students attend school and is accountable to the school board.[2] The superintendent oversees the three

1 *Report of the Auditor General of Alberta—March 2015*, page 17.
2 Until October 2017, the Official Trustee performed the role of the school board in Northland School Division.

new associate superintendents, who are each responsible for attendance at the schools in their geographic region.

The Department of Education oversees education policy and regulations at school jurisdictions, including the division. The department reviews and approves the division's annual results reports and three-year business plans. While the department does not request information on attendance, since 2012 the division has reported on attendance to the department.

Regular school attendance matters

In Alberta, young people between ages six and 16 are required to attend school under the *School Act*. But legality aside, missing school means missing instructional time; between kindergarten and grade 12, a student who attends 85 per cent of the time would miss nearly two years of instruction. Regular attendance can be the difference between graduating or not. Poor attendance can also provide an early warning that a student may be encountering barriers to their success in school.

Objective of This Progress Report

During our 2015 audit, we were honoured to meet with community members, elders, parents and young people served by the division to speak about our work. They rightly asked us how, after more than 50 years of government studies, reports and inquiries, our work would be any different. We told those we spoke with that when we make a recommendation, we actively monitor the progress made to correct the problems we identified. We told those families and young people that we will continue our work until the division and the department can demonstrate they have made the needed changes.

When we make recommendations to government, we usually wait until management has told us they have implemented the recommendations we originally reported on. However, sometimes we believe there is enough risk of inaction to justify providing a progress report. There has been a history of inaction over the division, and we want to make sure that the division and department take the action necessary. We are using this progress report, therefore, to understand management's actions to date and their plans to complete implementation.

We conducted our field work between January and September 2017. We substantially completed our work on October 12, 2017.

Observations on Progress

Our recommendations from March 2015 were very specific; the decentralized and ad hoc approaches to dealing with poor student attendance were not working. We expected the division's first steps to implement our recommendations would be to develop a comprehensive plan for student attendance and put it into operation. After more than two years, we expected the division would report what its plan was and its results to date.

Since March 2015, the division and the department have not been idle. The division has new leadership and management structures. The department has amended the *Northland School Division Act*, returning local governance of the division to its communities with the election of a school board in October 2017. The division and department have also been working collaboratively on a number of fronts, including securing the approval for increased funding to help the division stabilize and begin making targeted investments in key areas, among them attendance.

These achievements are substantial, and they form a foundation capable of supporting improved student attendance—but the division still does not have a comprehensive plan for attendance. Without a plan to guide its efforts and actions, the division will not be successful in making meaningful and sustainable improvements in student attendance.

The department still must take action to ensure the division develops and operationalizes a plan for attendance.

Management's Assessment

We asked the division and the department to each report to us on what they have done to date and their plans going forward. We received these reports from the division and the department in early 2017. We summarize the actions reported by management in Appendix B.

Our Assessment

We provide here an overview of our assessment of the division's and the department's progress. See Appendix B for a fuller account, broken down by our original recommendations.

No comprehensive plan to guide attendance improvement

In March 2015, we reported that the division's approaches to improve attendance were not working because they did not follow a comprehensive plan, guided by the division's central office. Teachers and schools were working hard, but each school was doing different things, and no one knew whether their efforts were actually working, and why or why not.

During our 2015 audit the division worked with members of the communities it serves to develop a report on attendance, *Every Day Counts*. The report made suggestions for ways the division could improve attendance by taking actions at the school level and at the division's central office.

In March 2015, we reported that *Every Day Counts* was a good starting point, but the document needed to be adapted into a comprehensive attendance improvement plan that the division could successfully put into operation.

Every Day Counts, and the other strategies and plans in place at the time of our audit, needed to include the features of an effective plan. In particular, they needed:

- a clear and realistic goal or objective
- a prioritized list of credible, student-centred strategies
- an assessment of cost and resource requirements, by strategy
- clear and reasonable roles and responsibilities, including who was responsible for the plan overall
- a specific and realistic timeline to guide when the work would be done
- an approach to actively monitor and regularly report on the results of the plan over time

Since March 2015, the division has worked with communities on concepts from *Every Day Counts* and started a number of new initiatives for student attendance. The division has also done work to improve the way it monitors student attendance and to improve the reliability of its student attendance data.

These efforts are important, but the division's approach to student attendance is not fundamentally different from the situation we encountered in our audit. The initiatives that were started, and those to come, are at risk of not having a lasting impact because they are still not coordinated under a comprehensive, centrally managed plan.

Why planning matters—the general and the specific

We develop plans because resources, both dollars and time, are limited. When we want to achieve a goal and have the best impact with the limited resources available to us, we think carefully about where and when to put those resources into use. Why? Because life is noisy, hectic and full of things to distract our attention from our goal. Planning helps us cut through the noise and focus on what matters.

In the absence of a comprehensive plan, the initiatives and resources the division has applied so far have been of the "broad brush" kind, rather than being targeted at helping students with varying levels of attendance. Examples of such universal initiatives include classroom celebrations for good attendance, awards and recognition, and communication strategies raising general awareness. These types of universal interventions have their place, but they are not enough to overcome the barriers that prevent a chronically absent student from attending school. A significant amount of work remains at the division to support its chronically absent students or young people currently not attending school at all.

Good practices in attendance use a three-tier model of intervention to plan how to help students improve their attendance.[3] This model recognizes that students who attend different amounts require different types of help: the poorer the attendance, the more intensive and student-focused the help becomes.

3 For example, the Attendance Works organization's "Three-Tiered System of Intervention," http://www.attendanceworks.org/three-tiered-system-intervention/, and Rocky View School Division's attendance initiative.

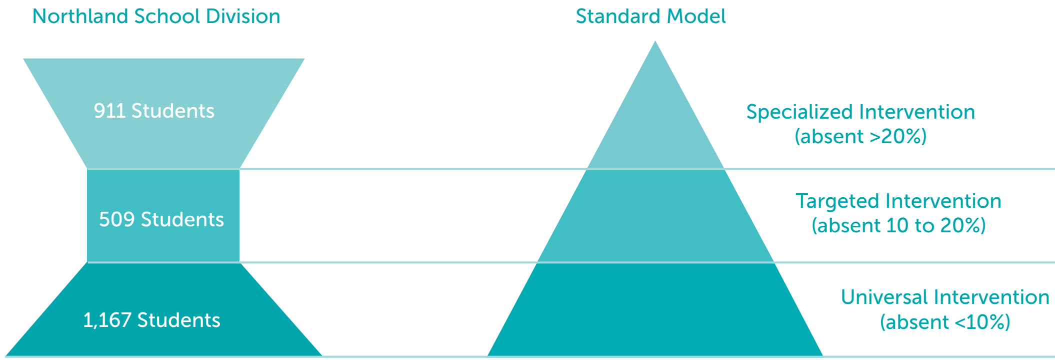


Figure 1: 2016–2017 Northland reported attendance (unaudited)[4] vs. three-tier intervention model of attendance

The true challenge to improving attendance at the division becomes clear when we look at the situation in the division based on a three-tier model. The standard model used in good attendance practices assumes that the tiers become progressively smaller—that is, there are progressively fewer students requiring help as attendance worsens. In the division, the situation is quite different. The division has nearly as many students who attend less than 80 per cent of the time—those the model says require highly individualized intervention—as there are students who attend regularly.[4]

This is not to say that the three-tier model of needs-based intervention cannot apply to the division, but rather that to be successful, resources to support attendance improvement must align with need. If the only strategies put in place are targeting the minority of students who attend regularly—those in the "universal intervention" group in the diagram above—the division will not make sustainable improvement in its attendance.

Developing a comprehensive plan will help the division ensure its limited resources can go where they need to in order to reach its goal: improving its students' attendance.

Key Observations

- The division still does not have a comprehensive plan to improve student attendance.
- In its role as a key oversight body, the Department of Education has not ensured that the division created a plan to improve attendance and put it into operation.

Department still must ensure the division develops a plan

The department has taken a number of actions supporting the division broadly and focusing on attendance in schools generally. These actions are important, but the division still needs help with its attendance right now. The department must ensure it oversees the immediate implementation of an effective plan to improve attendance in the division.

4 Attendance figures are from monthly attendance reporting that division management provided to the division's Official Trustee and advisory board. The figures presented are the mean (average) student counts by attendance level for the months of September 2016 to June 2017. While we observed that the division has designed improvements to its attendance data management processes, we have not audited the numbers reported, so we cannot confirm their accuracy. We provide this information for illustrative purposes only.

Sharing good practices

In March 2015, we pointed to a number of good attendance practices from around Alberta. We suggested that, to ensure its plan is as effective and evidence-based as possible, the division study good practices and consider how it may adapt them to the division.

Since our original report, another jurisdiction, the Rocky View School Division, has experienced some early positive results with an attendance strategy.

We met with Rocky View to learn about its attendance initiative. We provide an overview of good practices from that initiative in Appendix C.

Recently, the department and the division have also met with Rocky View to better understand the Rocky View approach, what has worked and why.

Appendix A:

2015 OAG Recommendations

RECOMMENDATION 1:
Develop a plan to improve student attendance[5]

We recommend that Northland School Division develop an operational plan with short- and long-term targets to improve student attendance.
The operational plan should include:

- measurable results and responsibilities
- a prioritized list of student-centred strategies, initiatives and programs
- documentation of the costs and resources required to action the strategies, initiatives and programs
- a specific timeline for implementation
- reporting on progress and accountability for improved attendance results

RECOMMENDATION 2:
Oversight by the department[6]

We recommend that the Department of Education exercise oversight of Northland School Division by ensuring:

- the division develops and executes an operational plan to improve student attendance
- the operational plan identifies the resources needed and how results will be measured, reported and analyzed

RECOMMENDATION 3:
Monitor and enforce student attendance[7]

We recommend that Northland School Division improve its guidance and procedures for schools to:

- consistently record and monitor student attendance
- benchmark acceptable attendance levels
- manage and follow up on non-attendance

5 *Report of the Auditor General of Alberta—March 2015*, no. 1, page 23.
6 *Report of the Auditor General of Alberta—March 2015*, no. 2, page 23.
7 *Report of the Auditor General of Alberta—March 2015*, no. 3, page 30.

Appendix B:

Summary of Progress

SUMMARY OF STATUS

Management & OAG Assessments

Recommendation	Management Assessment	OAG Assessment
1. The division should develop a plan to improve student attendance	▲	◆
2. The department should exercise oversight	●	◆
3. The division should monitor and enforce student attendance	●	●

Legend

● Good progress

▲ Limited progress

◆ Unsatisfactory progress

The table above highlights a difference between management's view of its progress in responding to two of our March 2015 recommendations and our own view of their progress.

The widest gap in perspective is with the department's management. In response to our recommendation, and as part of an overall strategy for the division, the department has taken a very broad and holistic approach—marshalling resources from throughout the department and across government with a view to making long-term improvements and reducing barriers to success in school. Their approach is not without merit and can make a positive difference, over time and with continued support.

But our recommendation calls for something altogether more focused: make sure the division has a credible plan to improve attendance, and make sure they put it into operation. Such a plan is necessary to provide the individualized support each chronically absent student needs to improve his or her attendance. We believe that this is a reasonable expectation and that any delay in implementing such a plan is a missed opportunity for the division's students.

We provide a more detailed assessment of each recommendation in the following pages.

RECOMMENDATION 1: Develop a plan to improve student attendance		
Management assessment:	▲	Limited progress
OAG assessment:	◆	Unsatisfactory progress

Our expectations

We expected that among the division's first steps would be to develop a comprehensive plan and put it into operation. After more than two years, we expected the division would report what its plan was and what the results of it had been to date.

What management has done to date

The division reported to us that it is working on developing a plan. The division continues to work closely with communities on the suggestions from the *Every Day Counts* report. In the fall of 2016, it hired a consultant to advise on effective planning. The division also purchased a strategic planning application that will allow it to easily distribute its plan to schools and allow them to report back.

The division has also developed several individual initiatives focused on attendance, including:

- a tool that allows schools to assess their own progress in implementing attendance strategies and report their progress to the division
- a tool that supports schools in understanding their own challenges to attendance and developing their own strategies
- committees of community members and school staff focused on attendance at each school
- a robust communications strategy to guide how the division and its schools communicate the importance of attendance to students, parents and the broader community

What remains to be done

The initiatives that are in place, and those to come, are at risk of not meeting the division's objectives, because they are still not coordinated under a comprehensive plan. The division must ensure it develops and deploys a plan, coordinated from its central office and managed by regional associate superintendents, to improve student attendance in the division. The division should regularly measure and assess the effectiveness of the plan in meeting its objectives.

A key to an effective plan is to recognize that students who have different levels of attendance require different amounts and types of help. The division's initiatives to date have focused on incentives to students, community outreach, and making schools more inviting places—the types of activities that are effective at getting students with already good attendance to attend even more and prevent good attenders becoming chronically absent. For sustainable long-term success, the division will also need to develop student-centred approaches for its students who are chronic non-attenders or currently not attending at all.

It is important that the division study good practices from other school jurisdictions working to improve attendance, such as Rocky View School Division, and consider if these practices may be useful in the division.

RECOMMENDATION 2: Oversight by the department		
Management assessment:	●	Good progress
OAG assessment:	◆	Unsatisfactory progress

Our expectations

Following our report, we expected the department would have ensured that the division prioritized developing and implementing a comprehensive plan to improve attendance.

What management has done to date

The department reported a number of actions taken to respond to our recommendation. It reported that it has:

- set up a committee of representatives from various ministries to determine how government can provide broad support to Northland School Division and its communities, including a subcommittee focused on attendance
- retained a consultant to assess the division's budgetary pressures
- approved a five-year, 20 per cent funding increase for the division to aid in, among many activities, incremental initiatives to support student attendance
- made changes to the Alberta Attendance Board by focusing it more on helping Alberta school boards better prevent and resolve student non-attendance and reserving formal board hearings as a true last resort
- supported summer literacy camps in northern Alberta communities, including several communities that the division serves
- spread awareness of the division throughout the department and sought input from across the department on what resources might be available to help
- developed a framework and strategy for how it will oversee the division's attendance plan. The department recently approved the framework and strategy and shared them with the division.

The time that the department has been able to devote to attendance in the division has been limited because it has been working with the division and its communities toward amending the *Northland School Division Act* and reinstating the division's board of trustees in October 2017.

In summary, the department has taken some action on the division, and it has taken some action on attendance. But its actions specific to overseeing the division's attendance have been more limited. The evidence for this: in more than two years the division still does not have a comprehensive plan for student attendance.

What remains to be done

The department must ensure the division develops and implements a comprehensive plan to improve attendance. More than two years without a plan may not seem unreasonable, but for a young person in school those two years of inaction may be the difference between graduating and not.

RECOMMENDATION 3:
Monitor and enforce student attendance

Management assessment:	●	Good progress
OAG assessment:	●	Good progress

Our expectations
We expected to see the division's plan clearly focused on clarifying and strengthening how it monitors and enforces student attendance in all schools throughout the division. We also expected specific focus on strengthening its controls over the reliability of its student attendance data.

What management has done to date
The division reported on a number of steps to improve the way it monitors and enforces attendance, including:

- clarifying its processes and providing training to school staff on how attendance should be monitored and enforced across the division
- hiring a full-time IT specialist to make needed improvements to the division's attendance data and data management practices
- defining a set of standard attendance codes for all schools to use across the division when recording attendance in its data system
- providing schools and division staff with an actionable toolkit to help effectively communicate the importance of attendance to students and parents

These actions provide a strong basis for the division to continue making improvements. The division has focused on improving the quality and consistency of its data. Its progress to date will provide the foundation for improved attendance monitoring processes. We also observed that the actions are aligned with good attendance practices, such as those being developed in Rocky View School Division.

What remains to be done
The division still must make improvements to the way it monitors attendance, the way it ensures its schools are following policy, and how it understands why students are not attending school.

The attendance data system should now have more reliable information from school-level activities, but the division is not yet using its data to ensure that it understands which students are experiencing chronic non-attendance and that school-level actions are being taken to meet the needs of students. Once the division understands which students, in which schools, are experiencing barriers to attendance, it can take steps to ensure schools develop a robust understanding of the reasons and take targeted action to support each student needing assistance.

Fundamentally, good practices show that positive change can result from a student-centred approach based on a strong understanding of why a student is not attending. Each student who is chronically absent needs a plan in place that reflects that student's unique needs.

Appendix C:

Good Practice in Alberta—Rocky View School Division's Attendance Initiative

Present for A Purpose—a Student-Centred Approach

Rocky View School Division started an attendance innovation campaign, called "Present for a Purpose," in the 2016–2017 school year. The campaign began with a pilot at four schools in Rocky View.

Rocky View obtained financial support for the project through a grant from a private donor. The donor provided two years of funding for a full-time position to lead the initiative, along with related administrative support. The grant also provided a specific allocation of money to support one-off direct supports to individual families and students in need, designed to quickly remove or reduce specific barriers to attendance—such as the need for dental work or reliable transportation.

The pilot has seen promising results. In the 2015–2016 school year, approximately 200 students at the pilot schools were chronically absent—defined within the initiative as a student who is absent more than 10 per cent of the time. By the end of the first year of its pilot, the 2016–2017 school year, Rocky View reported that it had reduced the number of chronically absent students from 200 to 20.

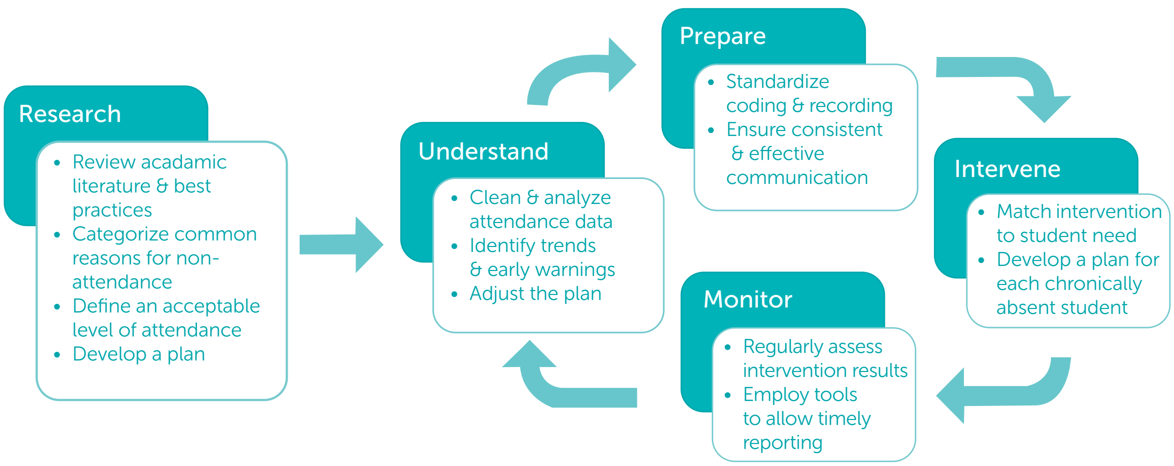


Figure C1: Student-centred approach to attendance intervention

While the long-term and full-scale results of the approach remain to be seen, we took note of Rocky View's attendance initiative for three reasons:

1) it is student-centred and recognizes that different students with different levels of attendance need different kinds of help
2) it is elegantly simple in its delivery at the school level, meaning teaching staff can play a role in the strategy without taking too much attention and time away from teaching
3) its plan is fixated on one outcome, and one outcome only: improving attendance

Each school authority has unique geographies and demographics to consider, and a strategy that works in one division may not necessarily work in others. But what Rocky View's case seems to support is that a comprehensive student-centred plan, centrally directing and regularly monitoring key business activities, can make a difference.

Alberta Energy

Alberta Petroleum Marketing Commission (APMC)

Management of Agreement to Process Bitumen at the Sturgeon Refinery

February 2018

Summary

The Alberta Petroleum Marketing Commission (APMC) is managing a large-scale arrangement in the energy industry on behalf of the Government of Alberta. The arrangement commits the government to approximately $26 billion over 30 years in pursuit of a favourable return. Now is a critical juncture for the facility at the centre of this arrangement, the Sturgeon refinery, which is set to be operational by mid-2018. The lead-up to the opening of any major operation, such as this refinery, brings new opportunities and risks to the parties involved. The APMC needs to ensure it has the right people, with the right skills, doing the right things at the right times for it to successfully steward this extremely complex and impactful arrangement. Such expertise can be hard to find and can be costly in terms of compensation.

Although the APMC is committing a lot of time and effort to risk management activities, it does not have well-designed risk management systems and lacks sufficient evidence to demonstrate that its systems are operating effectively. For the APMC to prove it is managing risks effectively, these systems are necessary. With the recent turnover of the CEO and part of the board, the need for well-designed, documented and functioning systems is even more important. Further, although the APMC's board (the oversight body) was heavily involved as risks arose, it did not ensure the agency put in place risk management processes adequate for the complexity of the arrangement.

Given the nature of the agreement, the level of public reporting from the APMC is not good enough. The agency is acting as steward of the province's resources, and Albertans have a right to know how it is using those resources. They are currently not receiving that information.

Finally, to maximize the benefits and minimize the risks, the APMC needs well-functioning systems befitting its operations. There is still the time and opportunity to improve the management of risks in Albertans' best interests, but action is needed to ensure all the necessary people and processes are in place at the APMC in time for the start of commercial operations at the Sturgeon refinery.

About This Audit

Business arrangements in the energy sector are of a high-stakes nature: the benefits can be very large, but so are the risks. Contracts can be worth billions of dollars, but success in the arrangements can depend on factors that are difficult to predict, such as the price of oil.

Since 2011, the Government of Alberta has considered a number of energy arrangements of this high-benefit, high-risk kind, entering into two of these arrangements. One is a $26 billion commitment for the government to supply bitumen to the Sturgeon refinery over a 30-year period. In another arrangement, the government planned to pay about $4.6 billion over 20 years to have oil transported to the east coast through the Energy East Pipeline. Subsequent to our audit, TransCanada cancelled this project.

These arrangements are managed by the Alberta Petroleum Marketing Commission (APMC), a commercial agency of the Government of Alberta. Although the Sturgeon arrangement is currently the only large-scale arrangement the APMC manages, the government has given the agency a mandate to explore new arrangements. In particular, the mandate allows the APMC to seek new energy markets and promote value-added activities, such as oil refining. These ventures should align with government policies, and they require approval from the Government of Alberta.

For an agency like the APMC to be successful and demonstrate stewardship when managing substantial commercial agreements, three elements are essential. First, the agency must have highly developed processes for managing risk, as well as the expertise and capacity to act on those processes. Second, the agency should be subject to strong oversight processes to ensure risk management processes and staffing requirements are in place to support the success of the agreements. And third, the agency has an obligation to report on its agreements to Albertans, whose resources it uses.

North West Redwater Partnership arrangement

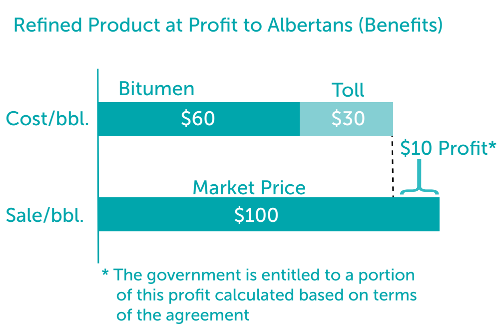
The Sturgeon refinery is owned and operated by the North West Redwater Partnership (NWRP). The APMC's commitment to the project is to provide 37,500 barrels of the province's raw bitumen per day (75 per cent of the refinery's total intake), which the refinery would process into high-quality diesel fuel and other products. The APMC will pay a toll to the refinery. A component of the toll is an operating cost, and another component goes toward recovering NWRP's debt and equity for financing the refinery's construction.

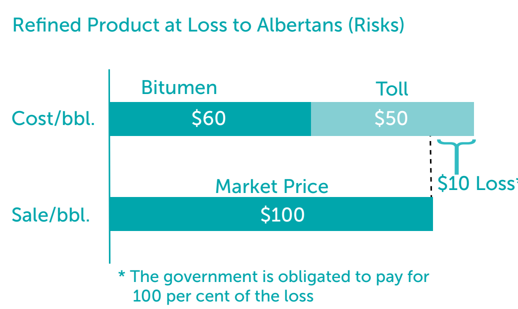
In 2014, the APMC agreed to provide a loan to NWRP to support funding of the refinery, whose facility capital cost had increased from $5.7 billion to $8.5 billion. The APMC received a 25 per cent voting right in the decision-making of the partnership as part of the loan agreement. The loan was provided to help NWRP maintain the debt-to-equity ratio at 80:20. The facility capital cost estimate is $9.4 billion (the total capital cost is estimated to be $10.2 billion when interest and return on equity during the construction period are included). The Sturgeon refinery is anticipated to be fully operational by June 2018.

Both the debt component of the toll and the APMC's loan are financially important to Albertans, because further increases to the capital cost of the refinery affect both: each time the capital cost increases, the toll that the APMC will have to pay increases as well, as does the size of the loan the APMC provides to NWRP.

Using an example,[1] we illustrate below the financial benefits and risks of the NWRP arrangement. The refined product will typically have a higher market value than the bitumen the government supplies to the refinery—but the difference between the market price and the bitumen cost has to be greater than the toll for the government to make a profit. One risk in this scenario comes from the fact that the market price of refined oil is unpredictable, so a profit after the toll is paid is uncertain. A second risk is that increases in the construction costs of the refinery lead to increases in the toll as NWRP seeks to recover costs. A larger toll makes it harder for the government to make a profit.

Profit/Loss After Toll Payment





1 Hypothetical numbers used for illustration purposes.

Energy East Pipeline arrangement

Under an arrangement with TransCanada, the APMC would have paid about $4.6 billion over 20 years to have oil transported to the east coast through the Energy East Pipeline. At the time of our audit, there was uncertainty over whether the pipeline would receive all the necessary regulatory approvals for it to be built and put into operation. Subsequent to our audit, TransCanada cancelled this project.

Did we examine how the NWRP agreement came into existence?

This audit did not include an examination of the contracting activities to arrive at the original and amended processing agreements with NWRP, signed in 2010 and 2014 respectively. We excluded this from the scope of our audit for two important reasons. First, the processing agreement and accompanying agreements are in place and enforceable, and there is no plausible scenario in which it would make financial sense for the APMC to pull out. Of note, other parties in the agreement can sell their interest under certain circumstances,[2] whereas the APMC cannot. Second, we want this audit to focus on where improvements can be made. Many of the processes used to enter into the agreements are no longer relevant, and most of the individuals who participated in developing and deciding upon the agreements have left the government. As a result, we focused on what processes exist today to manage this significant contract and whether improvements are needed to manage the risks on behalf of Albertans.

Is the NWRP agreement a "good" deal for Albertans?

One question we believe Albertans are likely to have is whether the NWRP agreement represents a good deal for the government. This is a question that cannot be answered definitively and objectively at this time. First and foremost, the processing agreement is a 30-year contract, with an option to renew every five years commencing at the end of the 30-year term. The uncertainty around diesel prices, bitumen prices, interest rates, foreign exchange rates and capital and operating costs over a duration of 30 or more years is considerable. As a result, the expected financial performance of the agreement is premised on the forecasts and assumptions made on these variables. The APMC's current economic analysis forecasts a positive net present value (NPV). As part of our annual APMC financial statement audit, we examined the cash flow model used to arrive at this number, and we have not identified any problems. However, since the original agreement was signed, the risk exposure has increased without a commensurate change in benefits. In 2011, the estimated NPV for the government was a range of $200 million to $700 million over the life of the project. As of early 2017, that estimate covering the 30-year term is now under $200 million. Many factors, from oil prices to the increases in the Sturgeon refinery capital cost, influence the NPV of the agreement. Consequently, they affect the financial returns to Albertans.

When an organization enters into a commercial transaction, and on an ongoing basis afterwards, it should weigh the benefits against the risks. The government reported on the risks and benefits of the Sturgeon arrangement when it entered into the original contract. However, there is no systematic ongoing analysis of how those risks and benefits have changed. Therefore, it is difficult for the government to appropriately assess and communicate the evolving benefit-to-risk trade-off. For example, potential benefits in the public sector are more complicated because they may involve policy objectives, such as job creation and economic diversification. The APMC needs to work with the Department of Energy to determine what risks and benefits of this arrangement could be reported, when to report them publicly, and who should report what.

2 The other parties have to ensure APMC is satisfied that the proposed buyer has a good reputation and has suitable technical, commercial and financial resources available to it.

The APMC, after it begins to supply bitumen and receive proceeds from the sale of refined products, will be reporting the profit or loss as a result of the agreement. Albertans will then get an annual picture of the financial results over the life of the agreement.

Audit Objective and Scope

The objective of this audit was to determine whether the APMC has adequate systems to manage the risks in its agreements to expand market access and value-added processing.

We did this work because these agreements are complex, have a long-term impact on the government and Albertans, and by nature present significant potential benefits and risks to Albertans.

We based our criteria for this audit on the APMC's responsibilities and applicable legislation. Management agreed that these criteria were suitable for this audit.

The audit focused on three areas: the APMC's risk management, the board's oversight of risk, and the APMC's reporting to Albertans. It also aimed to answer whether there are lessons learned from the Sturgeon and Energy East Pipeline arrangements that the government could apply in its business arrangements.

Early in our planning it was evident that, from a significance perspective, the agreement to process bitumen at the Sturgeon refinery received most of the effort and attention of the APMC outside of its conventional oil marketing activities. As a result, our primary focus when examining the APMC's processes was on its management of the bitumen processing agreement. Our scope did not include an examination of NWRP's processes, only those at the APMC.

Also at the time of audit, there was less activity at the APMC to manage the Energy East Pipeline agreement because of regulatory challenges. Subsequent to our audit, TransCanada announced it would no longer be proceeding with this project.

Audit Responsibilities

The APMC's management is responsible for maintaining effective systems to oversee market access and value-added processing-related activities. Our responsibility is to express an independent conclusion on whether management has adequate systems to achieve the outcomes described in the audit objective.

We conducted our audit in accordance with Canadian Standard on Assurance Engagements 3001 issued by the Auditing and Assurance Standards Board (Canada). The Office of the Auditor General applies Canadian Standard on Quality Control 1 and, accordingly, maintains a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. The Office complies with the independence and other ethical requirements of the Chartered Professional Accountants of Alberta Rules of Professional Conduct, which are founded on fundamental principles of integrity and due care, objectivity, professional competence, confidentiality and professional behaviour.

What We Examined

We examined the APMC's systems to manage risks, analyze results and report to the board and the public on its business arrangements.

We gathered our evidence by performing interviews with staff and board members, inspecting documentation, reviewing correspondence and examining reports to Albertans. We conducted our field work between November 2016 and June 2017 and substantially completed our audit on July 31, 2017.

Conclusion

Because of the significance of the findings, we concluded that the APMC does not have well-designed systems to manage and communicate the risks of its business arrangements and the agency does not have sufficient evidence to demonstrate that its risk management systems are operating effectively.

Why This Conclusion Matters to Albertans

The APMC's mandate has a long-lasting impact on the resources of Alberta. The agency is managing a complex, long-term business arrangement that has significant financial impacts for Albertans today and in the future. The existing business arrangement the APMC is entrusted to manage will commit approximately $26 billion of Albertans' resources over the next 30 years in pursuit of a favourable return.

Because of the structure of the NWRP arrangement, there is no plausible scenario where it would make financial sense to pull out of it. Albertans' resources are therefore committed. Strong oversight and risk management are consequently all the more important.

The government entered into the NWRP arrangement on Albertans' behalf, and ultimately Albertans assume all the associated risks and benefits over a long period of time. They should be confident that the APMC has adequate systems to manage the arrangement in the best interests of the province. Albertans should also receive sufficient public reporting on this arrangement to be able to keep current with the risks they assume and the benefits they receive.

Findings and Recommendations

Risk Management Processes Need Improvement

Context

The sector that the APMC operates in—the energy industry—comes with specific risks, such as volatile commodity prices. The risks are intensified by the high-capital nature of the industry, where contracts can be worth billions of dollars.

By entering into multi-billion dollar commercial contracts, the APMC is committing significant resources in pursuit of a favourable return for Albertans. At the same time, the APMC is expected to prudently manage the risks on behalf of Albertans. Risk management involves, among other things:

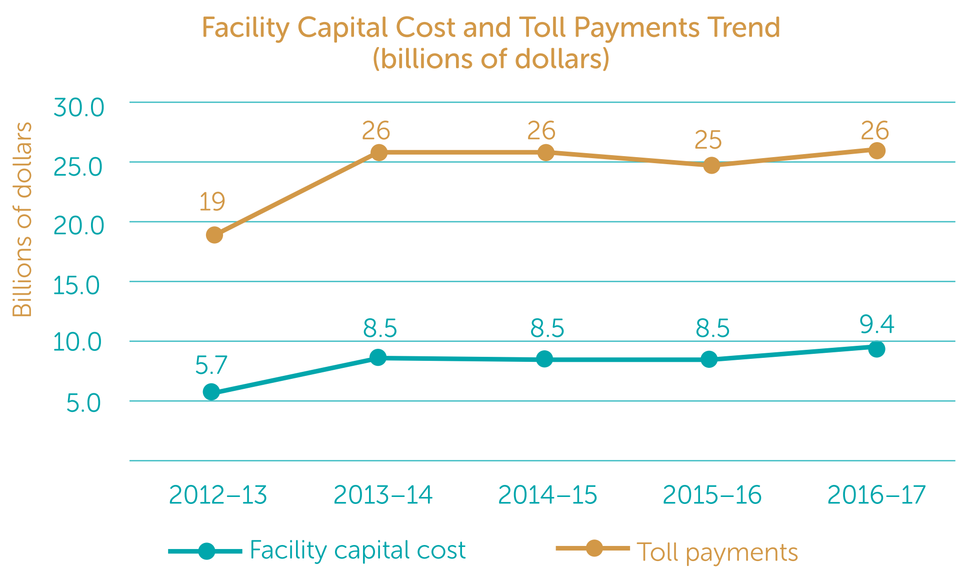
- deciding what risks to take by balancing risks against benefits
- mitigating risks
- assessing what expertise is needed to manage risk and ensuring that the expertise is in place
- reporting risks and management's actions to the governance body

In support of good risk management, ongoing contract monitoring is necessary to ensure the terms and conditions of agreements are complied with by all parties. Complex agreements can include clauses that may be open to interpretation or may require timely and specific actions, and whose details and complexities can be forgotten by organizations. Active and well-documented contract monitoring is therefore vital. Seemingly small oversights can result in missed opportunities or millions of dollars in losses. While many components of the bitumen processing agreement are not active until the refinery is operational and the APMC is supplying bitumen, there are numerous important elements in the agreement that require monitoring, both before and after commercial operations begin.

To protect itself and its stakeholders, an organization must be deliberate about resource planning to ensure it is not unduly harmed by the departure of staff with critical skills. Most important of all, the APMC needs to make sure it brings in the necessary expertise to maximize the benefits and minimize the risks of arrangements. For example, the negotiation of supply agreements for purchasing bitumen to be processed at the Sturgeon refinery requires a specific set of skills. Because of the size of the agreement, even a 10-cent-per-barrel difference in input costs can have an impact of millions of dollars on the APMC's profits.

Agreement to process bitumen at the Sturgeon refinery

Because of the long-term nature of this contract and the $26 billion at stake, it is important that the APMC be able to successfully manage the risks to mitigate the financial exposure to Albertans. The table below outlines the growing facility capital cost of the refinery, together with the toll payments the government will have to pay. Capital cost is one of the many variables influencing the toll payments.



While there are many risks that the APMC cannot directly control, such as the price of oil and exchange rates, there are opportunities to mitigate and manage those risks as best as possible—for example, by negotiating potentially favourable bitumen supply purchase prices.

It is important to note that there is no direct correlation between how well the APMC is managing risk and the Sturgeon refinery's capital cost increase. NWRP is responsible for actively managing the refinery's day-to-day construction risk. However, as a result of the agreements put in place after the cost estimate increase in 2013, the APMC could have some influence on decisions at the oversight level through its 25 per cent voting interest at the partnership.

Examples of risks specific to the bitumen processing agreement that the APMC has faced or will face soon:

- increases in facility capital costs of $900 million in mid-2017, resulting in larger toll payments. This also resulted in a rise of subordinated debt[3] to NWRP from $324 million to $419 million.
- risks as the refinery transitions into operation, such as disruptions in the supply of bitumen. In the event of insufficient supply, the APMC remains obligated to make payments committed under the contract
- the requirement to pay the debt portion of the toll before refining begins if the commercial operation date is delayed to after June 2018
- loss of corporate knowledge related to the transition of senior management because the CEO left at this critical stage of the project
- a volatile market for the refined product, because of the current economy, resulting in potential losses either annually or over the life of the contract
- decrease in profit if the carbon capture and storage unit, integral to the business case, is delayed or not built

Criteria: the standards of performance and control

The APMC should have systems to manage the risks associated with its business arrangements. The commission should also assess what expertise is needed to manage risks in its business arrangements and ensure the required expertise is in place.

Our audit findings

Key Findings

- The APMC has poorly designed risk management processes with limited evidence that risk management is operating effectively.
- Certain areas of contract monitoring need improvement.
- Staffing needs for today and the future are in the process of being developed.
- Board oversight of risk management functions could be improved.

3 If NWRP goes bankrupt, the APMC does not have a first priority to claim NWRP's assets or earnings for the $419 million it loaned to the partnership.

The APMC board and management are responsive to risks, but a fully functioning risk management system is not in place

APMC management attends NWRP committee meetings and prepares and communicates important information back to the board. We found that discussions, information and analysis shared between the board and management are extensive as important matters emerge, such as construction progress and the status of carbon capture and storage infrastructure. The APMC's management also provides the board with regular updates on ongoing financial and operational matters.

This work is critical for managing risks, but it should not be viewed as a substitute for systemic and evidence-based risk management systems. The APMC does not have a fully functioning and documented risk management system to facilitate proactive and evidence-based identification, evaluation, monitoring, mitigation and communication of risks relating to its business arrangements. Thus, while the board and management assert they are managing risks well, in the absence of a well-designed system and thorough supporting evidence, that assertion cannot be proven. Also, not having sufficient risk management processes increases the chances that risks are not identified or not managed as well as they could be. These systems are also important to ensure that, amid the focus on urgent risks, the APMC still gives attention to risks that are less urgent but still important.

The design of the APMC's enterprise risk management system is inadequate

The APMC's current enterprise risk management system (ERM), introduced in early 2016, does not meet the standards that Alberta Treasury Board and Finance has developed. It lacks broadly accepted elements of what makes a good risk management system. For example:

- there were no timelines or supporting details prepared for the actions to mitigate risk. The actions were unclear and too brief to be useful.
- there was no discussion of residual risks.[4] For example, if the severity and probability of a risk are assessed as high and a mitigating action is identified, it should be clear whether that action reduces the risk to an acceptable level.
- the risk register did not clearly state whether risks identified were related to crude oil marketing, the agreements or something else, or whether they were organization-wide
- probability and severity assumptions were not documented
- important risks such as commodity margins, agency risks and conflicts of interest were not included. Also, in 2012, a number of key risks identified and ranked by the APMC's external consultant were not included as part of the existing register.
- risks were not assigned to an owner, so it is unclear who was responsible for each risk

4 Residual risk is what is left over after natural or inherent risks have been reduced by risk controls.

Below are some specific examples of risks where the lack of a well-designed and functioning risk management system could make the APMC vulnerable.

Examples	
Unresolved response to the price differential risk	A key risk to the APMC is that the difference in price between the refined product and the bitumen the APMC provides could be less than the cost of the toll. This price differential risk is the only processing agreement risk disclosed in the Ministry of Energy's 2016–2017 annual report. (The APMC does not release its own annual report.) However, in the APMC's current risk register, price differential is not listed. Thus, in the APMC's own risk management system it is not clear what mitigating strategies (e.g., hedging), if any, are planned in relation to price differentials. The APMC's residual risk exposure, risk tolerance and approach for something as important as price differential should be clearly documented and understood. In early 2016, management presented a risk management framework to the APMC board that outlined an approach to partially mitigate financial risks, like price differentials. This framework discusses the APMC becoming "hedging enabled." When we asked about the status of this framework, we were told it was a discussion document. The last mention of hedging strategies is in the APMC's 2016 internal annual report, where it states that the strategies are being put on hold. We found no documented explanation as to why or for how long. Management asserts that it is following Treasury Board and Finance's advice that, along with normal risks and costs of hedging, hedging of the price differentials on the Sturgeon refinery arrangement in isolation does not consider the broader impact on the province. Management was unable to provide evidence of the advice given to it and the board nor any supporting financial analysis of this hedging relationship. This arrangement already provides a hedge (although small volumes in comparison to the overall royalties) against the government's opposite exposure to differentials.
Lack of evidence that analysis of agency risk has been completed	Agency risk includes the risk that parties in a contractual agreement can have differing interests that can impact the benefits and costs to one another. As expected, each party in the processing agreement will generally seek to maximize its benefits and minimize its costs within the parameters of the agreement. The parties are working co-operatively, but their interests are not perfectly aligned. Therefore, we would expect to see, from the construction phase to commissioning to operations, that the APMC has analyzed and documented all critical areas where interests may not be aligned and the risk mitigation strategies in place to manage them. We did not find evidence that the APMC documented where misalignment does or could exist and where it is being considered in the various areas of risk management. By the nature of the relationship, the APMC will be relying on NWRP for some activities and processes. The APMC has not documented the extent of the reliance and risk mitigation strategies needed—for example, specific oversight and monitoring activities, audits required.
Risks to APMC when refinery transitions to commercial operations	As the commercial operation date approaches, the APMC is responsible for managing a growing set of risks. The processes and expertise needed at the APMC are impacted by this important transaction. Without a comprehensive plan that outlines the processes, people and resources required to be ready, it is difficult to see the overall level of readiness the APMC envisions when commercial operations begin. Thus, it could be challenging for the board and management to ensure that the APMC is appropriately managing all the necessary activities. We saw evidence that the APMC is advancing important areas to be ready, like developing the processes for procuring bitumen. What we did not see was a cohesive and clear plan to guide the organization.

Overall, an integrated approach to risk management through a robust risk management framework is critical for the APMC to protect the commission from vulnerabilities such as the loss of key management staff and to ensure that the management of risk is uninterrupted. The APMC has taken some early steps, but much more needs to be done.

Certain areas of contract monitoring documentation and execution need to be improved

Because of the complexity of the processing agreement, strong contract monitoring is essential to reduce risk. The APMC's management attends NWRP committee meetings and has ongoing dialogue with the APMC board to discuss important elements of the agreement. These actions are integral to overall contract monitoring.

However, we found limited documentation of what contract monitoring activities are presently taking place for some of the detailed terms and conditions within the agreement. While many provisions of the agreement are not as relevant until commercial operations commence, there are a number of important elements that require detailed consideration during the construction phase. For some important areas, like evidence of required insurance coverage and agreement on the benchmark operating costs, we were provided evidence they are being completed. But for other areas, it was not clear when and how certain contract monitoring elements should be completed, and by whom.

APMC has not completed an audit of refinery capital costs since 2012

The processing agreement enables the APMC to have the refinery capital costs verified going back six years. This provision is important as the capital costs have a direct impact on the toll the APMC will pay. As the APMC does not have its own internal auditors, it relies on the services of the compliance and assurance group within the Department of Energy.

The last time the APMC asked the compliance and assurance group to audit the Sturgeon refinery capital costs was in 2014 for the costs incurred in 2012 (no adjustment to capital cost was identified from this audit). Since that time, the APMC has not requested further audit work to be done. The APMC asserted there was a low risk that the capital cost was incorrect. However, there is insufficient evidence that management properly analyzed and considered this conclusion over the last number of years. When an individual from NWRP asked the APMC in early 2016 if audits were going to be completed to catch up from 2012, the APMC's conclusion was that the necessary staffing resources were not available and that there was minimal risk of material misstatement. In addition, the APMC believed all parties' interests are aligned in keeping the refinery construction cost low. The decision to not proceed with any further audits after 2012 is not supported with sufficient analysis and information.

For audits done before 2012 to determine the eligibility of costs for the initial capital amount and for the remaining term of the contract, inaccuracies were identified in the capital cost. Although management considered these adjustments to be immaterial and did not expect them to reoccur, given the magnitude of the costs involved and the impact on the tolls, it is our view that the APMC has not completed enough analysis and has not provided adequate support to justify not having the subsequent audits completed. Management was not able to define what they considered material.

Overall, there is insufficient documentation to prove that the APMC's contract monitoring is detailed and comprehensive enough to ensure the commission is appropriately managing the risks of various terms and conditions. Contract monitoring will become even more important when commercial operations commence.

Staffing needs for today and the future are in the process of being developed

The APMC's management identified recruitment, retention and training of staff as the number-one risk to the agency. Management outlined planned mitigation strategies including obtaining authority to staff required functions, succession planning, business continuity planning, and cross-training. Aside from cross-training, we saw little evidence that the strategies have significantly progressed. Without a highly functioning and reliable risk management system, resourcing decisions may not effectively align the required expertise with the management of key risks. And because the APMC's risk management and contract monitoring processes are not well documented, it increases the challenge for new staff.

An analysis of resourcing commissioned by the Department of Energy in early 2017 identified a spectrum of approaches when staffing an organization like the APMC. The approaches range from staffing for a contract management approach (fewer employees) to a more hands-on, active approach to managing the agreement (more employees). The APMC is currently deciding on the appropriate staffing model, so it has not yet developed a board-approved resourcing plan.

APMC has not clearly defined the expertise it needs during the construction phase

The APMC's risk register lists construction delays and cost overruns as key risks, and it states two mitigating strategies: ongoing monitoring, and active participation in governance. There is no mention of the resources needed or expertise required to carry out these mitigating activities.

The external staffing analysis performed in early 2017, although focused on future requirements, included information that in general construction and project management experience would be important during the construction, commissioning and operations phases. The APMC's management told us that they considered the interests between all the parties to the agreement to be aligned enough during the construction phase that it would be appropriate to rely on the engineering and project management expertise of counterparties. Also, management indicated that they believe APMC employees attending the NWRP committee meetings related to construction progress do have the knowledge to engage and participate to support the Crown's interests. We did not see documented analysis and evidence to support the claims that interests are aligned or that APMC's expertise was sufficient.

The enactment of the *Reform of Agencies, Board, and Commissions Act* in 2016 impacted the APMC as its former CEO's compensation was more than double the instituted salary cap. The APMC's operations are unique to government, and there are specialized skill sets required to steward the $26 billion processing agreement. The APMC told us it will be able to hire the necessary expertise within the current compensation framework using a variety of approaches, from hiring full-time and part-time employees to contracting skills as required. Until the risk management systems and resourcing plans are complete and all the necessary staffing is in place, there is not sufficient evidence to prove management's assertion.

Board oversight of risk management functions could be improved

Through our discussions with board members and our review of board meeting minutes, it is evident that the board spends considerable time discussing important matters and requiring that management provide detailed information and answer questions as needed. However, we did identify areas where the board could improve its oversight of management's activities:

- The board has a responsibility to ensure management is putting in place sufficient risk management processes. The APMC's roles and mandate document (RMD), signed by the minister and the board chair on August 2, 2017, clearly states this responsibility. The APMC's board and management communicated to us that the commission did not need to comply with the RMD until it was signed. In effect, the APMC was operating without an approved RMD since its mandate was expanded in 2014 to allow the APMC to seek new energy markets and promote value-added activities. In July 2014, the Minister of Energy sent the board and management a letter setting out the direction for the APMC as well as expectations of the minister. This letter did not include the comprehensive list of critical elements that is contained in an RMD. In addition, we did not see evidence of discussions between the board and management about the risk management system or risk identification, monitoring and mitigation, subsequent to the October 6, 2016 meeting where management introduced to the board for the first time its ERM with the top five risks. A sound risk practice would have ensured there were regular and comprehensive management risk reports describing mitigating actions for the risks that management identified. It is management's role to look ahead to anticipate emerging risks, define risk thresholds and establish early warning mechanisms. When the board has good, actionable risk information from management, it can provide better strategic counsel and support to management.
- The board should ensure that management is completing important tasks like preparing a business plan and planning to be ready when the Sturgeon refinery is operational. Doing so will help the board hold management accountable for the execution of strategies and critical activities, for meeting timelines, and for use of resources.
- We found that when some important documents were submitted to the board, such as the strategic plan and the risk management framework for hedging strategies, there was no documented evidence of approval, rejection or direction. The board should clearly document whether it approves a strategic plan or not, so that management has a clear direction to act on the items within the plan.

RECOMMENDATION:
Develop processes for risk management and staff capacity, and ensure board oversight

We recommend that:

- the Alberta Petroleum Marketing Commission develop and document effective processes for managing risk and for ensuring the commission has sufficient expertise to manage its business arrangements
- the board of directors exercise oversight by ensuring the Alberta Petroleum Marketing Commission has these processes in place

Consequences of not taking action

The financial risk to Albertans will be intensified if the APMC does not have proper processes and sufficient staffing capacity to manage the risks of its business arrangements.

There Is Important Information That the APMC Is Not Reporting to Albertans

Context

Accountability for results relies on sound reporting. Many stakeholders, including Albertans, their elected representatives and ministries, need to know if government programs are achieving desired results. Therefore, agencies need to have a clear view of what success represents and put into place systems to measure success. Agencies like the APMC must demonstrate whether the costs and risks taken to achieve results and goals are reasonable, including disclosing important information on significant business transactions that have long-term impacts on Albertans.

Also, government agencies, through sound results analysis, can continue to improve and will better serve the public if they learn from previous successes and failures. Organizations can use the benefit of hindsight to identify valuable lessons for continuous improvement and to help with future decision-making.

Criteria: the standards of performance and control

The APMC should collaborate with the Department of Energy to determine the nature and extent of information to communicate to the Minister of Energy and decide on the appropriate information to report to Albertans about its business arrangements.

The APMC should analyze the results of its business arrangements to ensure it meets strategic objectives and applies lessons learned when planning business arrangements.

Our audit findings

Key Findings

- The APMC's current public reporting through its website and the Ministry of Energy's annual report is insufficient given the significance of the agreements.
- The APMC does not prepare a business plan, nor does it make its annual report public.
- The APMC has not defined what success means for it to be able to measure its performance.
- The APMC has not identified and documented the lessons learned from negotiating and finalizing its two key agreements.

Public reporting is insufficient given the significance of the agreements the APMC is overseeing

Information reported to the public on the benefits and risks of the APMC's processing agreement is inadequate

Considering that the agreement with NWRP results in an estimated $26 billion in payments over the next 30 years, the extent of information shared with Albertans is lacking. The Ministry of Energy's 2016–2017 annual report does highlight the estimated facility capital cost of the refinery ($9.4 billion) and one important risk factor (the price differential between bitumen supplied as feedstock and the market refined products). However, the impact of these two significant items is not discussed further. No other significant benefits or risks are discussed in the annual report.

There are a number of important benefits, some of which are currently being realized, that the APMC is not sufficiently analyzing and disclosing to Albertans, including:

- actual job creation and estimated future employment
- spinoff economic development
- projected tax revenues
- the partial hedge for the government as a result of exposure to bitumen/diesel differentials in relation to other revenue sources like bitumen royalties
- the updated net present value, which is currently estimated by management and confirmed through our annual financial statement audit process to be positive

Management confirmed that the APMC is conducting no standalone analysis of the non-financial benefits being achieved.

The risks that the APMC and, by extension, the Government of Alberta are exposed to are not transparently disclosed and are under-reported. Below are some of the key risks that are not discussed with Albertans:

- the potential for further increases to capital costs, which impact the amount of future toll payments
- the need for increased funding for the APMC if operational losses occur
- potential operational issues at the refinery
- supply disruptions of bitumen needed to meet feedstock requirements
- competition from other diesel producers
- interest rate volatility, which could impact the toll amount
- exchange rate volatility, which impacts future cash flows
- operational success and timing of completion of carbon capture and trunk line infrastructure
- environmental regulation changes that could impact costs at refinery
- disputes between partners, and potential conflicts of interest
- changes in ownership of the refinery

By not completing analysis and providing enough information on benefits and risks, the APMC is not publicly demonstrating it is meeting its ongoing responsibility to steward its agreements. Further, it is not appropriately considering or informing the funders, Albertans, of the risks it is taking on their behalf to achieve what it believes to be benefits worth pursuing.

The APMC could provide additional non-commercially sensitive information for external users to complete their own analysis

External users of government reporting are limited in the quality and extent of analysis they can perform on the processing agreement. The APMC has posted the processing agreement on its website, which outlines key contract terms and conditions. This is important information, and it is prudent that it be shared. However, the APMC has not provided the key assumptions used and analysis of how key variables impact cash flow and net present value.

For example, the APMC provides no information on how financial projections are affected by changes in diesel/bitumen spreads, interest rates, exchange rates, operating costs and capital costs. This lack of disclosure of information outside what is rightfully protected under confidentiality requirements limits the ability of Albertans to make reasonably informed and meaningful conclusions on the potential financial impact of the APMC's processing agreement. The less information the APMC shares with Albertans about the processing agreement, the greater the risk that inaccurate assumptions and analysis from other sources could fill the void.

The APMC does not have its own public annual report
The APMC's financial statements are included in the Ministry of Energy's annual report. Each year, the APMC also submits non-financial information and analysis to the department for inclusion in the ministry's annual report. The department, with minister approval, decides on what non-financial statement information about the APMC to include in the annual report. The APMC does not have its own annual report that it reports externally.

We reviewed the APMC's most recent internal annual report and found that it contains a lot of important and useful information, beyond its financial results, that is not included in any external reporting. For example, it outlines key actions and activities related to the stewardship of the APMC's agreements. While some of the information may indeed be rightfully classified as confidential for commercial reasons, we did not see any evidence that management had analyzed what information is or is not subject to commercial confidentiality. We were also not provided with evidence that a more thorough discussion of benefits and risks and sensitivity analysis would compromise any commercial confidentiality.

Observations of management's actions and a review of board minutes show there has been limited consideration by the APMC and the Department of Energy of what additional information could be shared with Albertans to enhance the quality and quantity of the APMC's public reporting. The roles and mandate document (approved by the minister on August 2, 2017) makes it clear that the APMC must send an annual report to the minister.

The APMC does not prepare a business plan
The *Fiscal Planning and Transparency Act*[5] requires accountable organizations, including most provincial corporations, to make business plans publicly available after they have been provided to the minister. The APMC's roles and mandate document also requires that the APMC submit to the minister a business plan that includes priorities and goals. The APMC does not prepare a business plan. Because the APMC does not have a business plan, there is no clear articulation of its goals, strategies and performance measures.

The board and management believe that the APMC is meeting the legal requirements in the Act via the ministry's business plan. However, the ministry's business plan does not serve as a functional plan for the APMC's operations. The current ministry business plan refers to the APMC only once, listing it as an entity in the ministry. There is no mention in the ministry business plan of the agreements the APMC is managing or any strategies, measures or outcomes related to the APMC's operations. Thus, the APMC needs to provide more adequate business plan reporting to meet the spirit of transparency and accountability laid out in the Act.

The minister and the board have not defined what represents success for the APMC
Both the minister-approved roles and mandate document and the strategic plan fall short of defining what success means for the APMC. The roles and mandate document sets out four areas of responsibility: value-added activity, market access, NWRP, and marketing conventional crude royalty-in-kind. The strategic plan indicates there is a wide range of potential futures for the APMC, but which ones it should follow depend on the

5 *Fiscal Planning and Transparency Act*, SA 2015, c F-14.7, s 10(3).

government's view on how active it wants it to be in pursuing market access and value-added activities within the energy sector. The APMC has not established key performance indicators and targets to allow comparison of expected outcomes with actual results. Nor are there specific timelines set when goals will be achieved.

In the view of the APMC's management, success for the agency is seeking out business opportunities that can enhance petroleum market access and add value to petroleum resources, bringing such opportunities forward for government consideration if they have merit. The APMC has not confirmed with the minister or the Department of Energy whether this measure is a suitable proxy for success. The APMC should consider both activity-based and performance-based measures for its business development activities, since approval of commercially successful projects is infrequent. For example, one measure could be how successfully the APMC has informed the Alberta energy market participants of its initiatives, whether through technical publications, conference presentations or direct conversations with industry participants.

The APMC has not initiated a lessons-learned analysis of the business agreements it has entered into

After the initial negotiation of the processing agreement and the subsequent renegotiation after the facility capital costs escalated from $5.7 billion to $8.5 billion, we did not see any evidence of a thoughtful and thorough analysis of the lessons learned. For example, one of the lessons that management communicated to us that they had learned from the original contracting processes and applied in the 2014 renegotiated contracts, was that the government concluded that a price cap on the facility capital costs of $6.5 billion in the original contract could not be enforced without the risk of the whole arrangement collapsing. Therefore, the cap restriction was removed as part of the negotiation of the amended agreement. However, we did not receive documented evidence to show this analysis was done at the time of the contract renegotiation. An analysis of lessons learned from the Sturgeon refinery contracting processes could be very important to help with any future decisions on contracts for value-added activities, including a processing agreement related to phase two of the Sturgeon refinery. To date, the APMC has not done a retrospective analysis of the structure, timeframe, financial significance and complexity of the processing agreement. It may also be beneficial for the APMC to complete a lessons-learned analysis for the start-up period and the period after the refinery becomes operational.

In addition, the APMC has not completed a lessons-learned analysis related to the Energy East commitment, which could provide valuable information for decision makers on any potential future contracts related to opening up access to markets outside Alberta.

Presently, there is little documented information for incoming management and board members on lessons learned from previous contractual arrangements.

RECOMMENDATION:
Improve reporting to Albertans

We recommend that the Alberta Petroleum Marketing Commission prepare a business plan and an annual report that are made publicly available to Albertans. The APMC must be able to demonstrate it has given appropriate consideration to the nature and extent of information it will share with Albertans.

RECOMMENDATION:
Establish performance measures and targets

We recommend that the Alberta Petroleum Marketing Commission develop performance measures, set targets and compare results against planned performance.

RECOMMENDATION:
Complete a lessons-learned analysis

We recommend that the Alberta Petroleum Marketing Commission complete an analysis of the lessons learned from its significant agreements, at a point in time when the commission deems it useful to do so.

Consequences of not taking action

In order for Albertans and legislators to be able to hold government accountable for results and understand the implications of significant contracts, sufficient information must be available. Albertans could be unfairly surprised if significant risks manifest themselves. Conversely, Albertans may be unaware of some of the important direct and indirect benefits obtained from significant commercial contracts used to promote strategic objectives.

Also, the potential value of learning through previous successes and failures could be lost if the APMC does not adequately analyze and document lessons learned.

The APMC has effective processes for assessing new business opportunities

Context

In response to the expanded mandate for value-added processing and expanding market access, the APMC set up a business development group to identify and analyze business ideas and financially feasible proposals that would provide strategic value to Alberta. The APMC's work is focused on advising the board and the minister on business arrangements that require some form of government involvement. The APMC also performs analysis of energy market matters and advises the minister and the Department of Energy.

Criteria: the standards of performance and control

The APMC should have systems to manage the risks associated with its business arrangements. In particular, it should analyze each new business arrangement and decide whether pursuing it is in the province's interests.

The board of directors should be aware of the key risks in business arrangements and oversee key decisions.

Our audit findings

> **Key Finding**
>
> The APMC's assessment of business development opportunities is supported with good processes.

Overall, we found that the APMC has good processes for assessing business development opportunities. The opportunities covered a wide range and were related to infrastructure, market development and value-added processing. For the projects we sampled, we found that the APMC prepared comprehensive analyses and prepared reports for the board. The APMC's process to explore new business opportunities is an important function as it is necessary for effective benefit and risk analysis. If properly completed, the analysis helps decision makers make informed judgments when approving agreements that merit government support.

Appendix A: Alberta Petroleum Marketing Commission Background

Alberta Petroleum Marketing Commission Background

The Alberta Petroleum Marketing Commission (APMC) is a commercial agency of the Alberta government that was established to collect and sell crude oil[6] on behalf of the province. The APMC's mandate was expanded in early 2014 under the *Building New Petroleum Markets Act* to assist in the development of new energy markets and value-added activity through upgrading and refining in Alberta.

In alignment with its mandate, the APMC has an existing business arrangement with North West Redwater Partnership (NWRP) to facilitate the construction and operation of the Sturgeon refinery, and in 2014 it entered into an agreement with TransCanada to facilitate the building and operation of the Energy East Pipeline.

APMC board structure and governance

The *Alberta Petroleum Marketing Act* empowers the Minister of Energy to appoint up to seven directors to the board. The minister, an elected representative of Albertans, exercises oversight of the board of directors and appoints the chair of the board.

The APMC's corporate board structure is unlike a conventional board, where independent board members are charged with the responsibility to steward the organization. Instead, there are two members from the Alberta public service (internal) and two board members with industry experience from outside the public sector (external). (At the time of the audit, the remaining three board positions were unfilled. Subsequent to our audit, the APMC appointed two new external board members.) The board chair is the deputy minister of the Department of Energy.

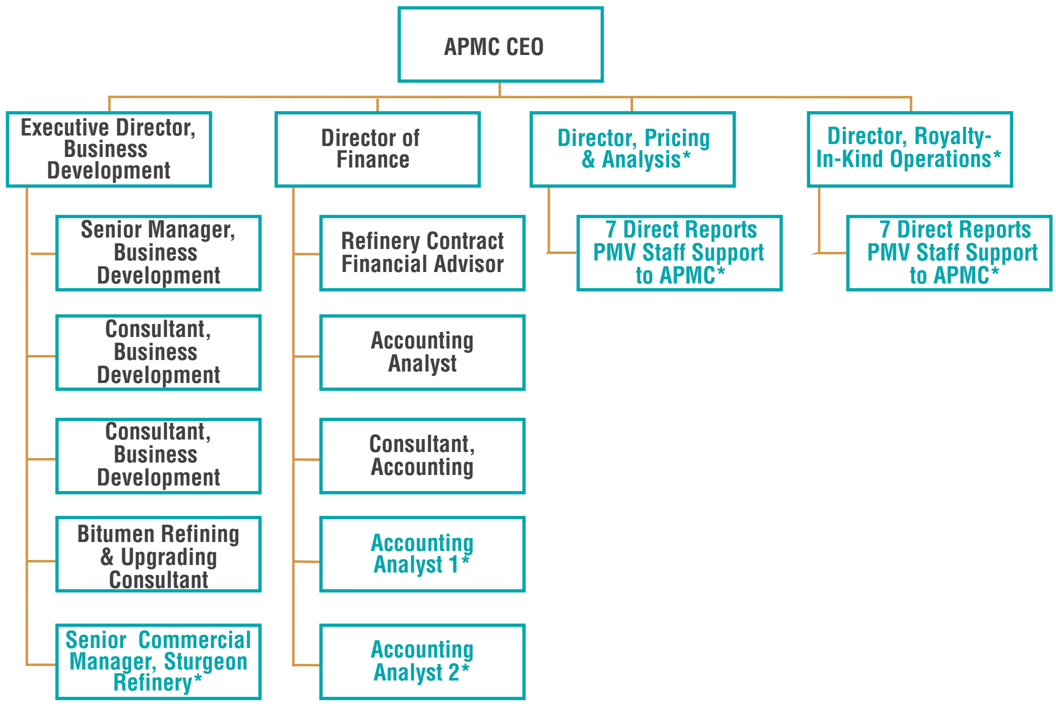
This hybrid board structure, with a mixture of senior government executives and external board members, is not common in Alberta. There could be advantages in operating this structure because it allows the government to closely align the APMC's interests with its own and advance policy implementation through the representation and actions of government officials on the board. At the same time, conflict is inherent in this structure, especially when external industry-experienced board members wish to steward the APMC in a manner that is inconsistent with the policy and direction of government. The APMC's legislation requires every appointed director to act in good faith and with a view to the best interests of the commission. At times, government executives on the board may feel conflicted because they have to act in favour of government department policy instead of what is best for the organization. The board makes decisions as one collective body. For hybrid boards to function effectively, appropriate mechanisms should be in place to respond to conflicts. The Alberta Public Agencies Governance Framework acknowledges that agencies are created to operate at some level of distance from government, and this distance could vary from agency to agency. The framework states that placing government officials on agency boards can make this distance hard to maintain and cites that this can also pose challenges for government officials who must distinguish between their obligations as department or legislative representatives and their role as agency members.

The board also reviews business proposals prepared by the management team and discusses them at the regular board meetings. The board recommends projects that merit government support, but the authority to approve projects resides with the minister.

6 Specifically crude oil royalties, which are royalties collected from petroleum producers in barrels of oil rather than in cash.

APMC organizational chart

The APMC has a small group of staff dedicated to market access expansion and value-added processing activities. In addition, a group with a mix of Department of Energy and APMC staff is dedicated to the long-standing crude oil royalty business. Below shows the APMC's organizational chart.

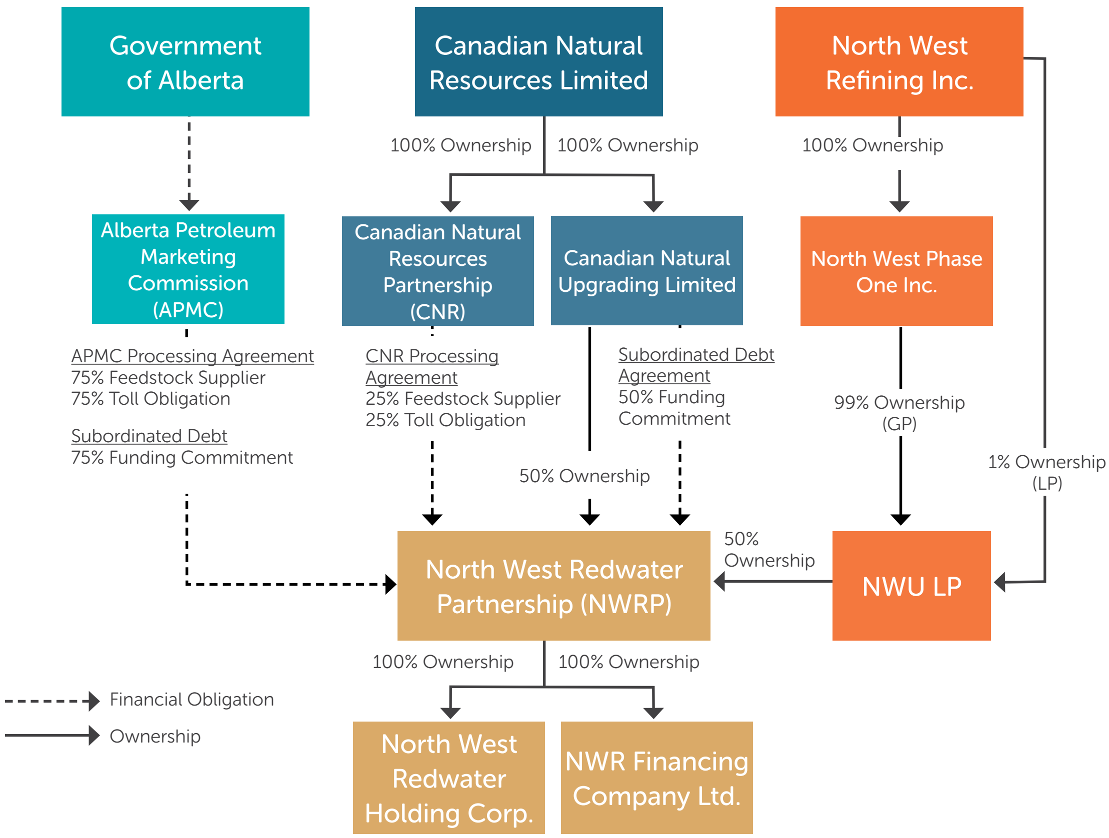


* Indicates Department of Energy employees

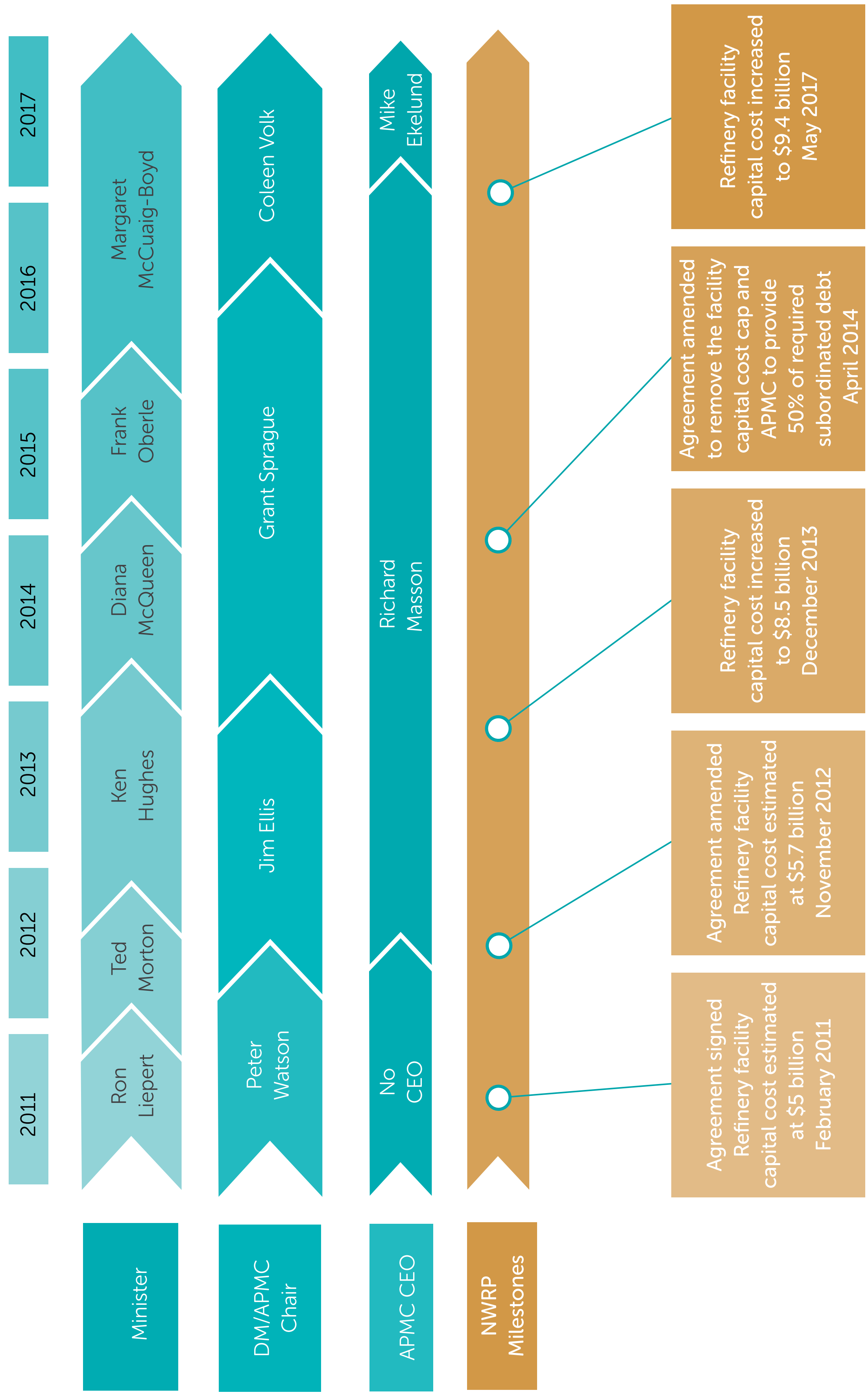
North West Redwater Partnership (Sturgeon Refinery)

The Sturgeon refinery is the first new major refinery to be built in Alberta in over 30 years. Based in Alberta's Industrial Heartland, the project is a 50/50 partnership between North West Upgrading Inc. and Canadian Natural Resources Limited. The refinery is planned to be completed by mid-2018.

NWRP/Sturgeon Refinery Contractual and Ownership Structure



Timeline on NWRP Milestones and Changes in Energy Ministers, APMC Board Chairs and CEOs



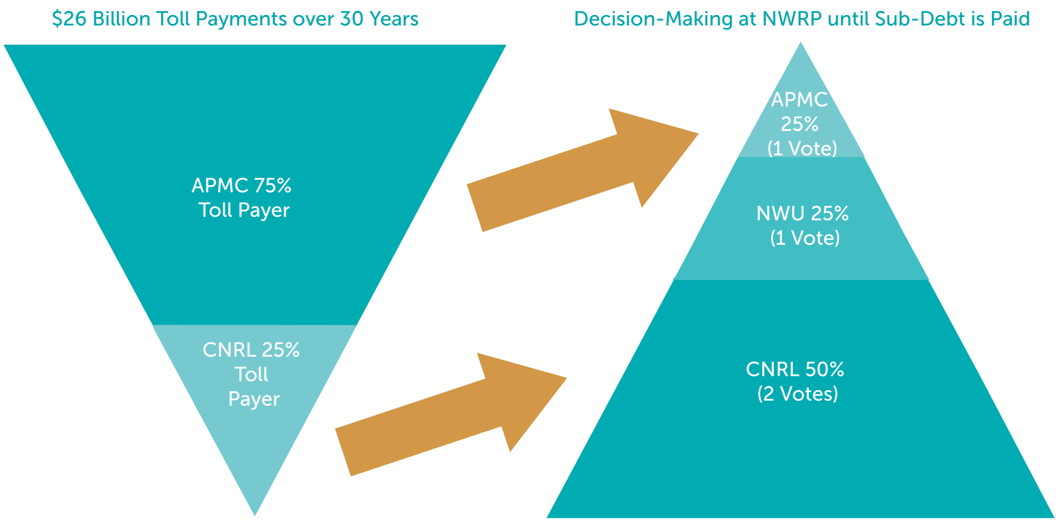
Risk Management and Contract Monitoring of the NWRP agreement

North West Redwater Partnership

NWRP, which has a staff of nearly 400, is responsible for overseeing the day-to-day construction and risk management activities of the Sturgeon refinery.

APMC

As a 75 per cent toll payer in this arrangement, the province took on many of the risks as if it were building the refinery. A substantial amount of risk was transferred to the province through the unconditional nature of the debt component of the toll payments. The CEO (left mid-2017), who took on a lead role in the 2014 NWRP contract renegotiation process, had a thorough understanding of the contracts. He was the main person who oversaw this arrangement, dedicating over 50 per cent of his capacity to it. The CEO also represented the APMC's 25 per cent voting interest in the governance of the project, actively participated in the various NWRP committees and was able to influence construction activity decisions. Below is an illustration of APMC as a 75 per cent toll payer and its decision-making power within the partnership.



APMC staff (mainly the CEO) manage the contract during the refinery construction phase by:

- preparing project status reports and discussing them at APMC board meetings
- participating in various NWRP committees that govern the construction, financing, commissioning, start-up and operations of the refinery
- analyzing significant issues and providing thorough reporting on them to the board

The APMC's involvement in the various NWRP committees includes:

- Executive Leadership Committee
- Operating Committee
- Operations Executive Leadership Committee
- Finance Committee
- Insurance Committee
- Commercial Committee

Energy East Pipeline Project

The proposed Energy East Pipeline project was to include 4,500 km of pipeline from western Canada to refineries and ports in eastern Canada. At the time of the audit the pipeline had not yet been approved, but was expected to transport just over one million barrels of crude oil per day.

The APMC signed an agreement with Energy East Pipeline Limited Partnership in 2013 to transport 100,000 barrels per day of crude oil to Saint John, New Brunswick, through the pipeline for 20 years. Under the agreement, the APMC agreed to pay a monthly fee to Energy East Pipeline Limited Partnership. Part of the fee was a fixed minimum amount: even if no oil were transported, the APMC would be charged an estimated $4.6 billion over the life of the agreement.

Subsequent to our audit, TransCanada announced on October 5, 2017 that it would no longer be proceeding with this project.

Appendix B: Bitumen Royalty-In-Kind and the Sturgeon Refinery Agreement Background

Bitumen Royalty-In-Kind

The government had the objective of using its royalty volumes collected in kind under the Bitumen Royalty-In-Kind (BRIK) program to pursue value-added activities in the province. The incremental investment would create economic activity and jobs from capital project construction and operations. This would improve Alberta's long-term economic sustainability and diversify the products produced in Alberta.

The government, through its agent, the APMC, entered into an agreement with the North West Redwater Partnership (NWRP) to process the government's royalty bitumen. NWRP comprises North West Upgrading Inc. (NWU) and Canadian Natural Resources Ltd. (CNRL). The parties to the agreement agreed that the North West Redwater Partnership would construct and operate the Sturgeon refinery, a bitumen refinery northeast of Edmonton, and upgrade, refine and market royalty bitumen supplied by the APMC and CNRL.

What is "BRIK" (Bitumen Royalty-In-Kind)?

BRIK is a concept that came out of the new royalty framework in 2007 to encourage value-added activities in Alberta. The basic premise was that the government would collect a portion of bitumen royalties "in kind": by taking ownership of a barrel rather than receiving a cash royalty. The government could then direct that bitumen to local value-added endeavours. The bitumen processing agreement originated from the BRIK concept. Over time, it became clear to the Department of Energy and the APMC that arranging for and taking bitumen in kind to supply the Sturgeon refinery was not the most practical and cost-effective approach. As a result, the APMC will be entering into contracts with one or more bitumen producers to secure the bitumen necessary to meet its supply commitments to the refinery. Effectively, the APMC is purchasing bitumen rather than taking it as in-kind royalty. In substance, the objective is maintained but the form has changed, for well-supported reasons.

The Oil Sands Sustainable Development Secretariat report *Responsible Actions: A Plan for Alberta's Oil Sands* (2009) included the following strategies:

- use bitumen royalty-in-kind transactions to facilitate and expand an Alberta bitumen market
- establish a government-led organization to manage Alberta's bitumen royalty-in-kind volumes, in order to maximize the long-term benefits for Albertans
- leverage bitumen royalty-in-kind volumes to develop value-added oil sands products

In mid-2009, the government issued a request for proposals (RFP) soliciting applications in using BRIK. The RFP process resulted in five submissions. The government formed the RFP evaluation team to assess the submissions. The evaluation team consisted of representatives from key departments (Energy, Treasury Board and Finance, Environment, Sustainable Resource Development, and Advanced Education and Technology), consultants (provided assessment on economic feasibility, financeability and technical feasibility) and a fairness monitor to ensure the assessment of RFPs was completed appropriately.

The evaluation team's assessment of the RFP submissions resulted in the rejection of three submissions for non-conformity to RFP requirements. Before the evaluation team finalized its assessment, one of the two remaining applicants withdrew its application. Even though the evaluation team completed substantial assessment of the withdrawn application, it did not present its findings to the decision makers. The team only reported on the one remaining submission (Sturgeon refinery).

The evaluation team completed its report on NWU's proposal in April 2010 with the conclusion that it would be in the government's interest to enter into negotiation with NWU. However, the report highlighted that the proposal, as submitted by NWU, placed a disproportionate risk on the government. The report highlighted key risks and benefits of the NWU proposal along with key ways to improve the risk profile for the government. The government established a team to negotiate with NWU based on a cabinet-approved term sheet. The APMC signed the NWRP agreement in February 2011. Below we summarize the evaluation team's conclusions on key risks and anticipated rewards, along with key events that led to the NWRP contract.

Key risks

Risks	
Price differentials	The price differential between the input (bitumen) and the output (refined products) may not be sufficient to cover the costs of the project. Under the agreement, the government pays a processing fee (toll) for each barrel of its bitumen to be refined. The processing fee includes four elements: an operating toll, a debt toll, an equity toll and an incentive fee. If the processing fee is more than the price differential between input and output products, the government will be in a loss position. Further, the evaluation team noted that the take-or-pay requirement regardless of throughput or completion was a critical issue to be negotiated.
Cost overruns	The evaluation team's assessment, made during the preliminary assessment of the NWU proposal, concluded that the median estimate for facility capital cost was 140 per cent of $5 billion, the estimate provided by NWU. This assessment highlighted a facility capital cost cap of $6.5 billion (130 per cent of $5 billion) as a mitigating control and led to further investigation.
Construction delays	Based on the evaluation team's assessment, it was noted that the overall schedule for engineering procurement and construction of the phase one facility was aggressive. NWRP delayed the project several times. Originally, NWRP expected the refinery to be in production in early 2014.
Project financing	The financeability of this project was one of the highest risks. In order to allow the project to borrow funds from investors, the government had limited ability to shift some of the risks to the project.
Operating risks	The evaluation team concluded there was a risk that failures at the refinery could require refinery shut down for an extended period. The team also concluded that the plant performance and yield assumptions were overstated.
Environmental risks	Refining of heavy oil releases various chemicals into the air and uses large amounts of water. Further, that water will need to be treated at the end of the industrial process. Heavy oil and bitumen contain higher levels of harmful metals such as nickel and vanadium, which must be disposed of by NWRP appropriately.

Anticipated rewards

Anticipated benefits	
Increased benefits	From their assessment of NWU's projection, the evaluation team noted that the government will gain "a substantial incremental value" compared to selling its oil on the open market. The project assessment showed a positive rate of return for the government.
Greater diversification	The evaluation team noted that the NWU proposal would produce a mix of refined products that would be marketed in western Canada and the United States. The team concluded that pushing for growth in bitumen processing within the province in order to diversify the petroleum industry would allow the government to manage the risk of low revenue due to low oil prices. A study commissioned by the government concluded that western Canadian demand would grow and could eventually absorb a substantial portion of the diesel production.
Capturing more of the value add	The evaluation team noted that the NWU proposal would result in capturing more value for Albertans. This would increase value-added petroleum production and so could result in high-paying jobs and increased royalties and taxes to the government. Further, the NWU proposal would create thousands of jobs and generate billions of dollars in economic activity.
Environmental and additional economic advantages	Industrial plants such as upgraders and refineries are usually associated with negative environmental impacts. Clearly, new facilities will pose environmental challenges. However, the evaluation team concluded that the NWU proposal represented a significant step in displaying what is possible for environmental management of oil sands processing facilities. The evaluation team pointed out that the Carbon Capture Storage (CCS) element of this project presents a considerable environmental advantage. It also concluded that the CCS element is in line with government policy on the environment and contributes significantly to the government's current oil sands agenda. The Sturgeon refinery is projected to emit 0.5 megatonnes of CO_2 per year and capture about 1.2 megatonnes per year during the first phase of its operations. NWRP will sell the captured CO_2, as part of the agreement with Alberta Carbon Trunk Line. The CO_2 will be injected into oil wells to enhance oil recovery. This will result in more conventional crude oil produced through enhanced oil recovery, leading to increased government royalties.
Additional markets for Alberta bitumen	Bitumen production will increase considerably over the next 10 to 15 years. The Sturgeon refinery was projected to provide an outlet for this bitumen, taking supply off the market and improving prices for bitumen.

Timeline of events

Date	Event
February 2007	The Finance Minister announced the appointment of a six-member panel of experts to complete the review of the province's royalty systems.
September 2007	The Royalty Review Panel publicly released its report, titled *Our Fair Share*. The 104-page report provided recommendations on how the government could modify the existing provincial royalty structure, and introduced the notion of "adding value."
October 2007	The Government of Alberta (GOA) announced the New Royalty Framework. The government committed to considering options such as taking bitumen royalty-in-kind (BRIK) in order to strategically supply potential upgraders and refineries in Alberta.
February 2008	The Oil Sands Sustainable Development Secretariat issued a 20-year plan for responsible energy oil sands development. The plan emphasized the use of BRIK to maximize long-term benefits to Albertans.
May 2008	The GOA approved a plan to develop a business case for implementation: taking bitumen in kind and processing it in the province.
December 2008	The GOA launched Alberta's Energy Future Strategy, which highlighted upgrading the refining capacity to add value to fossil fuels.
July 2009	The Department of Energy issued an initial Request for Proposals (RFP) soliciting applications in using BRIK. The application period closed on January 27, 2010.
October 2009	The department issued a final amended RFP regarding the use of BRIK. The application period closed on January 27, 2010. The RFP process resulted in five submissions.
January 2010	The GOA formed the RFP evaluation team, which included: • key government departments[7] • consultants to review the proposals' economic feasibility, financeability and technical feasibility • a fairness monitor to monitor the work of the RFP evaluation team The GOA formed the Deputy Ministers Selection Committee to be the intermediary group between the evaluation team and the cabinet. The Selection Committee included deputy ministers from the above key departments.

7 The departments of Energy, Treasury Board and Finance, Environment, Sustainable Resource Development, and Advanced Education and Technology.

Date	Event
April 2010	The evaluation team completed its work, with the following results: • one applicant withdrew its submission for internal reasons. (The evaluation team had substantially reviewed the submission before it was withdrawn.) • three submissions were rejected because they did not conform to the RFP requirements • one submission (the NWU proposal) was reviewed in full The Deputy Ministers Selection Committee received the evaluation team's final report with a recommendation to proceed with negotiation with NWU and CNRL. The government formed the negotiating team[8] to negotiate.
May 2010	The negotiating team completed the term sheet with NWU and CNRL, which the cabinet approved.
February 2011	The government announced that it had successfully negotiated a contract with the NWU and CNRL partnership, with the following details: • the project would construct a new bitumen refinery as part of the government's BRIK initiative • NWU estimated the cost of the refinery to be $5 billion
November 2012	NWRP announced approval of the construction of phase 1 of the Sturgeon refinery. NWRP updated the estimated cost of the refinery to $5.7 billion, with completion to be within three years.
November 2012	The APMC amended and restated the agreement to process royalty bitumen. The facility capital cost increased to $5.7 billion.
November 2013	The APMC became aware of the facility capital cost increase of the refinery from $5.7 billion to $8.5 billion.
November 2013	The department and the APMC started analyzing the impact of the cost increase. The APMC prepared various scenarios for the cabinet to consider, which included terminating the contract and renegotiating the contract based on the cost of $8.5 billion.
December 2013	The APMC amended the agreement in response to the facility capital cost increase to $8.5 billion.

8 The negotiating team included members from the departments of Energy, Justice, Treasury Board and Finance, and Economic Development.

Date	Event
January 2014	The *Building New Petroleum Markets Act* was proclaimed, allowing the Minister of Energy to: • provide specific direction to the APMC based on government priorities • allow the APMC to provide loans or make equity investment in projects, when authorized by the government
April 2014	The APMC signed an amended agreement with NWU and CNRL with the following revisions: • the facility capital cost was updated to $8.5 billion after the cost cap of $6.5 billion was removed • the APMC and CNRL were bound to provide loans (subordinated debt) to NWRP. This resulted in the APMC providing a $324 million subordinated loan to NWRP. • the APMC received a 25 per cent voting interest on the Executive Leadership Committee • return on equity was reduced from 10 per cent to 5 per cent. As at November 30, 2013 the original equity had funded and accrued equity of approximately $824 million that going forward would earn a reduced return of 5 per cent (from the original 10 per cent) paid annually with principal repayment deferred until the full repayment of the subordinated debt • 25 per cent of excess capacity entitlement was transferred to the APMC and CNRL (12.5 per cent each)
May 2017	The Ministry of Energy updated the estimate for the facility capital cost of the Sturgeon refinery to $9.4 billion, with the expected completion date amended to the second quarter in the 2018 calendar year. This resulted in an additional $95 million subordinated debt that the APMC would need to provide to NWRP. The APMC provided $21 million of the required $95 million on May 31, 2017.

Alberta
Environment and Parks

Alberta Environment and Parks

Design of Systems to Manage the Climate Leadership Plan and Adaptation

February 2018

About This Audit

Alberta's emissions in context

Climate change is a global challenge, caused by both human activities and natural factors. A changing climate due to greenhouse gas emissions[1] is likely to have consequences for Albertans, the economy and the environment. The world has already witnessed some of the impacts of climate change, such as increased frequency of heat waves, wildfires, droughts and flooding.

Under the Paris Agreement of the United Nations Framework Convention on Climate Change, 174 countries—including Canada—have committed to setting emissions reduction targets. To meet these targets, governments are actively developing policies and implementing programs to reduce emissions and to adapt to the impacts of climate change. The Government of Canada has set a national target to reduce greenhouse gas emissions by 30 per cent below 2005 levels by 2030.

As with most policy decisions, there are benefits and costs associated with government seeking to limit and reduce emissions and adapt to a changing climate. As Alberta currently has the highest emissions and the second-highest emissions per capita of any province, actions in the province will considerably impact the Government of Canada in achieving its goals related to climate change under the Pan-Canadian Framework.[2,3]

Alberta government's response to climate change

The Alberta government first began to take action on climate change in 2002 when it released a climate change plan and a target to reduce emissions.[4] In 2008, the government released a climate change strategy focused on reducing emissions by implementing carbon capture and storage, using energy more efficiently and producing cleaner energy.[5] The government never reported to Albertans on the costs or results of either the 2002 plan or the 2008 strategy.

With the November 2015 release of the Climate Leadership Plan (CLP), the government committed to taking action on emissions in the context of an economy that both uses and produces significant amounts of fossil fuels. The CLP is an ambitious and complex strategy: it aims to reduce emissions while diversifying the economy and improving the well-being of Albertans. Since the government announced the CLP in late 2015, significant policy changes have been made and programs rolled out, led by many government departments and coordinated by the Alberta Climate Change Office (CCO) in the Department of Environment and Parks.

Under the CLP, the government implemented an economy-wide price on carbon that is

1 Greenhouse gases are gases in the atmosphere that warm the earth by trapping solar radiation. Increases in greenhouse gases, which include water vapour, carbon dioxide and methane, are a primary cause of climate change.

2 Released in December 2016, the Pan-Canadian Framework on Clean Growth and Climate Change is the national plan to meet the 2030 target. The framework outlines federal measures to reduce greenhouse gas emissions, including carbon pricing, a clean fuel standard, and regulations to reduce methane emissions from the oil and gas sector. It also sets out potential federal, provincial and territorial collaborative mitigation measures

3 Based on emissions data presented in *National Inventory Report 1990–2015*, Canada's 2030 emissions target is 523 Mt (https://www.canada.ca/en/environment-climate-change/services/climate-change/greenhouse-gas-emissions/sources-sinks-executive-summary.html). Based on the *2016–2017 CLP Progress Report*, page 8, Alberta's 2030 emissions with the CLP are expected to be 254 Mt (or 222 Mt with potential reductions from innovation). Therefore, Alberta's 2030 emissions are expected to be 49 per cent (or 42 per cent) of Canada's 2030 emissions.

4 Government of Alberta. *Albertans & Climate Change: A Plan for Action*, 2002. The plan listed initiatives and actions in the areas of emissions reductions, government leadership, energy conservation, carbon management, technology and innovation, enhancing carbon sinks, and adapting to climate change. The plan set a target for reducing emissions intensity by 50 per cent by 2020, equivalent to reducing emissions by 10 per cent below 1990 levels.

5 Alberta's 2008 Climate Change Strategy. http://aep.alberta.ca/forms-maps-services/publications/documents/AlbertaClimateChangeStrategy-2008.pdf.

expected to generate over $5 billion from 2017 to 2020.[6] The government committed to fully reinvesting the revenue into Alberta's economy.

The government sets the policies under the CLP and decides how the carbon revenue is spent. The CCO is responsible for leading the coordination of both the CLP's implementation and the development of the government's adaptation strategy.

Previous performance audits related to climate change

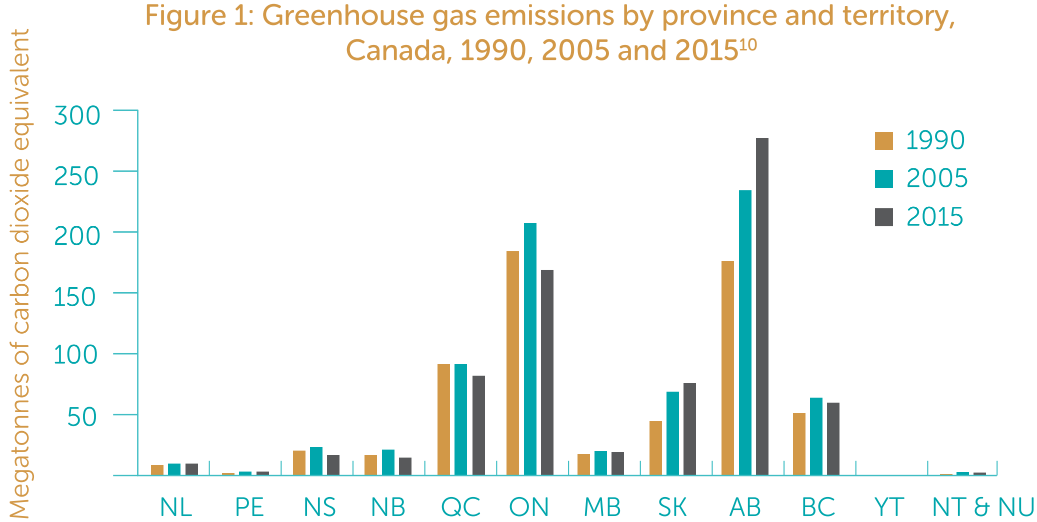
We have previously audited the systems at the Department of Environment and Parks for managing the 2008 climate change strategy.[7] The objective of that audit was to determine whether the department had systems in place to develop and successfully manage the 2008 climate change strategy. We concluded that the systems required improvement.

We made three recommendations to the department and repeated them in 2012[8] and 2014[9] because of unsatisfactory progress. Because these recommendations were made in direct relation to the 2008 climate change strategy, for the purposes of our current audit we decided to close off the outstanding recommendations and examine planning, monitoring and reporting systems in the context of implementing the CLP.

Collaborative audit

Canada's provincial auditors and the Office of the Auditor General of Canada partnered to examine and report on progress on climate change action within their governments. This audit report contributes to that project.

Figure 1: Greenhouse gas emissions by province and territory, Canada, 1990, 2005 and 2015[10]



Note: Emission levels for some years have been revised in light of improvements to estimation methods and availability of new data.
Source: Environment and Climate Change Canada (2017) National Inventory Report 1990-2015: Greenhouse Gas Sources and Sinks in Canada.

6 The carbon price has two components: a carbon levy applied to all transportation and heating fuels that emit greenhouse gases when burned, and carbon pricing applied to large industrial facilities.
7 *Report of the Auditor General of Alberta—October 2008*, pages 93–107.
8 *Report of the Auditor General of Alberta—October 2012*, pages 35–40.
9 *Report of the Auditor General of Alberta—July 2014*, pages 39–47.
10 https://www.canada.ca/en/environment-climate-change/services/environmental-indicators/greenhouse-gas-emissions/province-territory.html.

Audit Objective and Scope

Our audit objective was to determine whether the Department of Environment and Parks implemented well-designed systems and processes[11] to lead and coordinate:

- the implementation of the CLP, including planning, monitoring progress and reporting on results
- the development of Alberta's approach to adapting to climate change risks

A second phase of the audit, planned for late 2018, will examine the effectiveness of the department's systems to plan, monitor and publicly report to Albertans on the implementation and results of the CLP and adaptation.[12]

We developed the criteria for this audit using the department's responsibilities and relevant criteria from our previous audits on climate change. The department's management acknowledged the suitability of the criteria used in the audit.

Our audit focused on the audit criteria related to the areas where the department's systems have been implemented, except for (i) the analyses of the costs and benefits at the program proposal phase, (ii) the performance measurement system, and (iii) the governance structure. We will examine those areas in the second phase of our audit. For climate change adaptation, we examined the current status of the strategy development and the design of systems that currently exist, in view of the department's claims that the adaptation strategy development is in an early stage.

Audit Responsibilities

The Department of Environment and Parks, through the CCO, is the lead on coordinating government climate change mitigation and adaptation. Our responsibility is to express an independent conclusion on whether the Department of Environment and Parks has made progress in leading and coordinating both the implementation of the CLP and the government's adaptation strategy.

We conducted our audit in accordance with Canadian Standard on Assurance Engagements 3001 issued by the Auditing and Assurance Standards Board (Canada). The Office of the Auditor General applies Canadian Standard on Quality Control and, accordingly, maintains a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. The Office complies with the independence and other ethical requirements of the Chartered Professional Accountants of Alberta Rules of Professional Conduct, which are founded on fundamental principles of integrity and due care, objectivity, professional competence, confidentiality and professional behaviour.

11 Evaluating the design of systems intends to identify key controls and determine whether they are capable of mitigating the relevant risks. The controls must be appropriately designed, implemented and consistently followed in order to effectively mitigate the risks. Improperly designed controls cannot be effective, and they represent a system deficiency.

12 Control is effective when it successfully mitigates the relevant risks.

What We Examined

Our audit focused on the responsibilities of the CCO within the Department of Environment and Parks. We interviewed the responsible officials at the CCO and other ministries implementing the CLP programs, reviewed and analyzed documents, and examined the CCO's systems and processes.

We conducted our field work between April 2017 and December 2017, and substantially completed the audit in December 2017.

Conclusion

Except for the findings described below, we conclude that, as of December 2017, the Department of Environment and Parks had implemented adequate systems to lead and coordinate the implementation of the CLP, including planning, monitoring progress and reporting on results.

The department implemented multiple tools to plan and deliver on the commitments under the CLP. However, the CCO lacks an overall implementation plan for the CLP and for individual initiatives and programs. The lack of such a plan could negatively impact the cost-effective implementation of the CLP going forward. The systems used to monitor and report on progress should be more rigorous and efficient in order to ensure that management has reliable and complete information to track progress and identify required corrections. The first progress report on the CLP contains detailed and important information, but future reports should more clearly and completely describe the actual and expected costs of the CLP and its initiatives and programs.

Alberta's adaptation strategy is still in development and has not been approved by the government. As a consequence, the department does not have adequately designed systems for adaptation. We will examine the department's systems once, and if, the government adopts an adaptation strategy.

We acknowledge that the government tasked the department with implementing a number of significant policies and programs, while at the same time the department had to develop the necessary processes to carry out its responsibilities. To ensure that the desired results of the CLP and the underlying initiatives and programs are achieved, well-designed and effective processes will be key.

Why This Conclusion Matters to Albertans

Failing to reduce greenhouse gas emissions and take measures to adapt to climate change may endanger lives and increase costs to Albertans. The department leads and coordinates the government's actions to mitigate those risks. Without well-designed systems to plan, monitor progress and report on the results of the efforts to reduce emissions and adapt to climate change, the desired results may not be achieved cost effectively or at all.

Findings and recommendations

The Climate Leadership Plan

Context

The Climate Leadership Plan's areas of focus

The Government of Alberta released the CLP in November 2015. The CLP includes four main policy measures:

- an economy-wide carbon price[13]
- the phase-out of emissions from coal-generated electricity and an increase in renewable electricity to 30 per cent of generation by 2030
- a 100-megatonne[14] cap on annual emissions from the oil sands
- a reduction in methane emissions from upstream oil and gas by 45 per cent from 2014 levels by 2025

The CLP aims to reduce greenhouse gas emissions while diversifying the economy, creating jobs, and protecting health and the well-being of communities. These desired outcomes are being enabled through the use of revenues from the carbon pricing to fund initiatives and programs under CLP action areas.[15] Implementation of these initiatives and programs is led by various ministries across the Government of Alberta, including the Department of Environment and Parks. As of December 2017, there were about 70 initiatives and programs underway.[16] For the purposes of this report, we refer to all initiatives and programs as simply *programs*. See Appendix A for the structure of the CLP.

Roles and responsibilities

The CCO leads and coordinates the implementation of the CLP. Its responsibilities include developing and implementing the systems to monitor, evaluate and report on the CLP's results and costs. The CCO's role also includes implementing some of the programs under the CLP.

The government established a Climate Leadership Policy Committee to make recommendations to Cabinet on programs that lead ministries put forward under the CLP.[17] Before lead ministries bring matters to the committee, a cross-ministry committee of deputy ministers and a separate cross-ministry committee of assistant deputy ministers review the proposals to ensure awareness and alignment of proposed programs. The CCO coordinates these processes and ensures that advice is relayed to lead ministries.

13 Carbon pricing places a price on each tonne of greenhouse gas emitted.

14 A megatonne is a unit of measure for describing greenhouse gas emissions. One megatonne of carbon dioxide is roughly equivalent to what 250,000 cars produce each year.

15 No assertion is made in this report that the purposes for which the carbon revenue is being collected, articulated in s.3 (2) of the *Climate Leadership Act*, have been or are being satisfied.

16 As of October 2016, the 13 key initiatives were bioenergy, carbon levy, coal communities, coal transition, energy efficiency, green infrastructure, indigenous communities, innovation and technology framework, methane, micro and small-scale generation, oil sands emissions limit, output based allocations, and renewable electricity program.

17 The government disbanded the Climate Leadership Policy Committee in December 2017, and lead ministries now use standard government processes and committees.

Criteria: The standards of performance and control

Planning

The department should:

- prepare an overall implementation plan for the CLP, with outcomes, planned actions, expected results, required resources and associated timelines
- corroborate through modelling and other analysis that the actions chosen will result in achieving the desired outcomes of the CLP
- confirm that the responsible departments complete analyses of the costs and benefits of actions planned under the CLP[18]
- confirm that the responsible departments develop, for each action, implementation plans that align with the overall implementation plan
- lead and coordinate the development of performance measures with targets, for each action and policy area, and for the CLP overall
- define roles and responsibilities, a coordination mechanism, and a governance and accountability structure, including processes to obtain sufficient, appropriate and timely reporting from responsible departments

Measuring and Monitoring

The department should:

- confirm that the responsible departments measure and monitor the actual results, identify corrective actions and implement quality controls
- lead and coordinate the evaluation of the actions and overall results
- implement processes to verify the actual results

Reporting

The department should coordinate regular and timely reporting on the CLP, including:

- expected and actual costs and benefits[19]
- progress toward the expected benefits
- analysis of cost effectiveness
- implementation changes and corrective actions

Our audit findings

Key Findings

- The CCO is not maintaining an overall implementation plan for the CLP, and only some lead ministries have implementation plans for programs.
- Oversight by senior management and Cabinet supported implementation of the CLP.
- The CCO implemented processes to monitor the progress of programs, but those processes are not sufficiently rigorous or efficient.
- The CLP progress report contains important and detailed information; however, clear and complete information on the cost of the CLP is missing.

18 The analyses should consider the social, economic and environmental costs and benefits
19 The costs and benefits should include those to the Government of Alberta and to Albertans.

No overall implementation plan and no individual implementation plans for all programs

The CCO created an implementation plan for the CLP in October 2016, but the plan and its subsequent updates lacked many of the key components of a good plan. The plan did not include:

- an overall emissions target, or rationale for not having one
- expected results
- clear roles and responsibilities, and mechanisms for coordination
- significant areas of risk
- mechanisms to monitor and evaluate progress

The plan did include:

- expected outcomes for the four main policy areas
- planned deliverables with timelines, and forecasted funding for key actions
- information on governance, including some roles and responsibilities

By September 2017, the CCO deemed the plan no longer useful as a management tool and stopped using it. The CCO therefore no longer has an active overall implementation plan for the CLP. Further, the CCO has not clearly communicated that lead ministries should consistently create implementation plans for the 70 programs currently underway. Based on our examination, not all lead ministries have implementation plans for the programs they are responsible for.

There is consequently an increased risk that the CCO and lead ministries cannot effectively plan and implement individual programs, and the CLP overall. Management told us that the fast pace of implementing programs and the time needed to update an overall implementation plan do not justify the benefits of maintaining the plans.

Despite lacking an overall implementation plan, the CCO developed planning tools such as the CLP outcome framework, which articulates what the CLP aims to achieve and its areas of focus. Procedures for reporting the progress of programs and the associated roles and responsibilities are currently defined across multiple internal documents.

Oversight by senior management and Cabinet supported implementation of the CLP

A Cabinet committee was created to support the implementation of the CLP. Given the cross-ministry involvement in implementing the climate change programs, committees of deputy ministers and assistant deputy ministers were also formed to review advice to the Cabinet committee and monitor implementation activities.

Processes to monitor progress are not sufficiently rigorous or efficient

The CCO uses a tracking system as the primary monitoring tool for the CLP. Presently, the system tracks some information about programs—specifically, planned deliverables and their expected completion dates. However, more detailed information, such as planned and actual costs for programs, is tracked outside of the system. As a result, there is no consolidated tracking system that contains all the information needed to effectively monitor and report on progress for all CLP programs.

The limited nature of the information in the tracking system has consequences for the efficiency and effectiveness of the CCO's monitoring:

- The monthly reports that are generated from the system provide incomplete information on a program's status. The reports would be more useful if they showed whether programs are on track and achieving the expected results (such as expected emissions reductions) and showed the cost of each program.
- The CCO had to devote extensive time and effort gathering the information required for an update to the committee of assistant deputy ministers and the 2016–2017 CLP progress report (discussed below) because the necessary information was not in the system.

We did note some deficiencies in how ministries are reporting information in the system—deficiencies that could impact the timeliness, accuracy and completeness of information used to monitor progress. Specifically, lead ministries did not always update programs' status, in some cases allowing three months to pass before providing an update. Further, we found that expected completion dates for deliverables were, in a few cases, modified in the system when ministries were not meeting them, possibly distorting the programs' status.

Clear and complete information on the cost of the CLP is missing

In December 2017, the government released the first progress report on the CLP.[20] The report contains extensive important information about the CLP and is a significant step forward in public reporting on climate change efforts.

The report includes overall expected benefits, key policies and action areas, and the programs' 2016–2017 actual costs and achievements. For example, in each of the action areas (e.g., renewable energy), the report discloses the amount of 2016–2017 funding, key programs, jobs supported, and the expected emission reductions to 2020 from dollars spent to date.

The progress report also includes the overall expected emissions for Alberta to 2030 based on implementation of the CLP in conjunction with federal policies.

Achieving the benefits of the CLP comes with associated investments and costs, both to the government and the broader public. While the report shows the expected emission reductions to 2030, it does not clearly state the expected and actual cost of the overall CLP, and it does not state for each program the expected cost needed to achieve those reductions.

A progress report should inform Albertans about the costs associated with the desired results. White total expected costs to Albertans and the government have been reported for significant policy initiatives in various ways through press releases, government websites and other publications, that collective information has not been brought together in the progress report. As a result, it is difficult to get a full picture of the total costs and benefits. The current design of the progress reporting needs to change to provide ongoing information on the total costs and benefits.

The *Climate Change and Emissions Management Act* contains a legislated target for emissions.[21] However, the CLP does not include this target or any other target for overall emissions. The progress report does not explain why an overall target is no longer being used as part of the evaluation of the province's climate change actions. Further, the progress report does not acknowledge that a legislated target currently exists. Therefore, it is unclear whether the government still uses this target to measure the CLP's success. The report describes the targets associated with the phase-out of emissions from coal-generated electricity and increased electricity from renewable electricity sources, and also describes the targets for emissions from the oil sands and from methane.[22]

The progress report contains Alberta's emissions projected to 2030 under several scenarios. The annual emissions with the CLP are expected to be 17 Mt less by 2020 and 63 Mt less by 2030 compared to the emissions trends predicted by the Government of Canada. The report also includes forecasted emission reductions for programs. The CCO reviewed these forecasts, but only when lead ministries requested the review. The CCO provided general guidance to lead ministries on how to forecast the reductions but has not determined which methodologies are appropriate. In the second phase of our audit in 2018, we will examine whether lead ministries completed emission reductions forecasts as part of an overall analysis of the program's expected costs and benefits.

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20 https://www.alberta.ca/assets/documents/CLP-progress-report-2016-17.pdf.

21 The target for Alberta is a reduction by December 31, 2020 of specified gas emissions relative to Gross Domestic Product equal to or less than 50 per cent of 1990 levels. *Climate Change and Emissions Management Act*, s. 3(1).

22 Page 5 of the *Climate Leadership Plan Progress Reports 2016–2017* states the following targets: (i) pollution from coal-generated electricity is zero, and 30 per cent of electricity produced is from renewable energy sources, both by 2030, (ii) annual oil sands emissions are less than 100 megatonnes, by 2017, and (iii) annual methane emissions are decreased by 45 per cent from 2014 levels, by 2025. https://www.alberta.ca/assets/documents/CLP-progress-report-2016-17.pdf.

RECOMMENDATION:
Develop and use an implementation plan, improve quality of the monitoring data and report on the total cost

We recommend that the Department of Environment and Parks:

- develop and use comprehensive implementation plans for the Climate Leadership Plan and for each of its programs
- implement efficient processes to sufficiently reduce the risk that the data used to monitor and report on progress is not accurate or complete
- provide clear and complete reporting on the expected and actual costs of programs and the Climate Leadership Plan overall

Consequences of not taking action

An implementation plan is a fundamental and critical planning document. It provides a clear path for any task, and especially one involving a large number of actions, multiple parties and complex interrelationships. Further, it helps ensure that those responsible can demonstrate accountability for their commitments.

The absence of active overall and individual implementation plans creates a risk that the planned actions do not align with the overall objectives, programs are not effectively implemented and their progress is not properly monitored against the plan. As a result, the risk that individual programs and the CLP overall will not achieve their objectives, or achieve them but not cost effectively, is increased.

Without complete and accurate information on the progress of programs, and the CLP broadly, the CCO cannot efficiently and effectively monitor progress and identify the necessary corrective actions.

And without clear and complete reporting on the actual and expected costs and benefits of the CLP, Albertans cannot hold the government accountable for its commitments.

Adapting to the Impacts of Climate Change

Context

To manage the risks from climate change and help protect Albertans, the government needs effective adaptation planning. A prerequisite to developing an adaptation strategy and action plan is knowledge of the effects of climate change on regions and sectors. This knowledge is typically gathered through a risk and vulnerability assessment. An approach that focuses on the highest risks helps ensure efficient and cost-effective climate change adaptation.

There have been several attempts by the Alberta government to assess the risks from climate change and develop an adaptation strategy. In 2008, the government assessed the province's vulnerability to climate change. In 2012, the government commissioned a project to assess risks from climate change to the Alberta government, and to develop measures to mitigate the risks. The government then completed a draft adaptation strategy in May 2013, but the strategy was never finalized or adopted by the government.

Criteria: the standards of performance and control

The department should:

- assess the risks to Alberta from climate change
- develop an adaptation strategy and action plan
- measure, monitor and evaluate progress and publicly report on results
- define and communicate roles and responsibilities, a coordination mechanism and a governance and accountability structure, including processes to obtain sufficient, appropriate and timely reporting from the program participants

Our audit findings

Key Findings

- The department does not have a final or approved adaptation strategy.
- The department was unable to provide evidence that its draft strategy focuses on the risks identified through previous risk assessments.

The government has not developed a strategy outlining the approach for Alberta to adapt to a changing climate. Thus, it remains unclear what adaptation actions the province needs to take to mitigate the risks to human safety, the economy and the environment, and what the costs of those actions will be.

With the release of the CLP, which focuses on climate change mitigation, the government committed to developing an adaptation strategy. In 2016, the CCO commissioned work to compile research from over 300 studies on the risks to Alberta from climate change, and to recommend adaptation strategies for the key areas impacted. The CCO told us that this work will inform the adaptation strategy.

The strategy is still in draft form, and the CCO did not provide a draft to us. Therefore, we were unable to verify whether the approach in the strategy aligns with the risks identified.

The original completion date for the strategy was set at January 31, 2018, but the CCO has now revised it to an unspecified date in 2018. We are not making a recommendation at this time as we plan to evaluate the CCO's adaptation systems if and when the government puts a strategy into place.

Consequences of not taking action

Without establishing an approach for adapting to climate change that is supported by an assessment of climate change risks, the government cannot demonstrate that it understands the risks to Alberta and how it plans to manage them.

Appendix A

Alberta's Climate Leadership Plan

The CLP aims to achieve three outcomes:

Primary outcome:

- **Reduced Greenhouse Gas Emissions**

Secondary outcomes:

- **Lower Carbon Diversified Economy**
- **Increased Community Health & Wellbeing**

The CLP includes four main policy areas:

Economy-Wide Carbon Price

Target: Implement Carbon Levy at $20 per tonne from January 2017, and $30 per tonne from January 2018.

Phase-Out of Coal-Generated Electricity

Target: Emissions from coal-generated electricity are zero by 2030.

Target: 30% of electricity produced is from renewable energy sources by 2030.

Oil Sands Emissions Cap

Target: Annual emissions from the oil sands are below 100 Mt.

Reducing Methane Emissions

Target: Annual methane emissions from upstream oil and gas are decreased by 45% from 2014 levels by 2025.

The CLP focuses on six areas of action:

Climate Leadership Policy & Legislation

Examples of initiatives & programs:

- Methane Emissions Reduction
- Oil Sands Emissions Limit
- Carbon Pricing
- Micro and Small-Scale Electricity Generation

Renewable Energy Program

Examples of initiatives & programs:

- Bioenergy
- Emissions Reduction Alberta
- Green Infrastructure
- Renewable Electricity Program

Energy Efficiency

Examples of initiatives & programs:

- Alberta Indigenous Community Energy Program
- Energy Efficiency Alberta
- LED Provincial Highway Lighting System Retrofit
- Residential No-Charge Energy Savings Program

Clean Technology & Transit

Examples of initiatives & programs:

- GreenTRIP
- Innovation and Technology Framework*
- LRT – Calgary Green Line*
- LRT – Edmonton Southeast Valley Line*

Support & Engagement

Examples of initiatives & programs:

- Alberta Carbon Conversion Technology Centre
- Innovation and Technology Framework*
- LRT – Calgary Green Line*
- LRT – Edmonton Southeast Valley Line*

Increased Green Skills & Employment

Program investments directly create jobs through implementation, and indirectly through supply and access to clean products and services.

(Source: CLP Progress Report 2016–17)

* Initiatives or programs may contribute to more than one area of action.

Alberta Health

Alberta Health

Pure North Grants

February 2018

About This Audit

On May 5, 2017 we were asked by an MLA to investigate the granting process and merits of grants awarded to Pure North S'Energy Foundation (Pure North). We indicated we would examine these grants to assess whether the Department of Health followed its granting processes.

In December 2013, the department awarded a $10 million grant to Pure North to increase enrolment in its seniors' wellness and prevention outreach program. The program included nutritional supplementation and lifestyle advice for participants. The department also awarded $4.2 million to Pure North in October 2016 to support a primary care clinic led by nurse practitioners.[1] The clinic was part of the department's pilot initiative to expand the role of nurse practitioners in the province.

Audit Objective and Scope

Our objective was to assess the adequacy of the Department of Health's grant processes[2] to award the $10 million grant to Pure North in December 2013 and the $4.2 million grant in October 2016. This review included examining the department's processes around conflict of interest and determining whether those processes were followed. We did not audit the rationale for awarding the grants, such as the medical merits of the programs.

We developed our criteria for this audit based on the Department of Health's responsibilities and applicable legislation. Management of the department agreed that our criteria were suitable.

Audit Responsibilities

Management of the Department of Health is responsible for awarding grants in accordance with grant policies. Our responsibility is to express an independent conclusion on whether the Department of Health has adequate grant processes and followed these to award grants to Pure North.

We conducted our audit in accordance with Canadian Standard on Assurance Engagements 3001 issued by the Auditing and Assurance Standards Board (Canada). The Office of the Auditor General applies Canadian Standard on Quality Control 1 and, accordingly, maintains a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. The Office complies with the independence and other ethical requirements of the Chartered Professional Accountants of Alberta Rules of Professional Conduct, which are founded on fundamental principles of integrity and due care, objectivity, professional competence, confidentiality and professional behaviour.

1 Nurse practitioners are registered nurses (RNs) with extra knowledge and skills. They are trained to assess, diagnose and treat patients, order diagnostic tests, prescribe medications, make referrals to specialists and manage overall care. Nurse practitioners work closely with physicians and other health professionals as part of a team.

2 Including, for example, compliance with legislation and policy and monitoring against grant program objectives.

What We Examined

In this audit we examined:

- the department's policies and procedures for its granting process
- the department's policies and procedures on conflicts of interest
- the grant agreements for the 2013 and 2016 Pure North grants
- documentation created by the department to support entering into and monitoring the Pure North grant agreements
- required reporting to the department from Pure North

We conducted our field work between July and October 2017.

Conclusion

Because of the significance of the findings described below, we conclude that the Department of Health did not follow its grant processes to award the 2013 grant to Pure North. The department did follow its grant processes to award the 2016 grant to Pure North.

We also conclude that the department's processes around conflict of interest need improvement.

Why This Conclusion Matters to Albertans

Albertans expect government to adhere to the highest ethical standards. If department grant processes are not followed, public resources could be wasted and program objectives not achieved.

Findings and Recommendations

Context

Albertans expect government employees to be objective and conduct their duties with impartiality. To retain that objectivity, employees have to be aware of any potential conflicts of interest they may have and act accordingly—for example, by withdrawing themselves from decisions affected by a potential conflict.

It is important that departments have strong conflict of interest policies. These policies define the rules and requirements when a possible conflict exists and how to manage it.

Department staff must follow the department's grant policy when awarding grants. This policy is consistent with the responsibilities and requirements outlined in various pieces of legislation. For example, the *Health Grant Regulation* gives the Minister of Health the legislative authority to award grants. The department's grant procedures document contains supplemental information to support the policy. The policy and procedures documents are updated periodically.

The department routinely receives requests from external organizations for grant funding. If an idea has merit—for example, if it could lead to an innovation in the healthcare sector or reduce healthcare costs—the department may decide to fund it through a grant agreement with the external organization. The department evaluates the request and ensures that any grant awarded falls within the department's mandate.

The department's policy states that a grant, once awarded, should be monitored to ensure monies are being spent in accordance with the grant terms. Effective monitoring occurs best when proper performance measures or metrics are defined and used in the grant agreement. These measures need to be specific so that the department can assess performance.

Criteria: the standards of performance and control

Criteria	2013 grant	2016 grant
Criterion 1—To determine whether conflict of interest policies were followed. The department should:		
• have a policy (or policies)[3] on conflict of interest	Met	Met
• provide training on the conflict of interest policy	Met	Met
• monitor adherence to the conflict of interest policy	Not met	Not met
Criterion 2—To determine whether the grants paid to Pure North followed the department's granting process. The department should:		
• provide grants only for programs within the Minister of Health's mandate	Met	Met
• approve grants in accordance with the department's grant policy	Not met	Met
Criterion 3—To determine whether the department monitors grants to ensure the goal of the department's program has been achieved. The department should:		
• develop relevant and reliable performance measures and targets	Not met	Met
• continuously monitor the grants to ensure money is being spent in accordance with the grant terms	Met	Met
• assess whether the grant agreement achieved its intended purpose	Met	N/A[4]

Our audit findings—2013 Pure North grant agreement

Key Findings

- The department did not follow its grant policy when it awarded the 2013 grant to Pure North.
- The department did not establish appropriate performance measures and reporting requirements in the grant agreement.

Grant initiation

The department received multiple proposals from Pure North in 2012 and 2013 to fund its seniors' wellness program. This program focused on prevention and was targeted toward vulnerable populations, such as seniors. Pure North claimed that its program, which included providing vitamin D, would save the healthcare system money. For example, Pure North asserted that emergency room visits would decline because participants would be in better health after participating in its program.

3 At a minimum, consistent with the requirements of Government of Alberta policy.
4 The nurse practitioner pilot project was not completed due to early termination of the grant agreement.

Department staff had concerns about funding this program. In particular, they concluded there was insufficient scientific evidence to support the program, especially around vitamin D supplementation. The department refused multiple times in 2012 and 2013 to fund the Pure North seniors' wellness program because of these concerns.

However, department staff realized the potential in cost savings if the program were as successful as Pure North was asserting. It continued to discuss the program with Pure North and proposed a grant agreement, dated October 28, 2013, that would obtain the scientific evidence the department determined was missing. This proposed grant agreement had specific research deliverables and was structured so that Pure North would be paid over the term of the agreement.

The proposed grant agreement was changed in mid-December 2013. In an email to staff, the then deputy minister stated that the then minister wanted the grant agreement to "stipulate that the monies are to support increasing enrolment of seniors in their health care programs." This direction changed the purpose of the grant—it was no longer for research. This new agreement, with an effective date of December 23, 2013, no longer required research ethics screening or oversight, and did not require specific research deliverables. Also, the payment structure changed so that Pure North received all $10 million immediately. So the original purpose of the grant—to obtain research to support the benefits of the program—was negated.

The department's legal team reviewed the revised grant agreement on December 18, 2013 and in their advisory capacity noted concerns with the grant deliverables and funding arrangements as outlined in the grant agreement. The department's finance team review also identified the same concerns. Despite these concerns, the grant agreement was sent to Pure North to sign. The grant agreement was fully executed on December 20, 2013.

The department's grant policy requires the deputy minister to sign any grant agreement more than $1 million. The $10 million Pure North grant was signed by the chief strategy officer, a position not listed in the grant policy. It is not clear whether this individual had the signing authority to execute the grant agreement on behalf of the department.

We noted other deviations from the department's grant policy:

- the grant agreement did not include a budget that was "outlined in sufficient detail and reasonable"
- a briefing note template containing the "purpose, deliverables and rationale for providing grant funding" was not updated for the changes to the grant agreement

Overall, the department did not follow its processes in awarding the 2013 grant to Pure North.

Grant performance measures and monitoring

When the requirement for research deliverables in the grant agreement was dropped, the reporting that Pure North had to submit to the department also changed. We reviewed the reporting requirements and concluded they were vague and would not allow the department to determine if the program was successful. The department's legal and finance team reviews both also advised that the deliverables were vague and that there was no certainty on what the program was expected to achieve.

The department did monitor the Pure North grant—for example, by following up with Pure North if it was late submitting its quarterly report. This quarterly report included financial information as well as the other information Pure North was required to provide, such as a progress report on activities during the quarter. However, the usefulness of this monitoring is questionable, as the reporting requirements were poorly designed.

After the grant agreement expired, Pure North requested additional funding from the department to continue the wellness program. The department obtained independent assessments of the program and, after evaluating them, determined there was still not sufficient evidence to support the merits of the program. The department declined all future requests to fund the seniors' wellness program.

Our audit findings—2016 Pure North grant agreement

Key Findings

- The department followed its grant policy when it awarded the 2016 grant to Pure North.
- The department does not have a central process to manage potential conflicts of interest once they have been disclosed.
- It was only after the former deputy minister signed the Pure North grant agreement that he disclosed he had a potential conflict of interest.
- The department's supplementary code is not clear on the disclosure responsibilities of a deputy minister.
- The department terminated the 2016 Pure North grant early without cause in accordance with the terms of the grant agreement.

Grant initiation

Although the department decided to no longer fund the seniors' wellness program after the 2013 grant agreement expired, it did not rule out working with Pure North on future projects. One such project was a pilot program using nurse practitioners to treat vulnerable populations. Alberta does not use nurse practitioners as much as other jurisdictions, and potential cost savings, as well as improvements in access to primary care, could result by making more use of them.

The department prepared guidelines for the project and asked Pure North, as well as three other clinics, to participate. The Pure North proposal was evaluated, and department staff concluded that the proposal was suitable. A grant was awarded to Pure North in October 2016 for $4.2 million, payable over three years.

We tested the grant against the department's grant policy and concluded that the department followed its processes to award the 2016 grant to Pure North.

Conflict of interest policies, training, and managing conflicts

The department has conflict of interest policies that all employees must follow. One of them is the Government of Alberta's Code of Conduct and Ethics policy,[5] which outlines the expectation that public service employees act with impartiality and integrity. The department also has a supplementary code to provide further guidance and hypothetical examples that employees can use to help them determine if they have a potential conflict of interest.

5 http://www.pao.gov.ab.ca/Employees/?file=legreg/code/titlepage&cf=2.

The department provides training on the conflict of interest policies for employees upon commencement. However, there is no requirement for employees to take a refresher course—annually, for example.

The policies require department staff to disclose all instances of real or apparent conflicts of interest to their immediate manager as early as possible. Any disclosed conflicts are maintained in the employee's employment file, which is stored with human resources. The employee's manager is responsible for reviewing and managing any conflict the employee may have. The department does not have a central process to manage conflicts once they are disclosed.

It should be noted that the above processes under this sub-heading were applicable to the 2013 Pure North grant as well.

Department processes applicable to the deputy minister

Deputy ministers are classified as designated office holders under the *Public Service Act* and are required to submit personal and financial information to the provincial ethics commissioner. It is not the ethics commissioner's role to manage operational conflicts at departments. The ethics commissioner is responsible for investigating any breach of the *Conflicts of Interest Act* by designated office holders.

Disclosures that a deputy minister makes to the ethics commissioner are separate from any disclosure made within department processes. These processes are necessary to manage potential conflicts or biases impacting decisions made at a department. If potential conflicts are not disclosed within a department, department staff will not be aware there is a potential conflict to manage.

An alleged potential conflict or bias resulting from the former deputy minister's past association with Pure North was publicly reported by the media. When the former deputy minister, Dr. Carl Amrhein, joined the department in 2015, he disclosed to the ethics commissioner his prior association with Pure North. This included being a participant in the wellness program and signing a letter dated July 25, 2014 that supported the research being done at the University of Alberta and funded by Pure North. He did not disclose this potential conflict of interest through the department's processes until March 2017, which was after he signed the nurse practitioner grant agreement with Pure North on October 28, 2016.

In her September 18, 2017 report,[6] the ethics commissioner concluded that Dr. Amrhein did not have a conflict of interest when he signed the Pure North grant agreement. However, she stated that "perception is important and there was a perception created in this case, not necessarily by his acts but by the view of others of it" and "the problem when ascertaining a perceived conflict of interest is that perception is an individual opinion and perceptions vary widely."

The ethics commissioner noted that the department's supplementary code is not clear when it comes to the disclosure requirements of a deputy minister. We reviewed the code as well and came to the same conclusion. In our view, processes should require a deputy to disclose potential conflicts at the department level so that any risks can be proactively managed or mitigated.

6 https://open.alberta.ca/publications/report-of-ethics-commissioner-2017-09-15.

Based on our review of processes and the application of those processes within the Department of Health, we did not find any evidence that Dr. Amrhein influenced the awarding of this grant. However, the department should improve its supplementary code to make it clear that disclosing a potential conflict to the ethics commissioner does not discharge the responsibility to disclose to the department.

Grant performance measures and monitoring

We reviewed the 2016 Pure North grant agreement and noted it had 19 individual performance measures that had to be reported quarterly to the department. We concluded that the measures were detailed and reasonable in the context of evaluating the effectiveness of using nurse practitioners in primary care. Other improvements over the 2013 grant included creating a detailed budget and not paying the entire grant amount up front.

The department terminated the nurse practitioner grant without cause effective August 10, 2017, which was permitted in the grant agreement. Only $1.45 million of the $4.2 million total was paid to Pure North.

Recommendation

RECOMMENDATION:
Improve conflict of interest processes

We recommend that the department improve its conflict of interest processes by:

- improving the supplementary code to clearly outline the disclosure requirements of the deputy minister
- centrally managing conflicts in the department to ensure adherence to the conflict of interest policies
- providing advice to department staff on conflict of interest matters when necessary

The department may benefit from formally designating one or more individuals to provide advice within the department when potential conflicts of interest arise.

Consequences of not taking action

The department could suffer significant reputational damage if Albertans believe grant awards are influenced by potential conflicts of interest.

Appendix A

Timeline of key events

2013 Pure North grant

Date	Event
August 2012	Pure North hosted a workshop with government officials to discuss Pure North's seniors' wellness program.
Early-to-mid 2013	Pure North repeatedly asked for government funding of the seniors' wellness program. The department identified concerns with the program and declined funding.
August 2013	Pure North continued to request funding. The department intended to award a research grant to Pure North to gather the scientific evidence that the department believed was missing.
Mid-December 2013	The proposed grant agreement was significantly changed before it was signed and all research requirements were removed. This change was based on an email from Deputy Minister Janet Davidson, who stated that the Minister of Health, Fred Horne, wanted the purpose of the grant to be increasing enrolment in the seniors' wellness program.
December 19, 2013	The department sent the revised grant agreement to Pure North to sign and the contract was executed.
July 25, 2014	University of Alberta Provost and VP (Academic) Carl Amrhein signed a letter supporting the research that Pure North was doing and the funding it was providing to the university.
March 31, 2015	The Pure North grant agreement for the seniors' wellness program expired.
May to August 2015	Pure North asked for more funding for the seniors' wellness program. The department declined all further requests to fund this program, as it concluded there was still insufficient scientific evidence to determine the effectiveness of the program.

2016 Pure North grant

Date	Event
August 4, 2015	Carl Amrhein became deputy minister of the Department of Health.
January 2016	Initial meetings between Pure North and the department occured regarding a potential nurse practitioner pilot project.
June 2016	Pure North submitted a proposal to participate in the nurse practitioner pilot project.
October 2016	The grant agreement was signed by Deputy Minister Carl Amrhein.
March 2017	Carl Amrhein made a disclosure to department staff stating that he had a possible conflict of interest with Pure North.
July 11, 2017	The department sent Pure North a letter stating that the nurse practitioner grant agreement had been terminated, effective August 10, 2017.

Alberta Transportation

Commercial Vehicle Safety

February 2018

About This Audit

The *National Safety Code*[1] requires carriers with commercial vehicles to have a safety fitness certificate before these vehicles operate on Canadian highways. Through the *Motor Vehicle Transport Act*,[2] Transport Canada delegates monitoring and enforcement of the code to the provinces and territories.

In Alberta, the Department of Transportation is responsible for regulating and enforcing carriers with commercial vehicles that travel within the province, wherever they are registered.[3] The department monitors whether carriers comply with various acts, regulations and codes. When a carrier does not comply, the department can suspend the carrier's safety fitness certificate until it takes corrective measures. Non-compliance does not automatically mean there are unsafe commercial vehicles on the road. It means a carrier is not operating within all required transportation legislation.

The department has a *Progressive Intervention and Discipline Policy*,[4] which provides guidance to department staff regarding what actions to take when carriers fail to comply with the law. When notified of non-compliance, carriers are given a reasonable period of time to remediate identified deficiencies. If a carrier still does not comply, the department will suspend its licence to operate until the carrier completes remediation.

Our 2009 audit and 2014 follow-up audit found that the department's processes to monitor and enforce safety standards for commercial vehicles were inadequate. We found the department did not:

- consistently comply with its policy to take progressive disciplinary and enforcement action against non-compliant carriers
- have a reliable process to identify and follow up on carrier-related complaints received and entered into the system by the Department of Justice and Solicitor General

Audit Objective and Scope

The objective of this follow-up audit was to determine whether the Department of Transportation had implemented our outstanding 2009 recommendation[5] to consistently apply its policy of progressive sanctions against carriers that persistently fail to comply with transportation legislation.

The scope for this audit was limited to the Department of Transportation.[6] We audited the processes and controls applied by the department to implement our recommendation over the period March 2016 to July 2017.

1 *National Safety Code for Motor Carriers*, Standard #14, referenced in *Motor Carrier Safety Fitness Certificate Regulations*, SOR / 2005-180, establishes the motor carrier safety rating framework by which each jurisdiction assesses the safety performance of motor carriers.

2 The *Motor Vehicle Transport Act*, RSC 1985, c 29 (3rd Supp).

3 A "carrier" under section 130 of the *Traffic Safety Act*, RSA 2000, CT-6, means an owner of a commercial vehicle in respect of which a "certificate is issued or who holds a certificate or is required to hold a certificate."

4 *Progressive Intervention and Discipline Policy – Carrier Services Monitoring Program.*

5 *Report of the Office of the Auditor General—October 2009*, page 117 (repeated July 2014).

6 Our 2009 audit included an examination of processes at the Department of Justice and Solicitor General. All recommendations made to that department were assessed as implemented in our 2014 follow-up audit.

Audit Responsibilities

The department is responsible for regulating carriers operating in Alberta. Our responsibility is to express an independent conclusion on whether the department has effective processes to take timely and appropriate disciplinary and enforcement action against non-compliant carriers.

We conducted our audit in accordance with Canadian Standard on Assurance Engagements 3001 issued by the Auditing and Assurance Standards Board (Canada). The Office of the Auditor General applies Canadian Standard on Quality Control 1 and, accordingly, maintains a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. The Office complies with the independence and other ethical requirements of the Chartered Professional Accountants of Alberta Rules of Professional Conduct, which are founded on fundamental principles of integrity and due care, objectivity, professional competence, confidentiality and professional behaviour.

What We Examined

Our follow-up audit examined the department's processes to apply its *Progressive Intervention and Discipline Policy* on carriers that do not comply with transportation legislation. We also examined the department's process to identify and follow up on carrier complaints received through Justice and Solicitor General. Department management asserted to us prior to our follow-up that they had implemented the recommendation.

We reviewed the policies and procedures for each process and examined samples to assess if the department had implemented our recommendation. We conducted our field work between July and October 2017.

Conclusion

Because of the significance of the findings described below, we conclude that the Department of Transportation was still not, as of July 1, 2017, consistently following its policy of taking timely and appropriate enforcement action against non-compliant carriers. In the eight years since our original audit, the department has made improvements to its systems. The department has improved its processes to identify and follow up on all carrier complaints received. However, we found insufficient improvement in the consistency of enforcement actions from our 2014 follow-up audit findings, and senior management was not aware of these continued inconsistencies.

Why This Conclusion Matters to Albertans

With economic expansion and a growing population, more commercial vehicles are on Alberta's roads than ever before. Albertans need to know that Alberta's commercial vehicle safety programs will identify high-risk carriers, deal with them appropriately, and ultimately help reduce risks while ensuring the goods transported on our highways make it to their destination.

Findings and Recommendations

Progressive Sanctions—Repeated

Context

The department is responsible for monitoring whether commercial carriers comply with various acts, regulations and codes.[7] It does this by:

- receiving and processing complaints and concerns from drivers, law enforcement, other government departments and the general public
- investigating regulation breaches, imposing corrective actions and administering penalties for those carriers that breach regulations
- monitoring statistical information on carrier safety—the *National Safety Code* requires the province to take corrective actions against carriers posing the greatest risk to public safety

The department has a *Progressive Intervention and Discipline Policy* that provides guidance for intervention when carriers fail to comply with the law. The policy is designed so that disciplinary and enforcement action increases in severity when carriers repeatedly do not comply. Each event may result in several levels of intervention, including issuing a warning letter, providing deadlines to correct deficiencies, administering fines, and cancelling the safety fitness certificate, operating authority certificate and vehicle registrations.

When the department identifies that a carrier is not complying with legislation, the department sends a letter to the carrier communicating the fix needed, the date by which the fix is required, and the consequences of missing that date. The letter states that a failure to comply by the due date will result in immediate suspension of the carrier's safety fitness certificate until it is verified that each outstanding condition has been met.

We found in our 2009 audit that the department did not always take timely and appropriate disciplinary and enforcement actions against non-compliant carriers. As a result, carriers continued to contravene legislation for months after being informed of their infraction. Our 2014 follow-up audit found that the department had implemented a *Progressive Intervention and Discipline Policy*, but department staff did not consistently apply it. We also found that the department did not appropriately identify and follow up on carrier complaints received through the Department of Justice and Solicitor General.

We recommended that the department enforce compliance on all carriers that persistently fail to comply with rules and regulations.

Criteria: the standards of performance and control

The Department of Transportation should clearly define and consistently apply enforcement standards across the province.

Our follow-up audit findings

Key Finding

The department is still not consistently applying its *Progressive Intervention and Discipline Policy*.

7 *Traffic Safety Act* RSA 2000, c.T-6 Commercial Vehicle Safety Regulation, Alta Reg 121/2009.

Carrier complaint handling

We previously found that the department did not have a reliable process to identify and follow up on carrier-related complaints received and entered into the system by Justice and Solicitor General. Although the complaints were logged into a shared handling system, neither the department nor Justice and Solicitor General had processes to alert the other of the complaint and to ensure it was adequately followed up.

In this follow-up audit we found that the department has improved its processes to identify and communicate complaints in its complaint handling system by creating procedures and user guides for department staff to effectively use its Transportation Safety Information System.

When a staff member at Justice and Solicitor General enters a complaint into the system, they are required to assign it to the proper department. The system automatically notifies Transportation staff when a complaint is ready for handling.

We tested a sample of complaints entered by Justice and Solicitor General and assigned to the department. We found the department received notification of complaints and followed the required procedures to appropriately handle them.

Consistent application of the *Progressive Intervention and Discipline Policy*

We found in this follow-up that the department has made improvements to its monitoring, including new tools in its Transportation Safety Information System to:

- support the electronic management of carrier files and review processes
- track historical information, follow-up items and due dates
- provide additional reporting to monitor carrier performance

However, the department is still not consistently applying its enforcement policy and processes, particularly in regard to timeliness of enforcement. The department's procedure[8] to enforce the policy is to suspend any carrier the next business day if it does not meet a deadline to comply with legislation. The department has zero tolerance for non-compliance. However, from our examination of a sample of carrier files, we found:

- department staff did not provide correspondence to the carrier within the six-month timeframe required to issue an administrative penalty—as a result, penalties were removed or not applied
- appropriate disciplinary action was not taken, because the department lacked current information and department staff had unclear guidance on what action to apply
- because of a lack of proper follow-up and monitoring, either non-compliant carriers were not suspended or it took over two weeks to issue the suspension from the date of required compliance

8 *Compliance Administrative Procedures Manual.*

We sampled files where suspension should have occurred according to the department's procedures, finding:

- fatigue violations—driver logs indicated hours of operation longer than permitted, and drivers had insufficient rest between shifts[9]
- non-compliance with *National Safety Code* requirements—the carriers did not have required policies and procedures to adhere to the safety code (for example, maintenance, safety or training programs are not documented)

The department compliance coordinator runs a "Follow-up Item Report" every Monday, which lists carriers that have infractions that are overdue or coming due within the next 10 days. The report is provided to department staff, who are assigned carriers to monitor. We found that data captured in these reports is inaccurate, as staff are not updating the due dates in accordance with department procedures. In addition, the report does not provide sufficient detail to understand the severity of the infraction or actions taken by the carrier to rectify it.

No reporting was provided to senior management. The lack of reporting contributed to ineffective oversight of the enforcement of progressive sanctions.

We asked senior management why this recommendation is still outstanding after eight years. Our audit findings prompted management to examine why, and they identified that the department has not applied enough resources or oversight for staff to consistently apply the *Progressive Intervention and Discipline Policy*.

To fully implement this recommendation, department senior management need to improve its oversight so that department staff are consistently applying and documenting disciplinary and enforcement action against carriers that fail to comply with transportation legislation.

RECOMMENDATION:
Progressive sanctions—**repeated**

We recommend for the third time that the Department of Transportation consistently comply with its policy to take disciplinary and enforcement action against non-compliant carriers.

Consequences of not taking action

Without timely and appropriate enforcement action taken against high-risk carriers, commercial vehicles that are a potential risk to public safety may continue to operate, and carriers may not believe there are meaningful consequences of being non-compliant.

9 In the definition of "fatigue violation," the department also includes instances where carriers fail to keep adequate time records for drivers.

Alberta Treasury Board and Finance
Various Departments

Alberta Treasury Board and Finance
Various Departments

Travel, Meal and Hospitality Expenses of the Premier, Ministers and Their Staff

February 2018

About This Audit

Public servants may incur expenses for travel, meals and hospitality related to government business and can claim expense reimbursements and certain allowances. They have to follow government policies on these types of expenses,[1] as well as policies on procurement cards and credit cards.

We established an annual rotational audit of departments' systems for verifying that the expenses of the premier, ministers, associate ministers and their staff comply with policies and to support the Treasury Board Committee oversight process. Our May 2017 report[2] describes the new Treasury Board Committee oversight process of the premier's, ministers' and associate ministers' travel, meal and hospitality expenses, and also includes the results from the first year of our rotational audit. This is the second year of our rotational audit.

Our Assessment of the Results from the First Two Years of Our Rotational Audit of Departments' Expense Systems

Over two years, we have audited the expense systems at 13 departments. Given that these systems relate to basic expense processes, training, guidance, forms, checklists and internal controls, we expect that departments would have effective systems. Despite this, we continue to find deficiencies in departments' processes for these expenses. The effectiveness of the Treasury Board Committee's oversight process depends on departments having effective systems.

The government is working toward implementing a new enterprise resource planning system and developing standardized processes that departments must implement. In the short term, we encourage Treasury Board and Finance to share with all departments and ministers' offices the good practices that we identified so that they can implement effective and efficient processes. In the longer term as the new enterprise resource planning system is being implemented, we encourage Treasury Board and Finance to incorporate these good practices into standardized processes that all departments must implement.

Why This Conclusion Matters to Albertans

Albertans expect ministers and public servants to spend taxpayers' dollars responsibly and prudently when conducting government business. Effective systems are needed to ensure that people are complying with the expense policies. Albertans need the assurance that these systems are well-designed and working effectively.

1 http://www.finance.alberta.ca/business/planning-accountability/accountability/expenses-policies.html.
2 *Report of the Auditor General of Alberta—May 2017*, page 53.

Conclusion

The table summarizes our conclusions on the departments' systems.

Except for the findings described below related to the departments of Community and Social Services, Indigenous Relations, and Seniors and Housing, we conclude that the selected departments had effective systems, for the period from:

- November 2015[3] to June 30, 2017, to verify that the travel, meal and hospitality expenses of ministers, associate ministers and their staff comply with policies
- December 2016[4] to June 30, 2017, to support the new Treasury Board Committee process to oversee these expenses for the premier, ministers and associate ministers

Legend:

◆ Significant improvements needed to systems.

▲ Improvements are needed to systems, but not to the same extent as red items.

● We have not identified any significant weaknesses in the systems.

Department	Systems to verify that expenses are in compliance with directives and policies	Systems to publicly disclose expenses and to support the new Treasury Board Committee oversight process
Children's Services	●	●
Community and Social Services	▲	▲
Indigenous Relations	◆	◆
Labour	●	●
Seniors and Housing	▲	●
Treasury Board and Finance	●	●

Where Significant Improvements Are Needed to Departments' Systems

The Department of Indigenous Relations has systems to verify that expenses comply with policies and are publicly disclosed, but these systems are not well designed and are not applied consistently. Details of the findings are included in a recommendation below.

Where Other Improvements Are Needed to Departments' Systems

We provided the Department of Community and Social Services with some observations to improve its processes. The nature of those observations did not warrant a recommendation.

3 The new policy was effective from November 18, 2015.
4 The Treasury Board Committee reviewed the first oversight report in December 2016.

The Department of Seniors and Housing has systems to verify that expenses comply with policies and are publicly disclosed. However, improvements are needed specifically in the documentation of expenses. Management at the department had already begun to implement changes to processes as a result of our prior-year audit of ministers' expenses, and we saw fewer deviations in the more recent samples. Because of the progress made before we began our audit, we have not made a recommendation.

Audit Objective and Scope

The audit objectives were to assess whether departments have effective systems to:

- verify that the travel, meal and hospitality expenses of ministers, associate ministers and their staff comply with policies[5]
- support the new Treasury Board Committee process to oversee these expenses of the premier, ministers and associate ministers

We follow a rotational approach, so that we audit each department once every three years. This year, we audited the systems at the following departments:

- Children's Services
- Community and Social Services
- Indigenous Relations
- Labour
- Seniors and Housing
- Treasury Board and Finance

We developed the audit criteria based on departments' responsibilities and applicable expense policies, as well as policies on procurement cards and credit cards.

Audit Responsibilities

Management of Treasury Board and Finance has certain administrative responsibility for government expense policies, so we report our overall audit results to that department. Management of each department is responsible for creating and sustaining systems to comply with policies. Our responsibility is to express an independent conclusion on whether departments have effective systems to:

- verify that the travel, meal and hospitality expenses of ministers, associate ministers and their staff comply with policies
- support the new Treasury Board Committee process to oversee these expenses of the premier, ministers and associate ministers

We conducted our audit in accordance with Canadian Standard on Assurance Engagements 3001 issued by the Auditing and Assurance Standards Board (Canada). The Office of the Auditor General applies Canadian Standard on Quality Control 1 and, accordingly, maintains a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. The Office complies with the independence and other ethical requirements of the Chartered Professional Accountants of Alberta Rules of Professional Conduct, which are founded on fundamental principles of integrity and due care, objectivity, professional competence, confidentiality and professional behaviour.

5 Travel, Meal and Hospitality Expenses Policy, Public Disclosure of Travel and Expenses Policy, Procurement Card Policy and Credit Card Policy.

What We Examined

We examined a sample of travel, meal and hospitality expenses incurred between November 19, 2015 and June 30, 2017 at each department included in our scope. Our work included reviewing documents and interviewing staff. We did not examine remuneration, employment and termination benefits, or other office expenses, such as office supplies. The detailed testing procedures we performed were consistent with the testing we executed in the prior year. We conducted our field work between August and October 2017, and substantially completed the audit on October 30, 2017.

Findings and Recommendations

Department of Indigenous Relations

Improve the processes for preparing, reviewing and publicly disclosing travel, meal and hospitality expenses.

Summary of Findings

Key Findings

- There were significant delays in processing, reviewing and approving expenses paid through procurement card and expense reimbursements.
- Review processes did not identify deviations from policy and instances of insufficient documentation.
- Review processes did not identify incomplete and incorrect public disclosure of expenses.

The department has inadequate processes to verify that the minister and his staff's expenses comply with policies and to support the Treasury Board Committee oversight process. The inadequacy of these processes, along with significant delays in processing, reviewing and approving expenses paid through procurement card and expense reimbursements, resulted in non-compliance with policies and incomplete and incorrect public disclosure of expenses.

The department needs to do a comprehensive review of its procurement card and expense processes. Once the review has been completed, the department needs to provide training to ensure staff understand the processes and the applicable policies and procedures thoroughly.

Deviations from policy and documentation concerns

The procurement card policy requires cardholders to reconcile their transactions within 28 days of the billing date. In the minister's office, they did not always comply with the policy and procurement cards were often not reconciled for several months.

The Travel, Meal and Hospitality Expenses Directive requires that claimants properly explain and document claims, and approvers must document their rationale when they use discretion to approve expenses. The level of information describing the business purpose or discretion used was not always sufficient, or required documents were missing.

Public disclosure

The Public Disclosure of Travel and Expenses Directive requires that disclosed expenses be automatically extracted from the financial systems. If the financial system information is not accurate, the output from the automated extraction will be incorrect. The department's review processes did not identify transactions that:

- were publicly disclosed without appropriate descriptions or receipts
- had incorrect descriptions or receipts in the public disclosure
- were not publicly disclosed but should have been
- were publicly disclosed under the names of incorrect individuals

RECOMMENDATION:
Improve processes for preparing, reviewing and publicly disclosing travel, meal and hospitality expenses

We recommend that the Department of Indigenous Relations improve its processes to prepare, review and publicly disclose travel, meal and hospitality expenses.

Consequences of not taking action

If the department does not properly review expenses, then errors and non-compliance with policies could go undetected. There would be a risk that taxpayers could be subsidizing expenses that are not related to government business. There would also be a risk that the public disclosure is not complete or accurate.

Auditor General
OF ALBERTA

Glossary and Acknowledgments

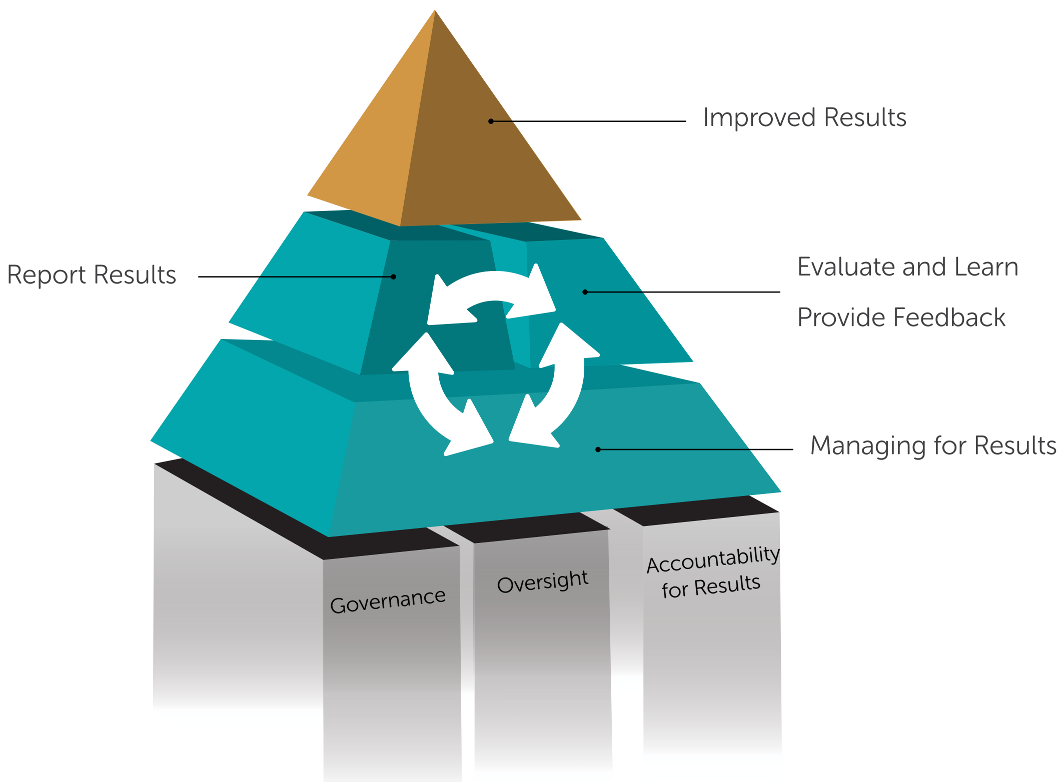
February 2018

Glossary

Accountability for results

The obligation to demonstrate results achieved through the use of public resources in the context of fair and agreed-on expectations. To demonstrate value for money for Albertans, all those who use public resources must:

- set and communicate measureable results and responsibilities
- plan what needs to be done to achieve results
- do the work and monitor progress
- identify and evaluate results, and provide feedback for continued improvement
- publicly report on results



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 conclusion

An auditor's written statement that the underlying subject matter being audited does not meet the applicable criteria and that the effect of the deviations are material and pervasive.

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.

Audit
An auditor's examination and verification of evidence to determine whether the subject matter meets applicable criteria, such as whether financial information is reliable, activities or outcomes are in compliance with laws, or management has effective processes and controls to achieve results or manage risks. The Office carries out financial statement audits and performance audits.

Auditor
A person who examines and evaluates a specified subject matter against appropriate criteria and provides a conclusion.

Auditor's conclusion
An auditor's written communication on whether the subject matter audited meets, in all material respects, 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
A framework that 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
Acronym for Committee of Sponsoring Organizations of the Treadway Commission. COSO is a joint initiative of five private sector organizations and is dedicated to the development of frameworks and guidance on risk management, internal control and fraud deterrence.

CPA Canada
Abbreviation for Chartered Professional Accountants of Canada, the national professional accounting body established to support a unified Canadian accounting profession. It replaced 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 and control that auditors use to assess systems or information.

Cross-ministry
A section of this report covering systems or 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 so that capital assets provide acceptable service over their expected lives.

Disclaimer of conclusion
An auditor's written communication that they have not been able to obtain sufficient appropriate evidence to support a reliable conclusion on whether the subject matter meets the criteria.

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 or is a deviation from criteria.

Expense
The cost of a thing over a specific time.

Financial statement audit
Procedures an auditor carries out to evaluate and express a conclusion on the reliability of financial statements.

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 cost-effective results.

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 performs assurance activities to evaluate and improve an organization's governance, risk management and internal control processes. 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; risk management practices; compliance with policies, procedures, and legislation; economical and efficient use of resources; and effectiveness of operations.

Internal control
A process designed and implemented to provide reasonable assurance that an organization will achieve its objectives. Management is responsible for an effective internal control system in an organization. The organization's governing body, in its oversight role, should challenge management to demonstrate 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 we have audited. In the letter, we explain:

- our work
- our findings
- our recommendation of what the entity should improve
- 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, significant

Something that makes a difference to decision makers.

Misstatement

A misrepresentation of financial information due to error, 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 and providing watchful care for the use of financial and human resources
- checking that processes and systems are working well, including systems to ensure accountability for how effectively resources are used
- modelling and signalling preferred behaviours through mentorship and by example

Performance audit

To help improve the use of public resources, we audit and recommend improvements to systems designed to achieve 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 performance audits. Performance audits are conducted in accordance with the assurance 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 that the criteria are appropriate for the audit. Then we design and carry out procedures to gather audit evidence. Next, we compare our evidence to the criteria. If the audit evidence indicates the entity meets all the criteria, we conclude that the system or procedure is meeting its objective. But if the evidence indicates that not all criteria have been met, 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 performance audit should not be confused with assessing systems with a view to relying on them in an audit of financial statements.

Performance measure
An indicator of progress in achieving a desired result.

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

Performance target
The expected result for a performance measure.

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

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

Qualified auditor's conclusion
An auditor's conclusion that the subject matter meets the criteria, except for one or more material but not pervasive exceptions, which form the basis for the qualification.

Recommendation
A solution that we—the Office of the Auditor General of Alberta—propose to an entity 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 portion of a population. We use sampling to select items from a population. We perform audit tests on the sample items to obtain evidence and form a conclusion about the population as a whole. We use either statistical or judgmental selection of sample items, and we base our sample size, sample selection and evaluation of sample results on our judgment of risk, the nature of the items in the population and the specific audit objectives for which sampling is being used.

Systems (accounting)

A set of interrelated accounting processes for revenue, spending, preservation or use of assets, and determination of liabilities.

Systems (management)

A set of interrelated management processes designed to achieve goals economically and efficiently.

Unqualified auditor's conclusion

An auditor's conclusion that the subject matter audited meets the criteria.

Value for money

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

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This report is available at www.oag.ab.ca
ISSN 1919-4242 (Print)
ISSN 1927-9604 (Online)

Making a difference in the lives of Albertans.