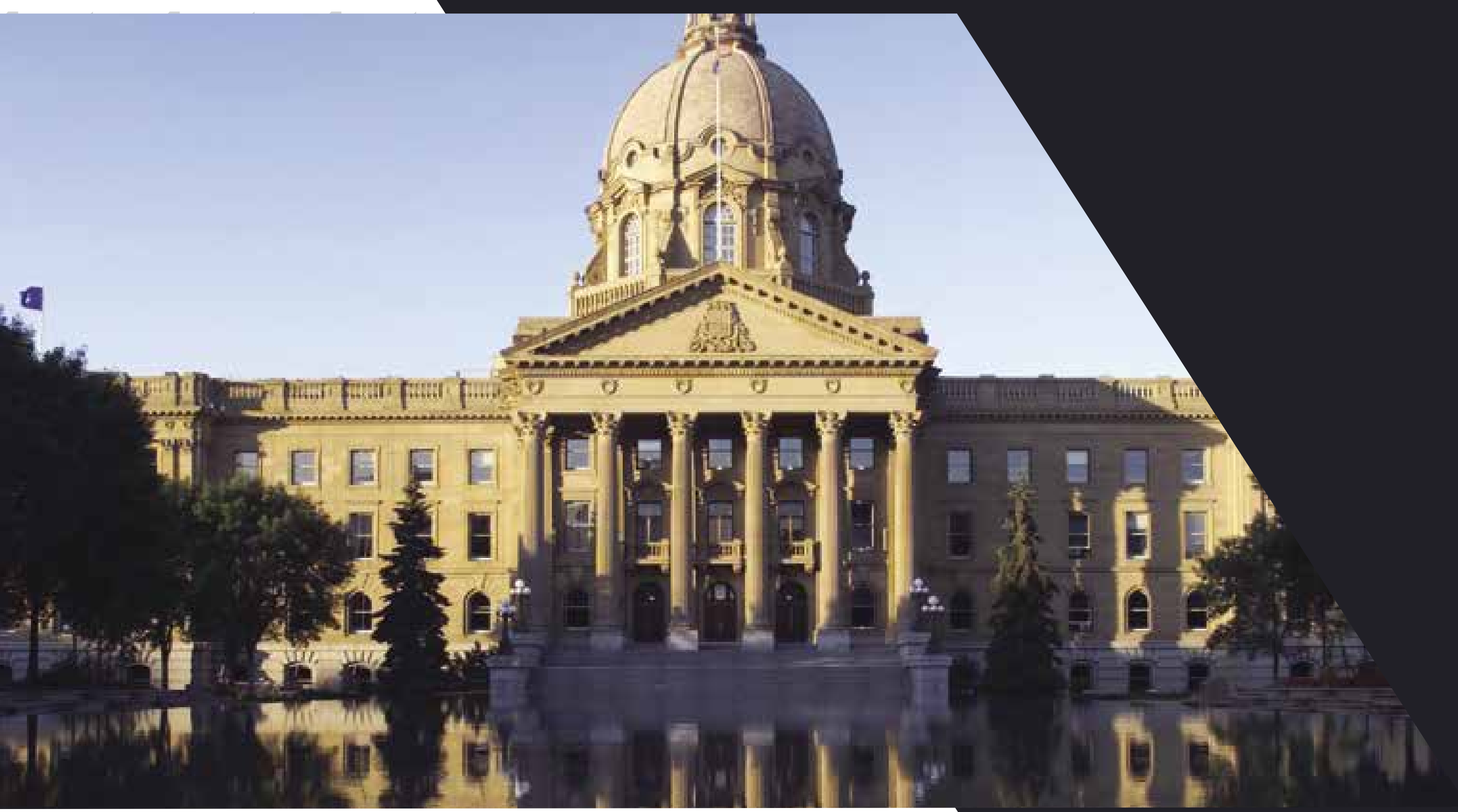
Report of the Auditor General

November 2019



Auditor General
OF ALBERTA

Auditor General
OF ALBERTA

Mr. Mike Ellis, MLA
Chair
Standing Committee on Legislative Offices

I am honoured to transmit my *Report of the Auditor General of Alberta – November 2019* to the Members of the Legislative Assembly of Alberta, under Section 19(5) – Annual report of Auditor General – of the *Auditor General Act*.

We conducted our work under the authority of the *Auditor General Act* and in accordance with the standards for assurance engagements as set out in the CPA Canada Handbook – Assurances.

W. Doug Wylie FCPA, FCMA, ICD.D
Auditor General

Edmonton, Alberta
November 21, 2019

1 Overview

Introduction by the Auditor General

It is my pleasure to present my annual audit report on the *2018-2019 Consolidated Financial Statements of the Province of Alberta* and government ministries, and the results of five followup audits on previous audits conducted by my office.

In this report, I am pleased to report the implementation of 13 recommendations. A total of 15 recommendations have been implemented since my November 2018 annual report.

We also issue five new recommendations, and repeat two previous recommendations, where we find additional work is required for us to consider the recommendations implemented.

2018-2019 Consolidated Audit Statements

On June 18, 2019, we issued an unqualified (clean) audit opinion on the Province's Consolidated Financial Statements for the year ended March 31, 2019. A clean audit opinion means that we concluded, based on obtaining sufficient and appropriate audit evidence, that the financial statements are free of material misstatements and are presented fairly in accordance with Public Sector Accounting Standards.

Our audit opinion on the Province's Consolidated Financial Statements provides confidence to readers about the financial statements because we:

- are independent of government
- have a professional obligation to comply with Canadian Auditing Standards when auditing the financial statements

Our audit of the *2018-2019 Consolidated Statements of the Province of Alberta* also focused on an examination of the following key financial risks – or those matters that, in our professional judgement, were of most significance:

- Government's contracts with the North West Redwater Partnership
- Environmental liabilities
- Pension liabilities

Our findings and conclusions on these risks are outlined in this report.

Annual Summary of Recommendations

In both our financial statement and performance audit work, when we identify areas of improvement, we issue recommendations to management on what needs to be improved.

As part of our process, we track and follow up on all recommendations we make to government and issue a summary report with all of the current and outstanding recommendations to government to improve the economy, efficiency or effectiveness of government.

As of September 30, 2019, there are 149 outstanding recommendations. A breakdown by ministry is included in the Annual Summary of Recommendations section in this report.

Followup Audits

This report includes the results of five followup audits we have completed within the last year:

- **Alberta Energy Regulator**
  Systems to Ensure Sufficient Financial Security for Land Disturbances from Mining Followup
- **Alberta Environment and Parks**
  Management of Sand and Gravel Pits Followup
- **Alberta Health**
  Crown's Right of Recovery of Healthcare Costs from Motor Vehicle Accidents Followup
- **Alberta Indigenous Relations**
  Systems to Assess First Nations Development Fund Grants Followup
- **Service Alberta**
  Information Technology Disaster Recovery Program Followup

Again, we are pleased to report in these followups, we found seven of our previous recommendations to government have been implemented.

In our followup audit on Service Alberta's *Information Technology Disaster Recovery Program*, we repeat our 2014 recommendation to improve recovery of critical government information technology applications. While we note progress has been made in this area, our findings indicate more work needs to be done for this recommendation to be considered implemented.

In following up, for the second time, on our 2008 audit on the *Management of Sand and Gravel Pits*, we repeat one recommendation and issue two new recommendations to continue to drive improvement. Implementing our recommendations will mitigate the financial, environmental and safety risks from sand and gravel pits, produce a consistent approach to security and enforcement on public and private land, and allow Alberta Environment and Parks to use its resources more efficiently.

Acknowledgments

I would like to extend a thank you to all of the Members of the Legislative Assembly over the past year, and especially to the previous and current members of the Standing Committee on Legislative Offices and the Standing Committee on Public Accounts.

I also thank those in oversight and management roles in the organizations we audit. Your cooperation is appreciated.

I also want to acknowledge the members of the Provincial Audit Committee for their assistance in reviewing and offering wise counsel on our work. In particular, I would like to recognize the chair of the committee, Mr. Barry James, for his two-terms in leading the committee, and Ms. Melanee Thomas and Mr. Mark Anielski, whose terms of the committee also conclude this year.

Finally, I extend a warm thank you to every member of my office. You inspire me every day with your dedication, professionalism and commitment to making a difference in the lives of all Albertans through our work.

W. Doug Wylie FCPA, FCMA, ICD.D
Auditor General

Summary of Recommendations

In this report, we note that government has implemented 13 of our previous recommendations. We repeat two recommendations, and we issue five new recommendations.

Implemented Recommendations

Alberta Education

Original: October 2017, Financial Statement Auditing, page 50
Implemented: November 2019, Ministry Report, page 35

Enterprise Risk Management Process
IMPLEMENTED Recommendation:
Implement an enterprise risk management process

We recommend that the Department of Education implement an enterprise risk management process.

Alberta Energy

Original: October 2016, no. 16, page 99
Implemented: November 2019, Ministry Report, page 59

User Access Controls
IMPLEMENTED Recommendation:
Improve controls over access to key business systems

We recommend that the Department of Energy document conflicting roles within its key business systems and ensure appropriate controls are in place where conflicting roles are identified.

Original: July 2015, no. 3, page 31
Implemented: November 2019, Followup Audit, page 6

Alberta Energy Regulator: Systems to Ensure Sufficient Financial Security for Land Disturbances from Mining Followup
IMPLEMENTED Recommendation:
Improve Mine Financial Security Program monitoring

We recommend that the Alberta Energy Regulator, as part of its enterprise risk assessment process, develop and execute on a risk-based plan for its Mine Financial Security Program monitoring activities to ensure it is carrying out the appropriate amount of verification.

Original: November 2018, Financial Statement Auditing, page 69
Implemented: November 2019, Ministry Report, page 60

Alberta Petroleum Marketing Commission
IMPLEMENTED Recommendation:
Improve controls over the cash-flow model

We recommend that the Alberta Petroleum Marketing Commission implement stronger access and change-management control procedures to ensure that access and changes to the financial model are working in a controlled and consistent manner.

Original: November 2018, Financial Statement Auditing, page 69
Implemented: November 2019, Ministry Report, page 60

Alberta Petroleum Marketing Commission
IMPLEMENTED Recommendation:
Improve controls over the cash-flow model

We recommend that the Alberta Petroleum Marketing Commission improve its method for supporting, updating, and documenting assumptions and key judgements applied to its model analysis.

Alberta Environment and Parks

Original: October 2008, page 364
Repeated: July 2014, no. 5, page 52
Implemented: November 2019, Followup Audit, page 18

Management of Sand and Gravel Pits Followup
IMPLEMENTED Recommendation:
Material and royalties not properly verified

We again recommend that the Department of Environment and Parks develop systems to verify quantities of aggregate reported as removed by industry from public lands so that all revenue due to the Crown can be assessed and recorded in the financial statements.

Original: October 2008, no. 41, page 362
Implemented: November 2019, Followup Audit, page 19

Management of Sand and Gravel Pits Followup
IMPLEMENTED Recommendation:
Sufficiency of security not assessed

We recommend that the Department of Environment and Parks assess the sufficiency of security deposits collected under agreements to complete reclamation requirements.

Alberta Health

Original: October 2014, no. 4, page 38
Implemented: November 2019, Followup Audit, page 5

Crown's Right of Recovery of Healthcare Costs from Motor Vehicle Accidents
IMPLEMENTED Recommendation:
Calculating the aggregate assessment

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

Original: October 2014, no. 3, page 37
Implemented: November 2019, Followup Audit, page 6

Crown's Right of Recovery of Healthcare Costs from Motor Vehicle Accidents
IMPLEMENTED Recommendation:
Clarify objectives of collecting revenue and prepare supporting rationale

We recommend that the Department of Health:

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

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

Original: October 2012, no. 25, page 123
Repeated: November 2018, Financial Statement Auditing, page 88
Implemented: November 2019, Ministry Report, page 74

Alberta Health Services
IMPLEMENTED Recommendation:
Fees and charges

We again recommend that Alberta Health Services:

- reinforce its admissions policies to ensure consistent application
- review its controls over the processes that generate fees and charge revenue to ensure they are appropriately designed, consistent across regions, and aligned with current policies

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Alberta Indigenous Relations

Original: February 2018, page 125
Implemented: November 2019, Ministry Report, page 86

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

Original: July 2013, no. 2, page 24
Repeated: May 2017, no. 6, page 66
Implemented: November 2019, Followup Audit, page 7

Systems to Assess First Nations Development Fund Grants Followup
IMPLEMENTED Recommendation:
Review and approval processes

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

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

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Original: July 2013, no. 3, page 26
Repeated: May 2017, no. 7, page 69
Implemented: November 2019, Followup Audit, page 8

Systems to Assess First Nations Development Fund Grants Followup
IMPLEMENTED Recommendation:
Monitoring processes

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

Repeated Recommendations

Alberta Environment and Parks

Original: October 2008, no. 40, page 360
Repeated: July 2015, no. 4, page 51
Repeated: November 2019, Followup Audit, page 13

Management of Sand and Gravel Pits Followup
REPEATED Recommendation:
Improve reclamation monitoring and enforcement

We again recommend that the Department of Environment and Parks improve the effectiveness and efficiency of reclamation monitoring and enforce reclamation requirements.

Service Alberta

Original: October 2014, no. 5, page 45
Repeated: November 2019, Followup Audit, page 6

Information Technology Disaster Recovery Program Followup
REPEATED Recommendation:
Improve recovery of critical information technology applications

We again recommend that the Department of Service Alberta:

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

New Recommendations

Alberta Energy Regulator

Ministry Report page 55

NEW Recommendation:
Strengthen processes for its senior management compensation arrangements

We recommend the Alberta Energy Regulator implement processes to ensure senior management agreements, including compensation, distance work arrangements, and succession plans, are transparent, equitable, properly supported, approved and discussed with the AER Board.

Ministry Report page 57

NEW Recommendation:
Identify and comply with the applicable laws

We recommend that the Board of the Alberta Energy Regulator seek assurance from management that they are in compliance with all withholding rules and regulations.

Ministry Report page 59

NEW Recommendation:
Strengthen expense claim policy and improve controls over expense claim processes

We recommend that the Alberta Energy Regulator improve controls over expense claim processes to ensure expenses are valid, supported and appropriately approved.

Alberta Environment and Parks

Followup Audit, page 16

Management of Sand and Gravel Pits Followup
NEW Recommendation:
Collect sufficient security

We recommend that the Department of Environment and Parks collect sufficient security to compel operators to reclaim the land and to cover reclamation costs if operators fail to do so.

Followup Audit page 17

Management of Sand and Gravel Pits Followup
NEW Recommendation:
Collect outstanding royalties

We recommend that the Department of Environment and Parks collect outstanding royalties for sand and gravel on oil sands sites.

2 Financial Statement Audits

Contents

PLEASE NOTE:
On April 30, 2019, the government announced new ministry structures. The former:

- Ministries of Culture and Tourism and Status of Women became the Ministry of Culture, Multiculturalism and Status of Women
- Ministry of Economic Development and Trade became the Ministry of Economic Development, Trade and Tourism
- Ministry of Labour became the Ministry of Labour and Immigration

2018–2019 Consolidated Financial Statements of the Province of Alberta

Auditor General
OF ALBERTA

Report of the Auditor General
November 2019

Introduction

This year, we issued an unqualified (clean) audit opinion on the Province's Consolidated Financial Statements. Based on our work, we have concluded the 2018–2019 financial statements are fairly presented in accordance with Canadian Public Sector Accounting Standards (PSAS). We have prepared this chapter to help readers of the Province's Consolidated Financial Statements understand:

- key items in the financial statements like debt and net debt
- our auditor's report
- key audit matters or items that in our professional judgement were most significant to the audit of the Province's Consolidated Financial Statements like environmental liabilities

Background

The Province's Consolidated Financial Statements account for the full nature and extent of the financial affairs and resources that the government controls. The statements provide a comprehensive view of the revenues that the province earned, its spending on various programs for 2018–2019, and its financial position at March 31, 2019.

The Office of the Controller prepares the Province's Consolidated Financial Statements in accordance with Public Sector Accounting Standards. These standards ensure the financial information is presented fairly and on a comparable basis to prior years and to other governments. The statements include the financial results of all organizations the government controls, such as departments; regulated funds; school boards; and agencies, boards, and commissions, such as Alberta Health Services and ATB Financial.

Under the *Financial Administration Act,* deputy heads of departments are responsible to:

- implement internal controls to ensure appropriate individuals authorize transactions
- ensure transactions comply with applicable legislation and regulations
- ensure transactions are properly recorded in the department's financial systems

Management uses judgement to prepare estimates included in the financial statements. The significant estimates include, for example, income taxes and non-renewable resource revenue.

Effective 2018–2019, the government no longer publishes ministry and department financial statements. Instead, ministry annual reports now include more detailed variance analysis of ministry revenues and expenses, comparing actual results to the budget approved by the legislature and to prior-year results. These amounts in ministry annual reports agree to amounts in the Province's Consolidated Financial Statements. The annual reports also include financial information about significant programs and information required by legislation, such as reporting payments under agreements.

To ensure key information previously contained in ministry and department financial statements is still available, management enhanced the disclosures in the Province's Consolidated Financial Statements. For example, a schedule showing revenues by ministry was added.

Understanding the financial statements

The Province's Consolidated Financial Statements have important information for Albertans and Members of the Legislative Assembly. They tell an important story about the province's financial health. For example:

- Where do the province's revenues come from? What is the degree of uncertainty in estimating some of these revenues, such as income taxes and non-renewable resource revenue?
- How much does the government spend in various areas, like health care, education, and social services?
- How much debt does the province have? How much interest is the province paying? In which currencies is the debt issued?
- How much money has the province committed through contracts with third parties to deliver goods and services to the government?

What is debt, gross debt, net debt and net assets?

The financial statements include important information on debt, gross debt, net debt and net assets. Questions often arise about what these terms mean. On the following page, we explain these terms and factors that readers and decision makers should consider when analyzing the information.

Alberta's Debt, Net Debt and Net Assets as at March 31, 2019

<table>
<tr><th>Balance</th><th>What it means</th><th>What to consider</th></tr>
<tr><td>Debt
$77.8 billion</td><td>This is the money the government borrows and must repay. Government borrows money to pay for programs and capital expenditures and to lend to:
various entities such as cities, towns, villages, and regional airport authorities through the Alberta Capital Finance Authority
entities and farmers in the agriculture sector through the Agriculture Financial Services Corporation
The financial statements, Schedule 11, disclose the province's debt.</td><td>Debt can be broken down into:
Debt for which the government must raise revenues and surpluses to repay the debt. Government refers to this as "Total debt for the capital and fiscal plans". This totals $59.7 billion. Government must generate enough revenues and surpluses to pay off this debt. Alternatively, government can also "roll-over" the debt when it borrows money again to pay off a debt that has come due.
Debt that government issues to lend the money to various entities, such as cities, towns, villages, regional airport authorities, and entities in the agriculture sector who are required to repay their loans. This totals $18.1 billion. This debt is mostly offset by the loans receivable from the above entities. The loans receivable that are included in Loans and Advances on the statement of financial position with further details in Schedule 9 to the financial statements.</td></tr>
<tr><td>Gross debt
$83 billion</td><td>This is the $77.8 billion in debt described above, plus $5.2 billion of debt of government business enterprises, such as ATB Financial ($3.6 billion), the Balancing Pool ($827 million), and the Alberta Petroleum Marketing Commission ($704 million).</td><td>The Department of Treasury Board and Finance issues debt on behalf of these government business enterprises. These entities generate revenues from their commercial operations to pay off the debt.</td></tr>
<tr><td>Net debt
$27.5 billion</td><td>This is the difference between the province's financial assets and liabilities. When the difference is negative, it means that the government must generate future surpluses to pay for past transactions and events (net debt). When the difference is positive, it means the province has financial resources available to pay for future programs and capital expenditures (net financial assets).</td><td>Financial assets include endowment investments of $2.6 billion. Entities must maintain endowments in perpetuity, and can only use the income from the endowment investments for specific purposes that donors specify. Post-secondary institutions hold most of the province's endowments.</td></tr>
<tr><td>Net assets
$23.3 billion</td><td>This is the province's net debt plus tangible capital assets and other non-financial assets.</td><td>The government often incurs debt to build or buy tangible capital assets. Thus, while there is an increase in debt, there is also often an increase in the province's assets, and the province will use these assets over a long period of time.</td></tr>
</table>

Contractual Obligations

Note 6 to the financial statements provides information about the province's contractual obligations. Government enters into contracts with third parties for goods and services. These contracts commit government to future payments when the contracts' terms are satisfied. Contracts can give government cost certainty over the life of the contracts. These contracts usually also carry penalties if government wants to cancel or change them.

Contractual obligations represent a legal obligation of the province to others and will become liabilities in the future when the terms of the contract are met.

	2019	2018
	In millions	
Obligations under operating leases, contracts and programs	$ 19,430	$ 13,210
Obligations under capital leases and public private partnerships		
Operations and maintenance payments	4,073	4,014
Capital payments	312	439
Interest payments	193	273
	$ 24,008	$ 17,936

Contractual obligations do not include:

- contracts that only specify a rate that government will pay but not the minimum amount that it must pay. For example, a contract with consultants may set an hourly rate without a minimum amount. Thus, if no consulting services are provided, then government is not required to pay anything.
- grant agreements for which government determines the amount of funding to provide
- government's obligations for ongoing programs and services, such as healthcare or education, since the government retains full discretion on the level and quality of services

Audit Opinion on 2018–2019 Consolidated Financial Statements

The Office of the Auditor General, under the *Auditor General Act*, is responsible for the annual audit of the Province's Consolidated Financial Statements. The objective of our audit is to provide reasonable assurance that the consolidated financial statements are free of material misstatements.

On June 18, 2019, we issued an unqualified (clean) audit opinion on the Province's Consolidated Financial Statements for the year ended March 31, 2019. A clean audit opinion means that we concluded, based on obtaining sufficient and appropriate audit evidence, that the financial statements are free of material misstatements and are presented fairly in accordance with Public Sector Accounting Standards.

Our audit opinion on the Province's Consolidated Financial Statements provides confidence to readers about the financial statements because we:

- are independent of government
- have a professional obligation to comply with Canadian Auditing Standards when auditing the financial statements

As part of our audit, we are required by Canadian Auditing Standards to:

- understand the entities and business activities included in the Province's Consolidated Financial Statements
- assess the risks of material misstatement
- perform appropriate audit procedures to obtain sufficient and appropriate audit evidence to support our conclusion
- evaluate and conclude whether the Province's Consolidated Financial Statements fairly present the financial position, results of operations, cash flows, and changes in net debt

Key Audit Matters

Our audit of the *2018–2019 Consolidated Statements of the Province of Alberta* focused on the following key risks—or those matters that, in our professional judgement, were of most significance—during our audit:

- Government's contracts with the North West Redwater Partnership
- Environmental liabilities
- Pension liabilities

Government's Contracts with the North West Redwater Partnership

Overview of Risk

The Alberta Petroleum Marketing Commission (APMC) is a government business enterprise that manages contracts with the North West Redwater Partnership (NWRP) on behalf of the government. The NWRP owns and operates the Sturgeon refinery. The refinery will refine bitumen to produce low-sulfur diesel, among other refined products. The partnership acquired the financing and will own, construct, and operate the refinery. Under a 30-year tolling agreement, once the refinery reaches commercial operation date, APMC will provide 75 per cent of the bitumen, share 75 per cent of the refinery revenue, and pay 75 per cent of the monthly cost of service toll. This toll includes a component for the operating cost of the refinery, NWRP's debt and debt servicing costs, and equity for financing the refinery.

As at March 31, 2019, the contracts commit the government to $26.7 billion in toll payments over 30 years. APMC has the option to renew the processing agreement for successive five-year terms.

What We Examined

We examined the disclosures within the Province's Consolidated Financial Statements to ensure the nature of the arrangement, including future toll commitments and loans by government to the NWRP, were properly described.

We also audited management's process to assess whether the unavoidable costs of meeting the obligations under the processing agreement exceed the economic benefits expected to be received (that is, has the contract become onerous). To do this, we examined management's financial model and the key assumptions used to estimate the net present value of the arrangement.

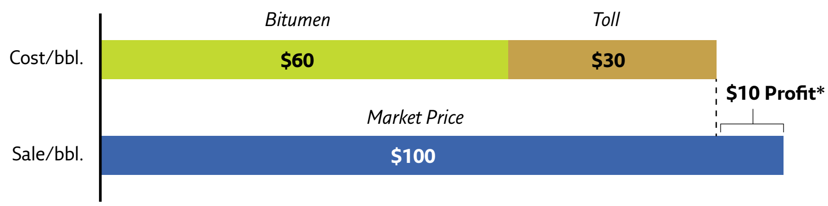
What We Found

We found that the disclosures contained within the Province's Consolidated Financial Statements of the agreements, term loan, and contractual obligation to pay a monthly toll over the 30-year contract terms are reasonable. We also found management's assessment and conclusion that the NWRP processing agreement is not an onerous contract to be reasonable.

Context

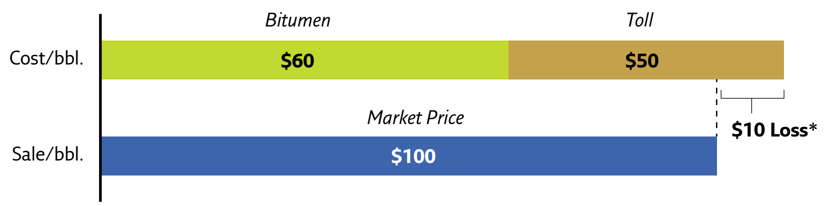
Using an example[1] we illustrate below the financial benefits and risks to the government. The refined product will typically have a higher market value than the bitumen the government supplies to the refinery. For the government to make money, the difference between the market price of refined product and the cost of bitumen (the value-add of the refinery) must be higher than the toll the government is required to pay. However, this potential benefit is uncertain because the market price of refined products and cost of bitumen are hard to forecast. In addition, the debt toll the government is required to pay also increases as the capital cost of the refinery increases.

Refined Product at Profit to Albertans (Benefits)



*The government is entitled to a portion of this profit calculated based on terms of the agreement

Refined Product at Loss to Albertans (Risks)



*The government is obligated to pay for 100 per cent of the loss

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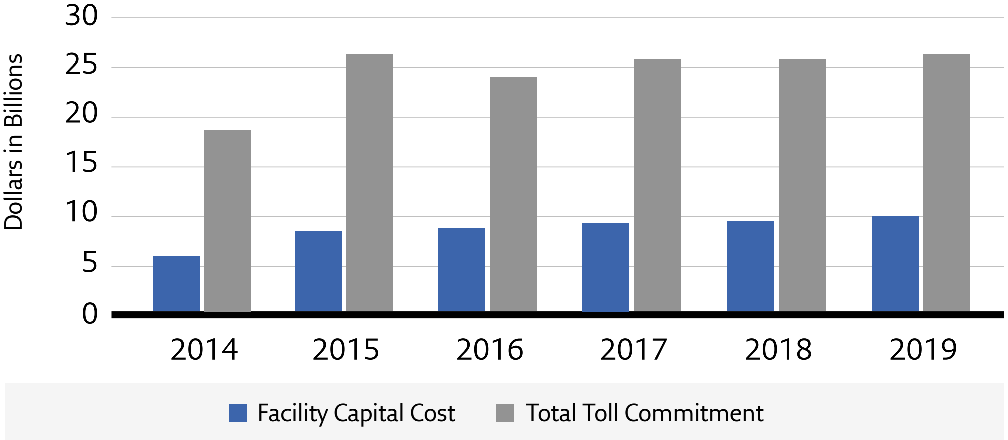
1 Hypothetical numbers used for illustrative purposes

This graph shows the impact that the increases to the capital costs to construct the facility have on the government's commitment to pay the tolls

Sturgeon Refinery



In 2014, the APMC agreed to provide a loan to NRWP to support funding of the refinery. As at March 31, 2019, APMC borrowed $704 million from the Department of Treasury Board and Finance and advanced the funds to the partnership. At March 31, 2019, the facility capital costs had increased to $9.9 billion from an original estimate of $5.7 billion in 2014. The APMC received a 25 per cent voting right in the decision-making of the partnership as part of the loan agreement. APMC provided the loan to help NWRP maintain a debt-to-equity ratio at 80:20. The NWRP reported[2] that it expects to process bitumen by the end of 2019 and ramp up to full operations at capacity in 2020.

Debt tolls

In accordance with the processing agreement, APMC had to start paying the debt toll effective June 1, 2018, irrespective of whether the refinery operator accepts delivery of or processes bitumen or not. The debt toll covers the debt and debt servicing costs that the NWRP incurs to finance the construction of the refinery. APMC started paying the debt tolls in June 2018 and had paid $261 million by March 31, 2019. APMC expensed these payments in accordance with International Financial Reporting Standards. As the refinery is not yet in operation, APMC has not received any significant revenue, resulting in APMC incurring a net loss for the year.

Until the refinery is operational, APMC will not receive any significant revenue from its arrangement with NWRP but will be required to continue to pay the debt toll.

Onerous contract assessment

The contracts with NWRP entitle APMC to a share of the revenues from the sale of refined products but also require APMC to pay a monthly cost-of-service toll. International Financial Reporting Standards require APMC to determine if the unavoidable costs of meeting the obligations under the processing agreement exceed the economic benefits expected to be received. If the contract is onerous, APMC must record an expense and a corresponding liability in its financial statements to recognize a loss. In subsequent years, APMC will adjust the liability based on future annual assessments.

[2] https://nwrsturgeonrefinery.com/news/behind-the-scenes-status-update/

APMC is using a complex cash-flow valuation model to determine the future economic benefits. The model calculates the net present value (NPV) of cash flows spanning 40 years. The model is inherently complex because the NPV calculation depends on a number of variables, such as crude oil prices (WTI), heavy light differentials, ultra-low-sulphur diesel-WTI premiums, exchange rates, capital and operating costs, interest and discount rates, and the operating performance of the refinery compared to its capacity.

Management determined that at March 31, 2019, the NPV of future cash flows is positive. This means the contract is not onerous and management did not need to record a liability for the contract.

There is significant uncertainty related to this calculation as management needed to apply its professional judgement to predict what will happen over a period of 40 years. For example, what will oil prices be 40 years from now and at what capacity will the refinery operate over the 40 years. It should be recognized that the discount rate used in the calculation compensates for some of this uncertainty.

Environmental Liabilities

Overview of Risk

The province is responsible to clean up contamination on sites that it owns and operates. Government has also accepted responsibility to clean up contamination on orphan sites[3] created by industrial activity over the last century before current environmental laws and standards existed. There are also contaminated orphan sites that exist after the current environmental laws and standards were enacted. The operators of these sites no longer exist. Sites were not always cleaned up and remaining contamination often exceeds current environmental standards.

PSAS[4] require the province to account for the environmental liabilities related to:

- government operations, such as highway maintenance yards, government buildings, or heritage sites like the Turner Valley Gas Plant.
- orphan sites where government accepted responsibility to clean up sites because private operators no longer exist or were unable and unwilling to do the work. Operators are responsible under environmental legislation to clean up and restore their sites. Government may become responsible when:
    - it accepts responsibility when operators no longer exist
    - it inherits responsibility for historical industrial sites that predate current legislation
    - operators are not taking appropriate steps at sites that pose an imminent and unacceptably high risk to humans and the environment. The government would then pursue the operator to recover any costs it incurred.

The government is not directly responsible, nor has it accepted responsibility, for sites of private operators and the orphan wells that the industry funded Orphan Wells Association (OWA) is responsible to clean-up. As a result, the Province's Consolidated Financial Statements appropriately exclude the environmental liabilities of private operators and the OWA.

3 Orphan sites are industrial sites where regulators have exhausted every way to identify a responsible party and hold them accountable to clean up a site but could not do so. This includes sites that government cannot transfer to the Orphan Wells Association because the current orphan levy does not cover these sites, or there is no orphan levy. Orphan sites occur across several industries and include oil and gas wells and facilities, pipelines, coal mines, wood treatment plants, and sand and gravel pits.

4 PS 3200—Liabilities, PS 3260—Liability for contaminated sites, PS 3270—Solid waste landfill closure and post-closure liability, and PS 3300—Contingent liabilities.

What We Examined

We examined government's processes to recognize liabilities in the Province's Consolidated Financial Statements.

What We Found

We found that management's estimates and disclosures of environmental liabilities in the Province's Consolidated Financial Statements are reasonable.

Context

Public Sector Accounting Standards requires management to prepare a best estimate of the costs necessary to remediate and reclaim a site to an appropriate level for its specific use as well as the costs for any post-remediation operations, maintenance, and monitoring activities.

An estimate for a liability to remediate and reclaim sites is not necessarily determinable at a specific point in time. The estimate becomes known over time and over various phases. Specialists first determine the type and extent of contamination, then assess the risks to humans and the environment, and then develop appropriate plans to clean up and restore sites. PSAS recognize this, and thus requires disclosure of the reasons why the province did not record a liability.

Sometimes it is uncertain who is responsible to clean up and restore sites. There may be situations where the government might become responsible to clean up and restore sites in the future. This is contingent on the government determining if there are any private parties it can hold responsible. PSAS requires the province to disclose details about when the responsible party is unknown. This tells readers of the province's financial statements there is a risk that taxpayers may have to pay the costs to clean up and restore certain sites in the future.

Note 7(d) of the Province's Consolidated Financial Statements discloses the liabilities that management recorded and information about the nature and extent of environmental liabilities. It also includes the reasons for not recording a liability on certain sites and where there are sites for which the parties responsible for remediating and reclaiming the sites are unknown.

At March 31, 2019, the province recorded the following environmental liabilities:

- $173 million related to the future remediation and reclamation costs for the Swan Hills treatment plant
- $35 million related to contaminated sites, the most significant balance being $16 million for historical sites like the Turner Valley Gas Plant

Pension Liabilities

Overview of Risk

Public Sector Accounting Standards requires the government to account for its pension liabilities. Estimating pension liabilities involves significant judgement. Schedule 12 to the Province's Consolidated Financial Statements shows government's obligation for each public sector plan.

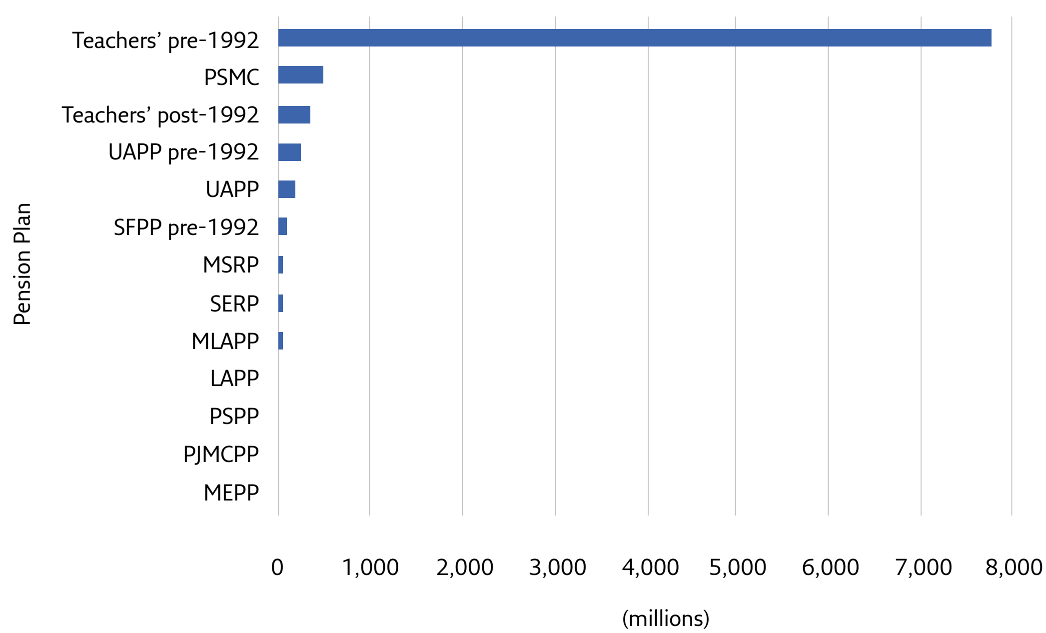
The plans include:

- Local Authority Pension Plan (LAPP)
- Public Sector Pension Plan (PSPP)
- Special Forces Pension Plan (SFPP)
- Management Employee Pension Plan (MEPP)
- Members of the Legislative Assembly Pension Plan (MLAPP)
- Supplementary Retirement Plan for Public Service Managers (MSRP)
- Public Service Management (Closed Membership) Pension Plan (PSMC)
- Provincial Judges and Masters in Chamber Pension Plan (PJMCPP)
- Teachers Retirement Pension Plan (TRP)
- University Academic Pension Plan (UAPP)

At March 31, 2019, the province's liability to pay pension benefits was $9.2 billion. The majority of this balance ($7.7 billion) relates to the government's commitment in 2007 to assume responsibility for the pre-1992 pension obligations to the Teacher's Pension Plan. The government provides monthly payments to the Alberta Teachers Retirement Fund Board to pay these pre-1992 pensions as they become due.

Government also has a liability to pay for certain pension benefits earned before 1992 for PSMC, UAPP, and SFPP. This totals $825 million.

Province's Pension Liabilities



What We Examined

We reviewed independent actuaries' work to estimate the pension obligations, examined management's methodology used to set assumptions for the plans, and performed audit procedures to satisfy ourselves that the assumptions were reasonable. We also audited the valuation of plan investments.

What We Found

We found that the pension liabilities recorded in the Province's Consolidated Financial Statements are reasonable.

Context

As at December 31, 2018, the financial statements of LAPP, PSPP, MEPP, and the PJMCPP show each plan has more assets available than the actuarially determined liability to pay pension benefits. The assets can only be used to provide pension benefits to plan members. The government cannot use or withdraw any surplus funds from the plans, unless the pension boards decide to reduce or suspend the employer contributions to the plan. Thus, the government has not recorded a pension asset for the surpluses in these plans.

Effective March 1, 2019, the Minister of Finance and President of Treasury Board is no longer the trustee for LAPP, PSPP, and SFPP. The Auditor General is also no longer the auditor of these three plans. The respective boards of each plan are now the trustees. The boards are joint-governance boards—meaning the plan employers appoint half of the board members, and employee representatives such as public sector unions and professional associations appoint the other half. This does not change that government, as an employer of these plans, will continue to account for its share of the pension liabilities (if in any year the actuarially determined pension benefits exceeds the pension assets available to pay those benefits).

Similarly, the government accounts for its share of pension liabilities related to UAPP and will do so for MEPP in the future if there are any pension liabilities.

2018-2019 Reports on Government Ministries

Auditor General
OF ALBERTA

Report of the Auditor General

November 2019

Alberta Advanced Education

There are no new recommendations to the department in this report. The department has six outstanding recommendations, five of which have been outstanding for more than three years.

We issued an unqualified independent auditor's report on the 2018-2019 financial statements for the Access to the Future Fund. There are no new or outstanding recommendations to the fund in this report.

Post-secondary Institutions Report Card

We will report separately on the results of our 2018-2019 audits, and update on our annual Report Card on post-secondary institutions' internal controls over financial reporting, for the 20 post-secondary institutions we audit when those audits are complete.

There are nine outstanding recommendations to post-secondary institutions.

Outstanding Recommendations

0 ⟶ Implemented Recommendations

0 ⟶ New Recommendations

15 ⟶ Outstanding Recommendations

9 ⟶ Outstanding Recommendations Older than 3 Years

6 ⟶ Outstanding Recommendations Ready for Followup

9 ⟶ Outstanding Recommendations Not Ready for Followup

Recommendation	When	Status
DEPARTMENT COLLABORATIVE INITIATIVES AMONG POST-SECONDARY INSTITUTIONS: **Develop strategic plan and accountability framework** We again recommend that the Department of Advanced Education, working with institutions: • develop and communicate a strategic plan that clearly defines the minister's expected outcomes for Campus Alberta, initiatives to achieve those outcomes, the resources required and sources of funding • develop relevant performance measures and targets to assess if the outcomes are being achieved • publicly report results and the costs associated with collaborative initiatives • review and clarify the accountability structure for governing collaborative initiatives	Repeated October 2017, Performance Auditing, p. 37 **› Originally reported July 2013, no. 6, p. 48**	**Not Ready**
DEPARTMENT COLLABORATIVE INITIATIVES AMONG POST-SECONDARY INSTITUTIONS: **Develop processes and guidance to plan, implement and govern collaborative projects** We again recommend that the Department of Advanced Education, working with institutions, develop systems and guidance for institutions to follow effective project management processes for collaborative initiatives.	Repeated October 2017, Performance Auditing, p. 40 **› Originally reported July 2013, no. 7, p. 51**	**Not Ready**

Recommendation	When	Status
DEPARTMENT ENTERPRISE RISK-MANAGEMENT FRAMEWORK: **Implement enterprise risk management framework** We again recommend that the Department of Advanced Education implement an integrated enterprise risk management framework to identify and mitigate relevant risks.	Repeated October 2017, Financial Statement Auditing, p. 13 **› Originally reported October 2015, no. 15, p. 124**	**Ready**
DEPARTMENT TRAVEL, MEAL, AND HOSPITALITY EXPENSES OF THE PREMIER, MINISTERS, ASSOCIATE MINISTERS. AND THEIR STAFF: **Improve review of travel, meal and hospitality expenses** We recommend that the Department of Advanced Education improve its review processes for travel, meal and hospitality expenses.	May 2017, no. 4, p. 56	**Ready**
DEPARTMENT FOR-PROFIT AND COST RECOVERY VENTURES AT POST-SECONDARY INSTITUTIONS: **Document and communicate expectations and guidelines** We recommend that the Department of Advanced Education: • document its expectations in terms of desired results and risk management for institutions participating in for-profit and cost recovery ventures • establish approved guidelines for cost recovery ventures, to support best practices and align with the department's expectations • update and approve for-profit venture guidelines to support best practices and align with the department's expectations • develop a process to communicate the department's expectations and guidelines to all institutions	**October 2015, no. 1, p. 25**	**Not Ready**

Recommendation	When	Status
DEPARTMENT FOR-PROFIT AND COST RECOVERY VENTURES AT POST-SECONDARY INSTITUTIONS: **Improve department's oversight of institution's risk assessment of ventures** We recommend that the Department of Advanced Education improve its oversight processes to ensure that boards of governors oversee management's assessment of the risks associated with for-profit and cost recovery ventures by: • tailoring board training to examine these ventures • maintaining relevant documentation of the institution's risk assessment and venture approval requests • requiring the institution to comply with the department's expectations and guidelines • requiring the institution to report on venture results on an ongoing basis • providing effective feedback and ongoing guidance to the boards	**October 2015, no. 2, p. 27**	**Not Ready**
ALBERTA UNIVERSITY OF THE ARTS REPORT ON POST-SECONDARY INSTITUTIONS: **Consistently enforce purchasing procedures** We recommend that the Alberta University of the Arts enforce consistent compliance with its purchasing procedures.	February 2018, p. 33	**Ready**
ATHABASCA UNIVERSITY POST-SECONDARY INSTITUTIONS REPORT CARD: **Improve procedures to monitor and report access and security violations** We again recommend that Athabasca University formalize its access and security monitoring procedures to: • detect and assess security threats to critical information systems • report access and security violations to senior management • identify and resolve the root causes of security threats and violations	Repeated October 2016, no. 10, p. 67 › **Originally reported October 2013, no. 8, p. 95**	**Ready**

Recommendation	When	Status
KEYANO COLLEGE POST-SECONDARY INSTITUTIONS REPORT CARD: **Improve financial reporting processes** We again recommend that Keyano College improve its financial processes by: • training staff on Canadian Public Sector Accounting Standards • improving its monitoring and reviewing processes to ensure that financial information is accurate	Repeated November 2018, Financial Statement Auditing, p. 19 › **Originally reported February 2016, no. 13, p. 102**	**Not Ready**
KEYANO COLLEGE POST-SECONDARY INSTITUTIONS REPORT CARD: **Improve systems to ensure compliance with legislation** We again recommend that Keyano College implement systems to: • understand what legislation they must comply with • develop appropriate policies, procedures and controls to ensure compliance with legislation • monitor and report non-compliance to senior management and the audit committee	Repeated November 2018, Financial Statement Auditing, p. 20 › **Originally reported February 2013, no. 7, p. 60**	**Not Ready**
MACEWAN UNIVERSITY REPORT ON POST-SECONDARY INSTITUTIONS: **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.	February 2018, p. 36	**Not Ready**
NORTHERN LAKES COLLEGE REPORT ON POST-SECONDARY INSTITUTIONS: **Promptly remove system user access of terminated employees** We recommend that Northern Lakes College consistently apply procedures to promptly remove terminated employees' system user access.	February 2018, p. 37	**Ready**

Recommendation	When	Status
OLDS COLLEGE REPORT ON POST-SECONDARY INSTITUTIONS: **Improve access controls to information systems** We recommend that Olds College strengthen its information systems access controls, to ensure it: • promptly removes system access privileges when staff or contractors leave the college • discontinues the practice of leaving accounts open for email access after staff are terminated	**February 2016, no. 15, p. 105**	**Ready**
SOUTHERN ALBERTA INSTITUTE OF TECHNOLOGY REPORT ON POST-SECONDARY INSTITUTIONS: **User access controls for information technology systems** We recommend that the Southern Alberta Institute of Technology improve its network access controls for terminated employees.	August 2019, p. 6	**Not Ready**
UNIVERSITY OF CALGARY REPORT ON POST-SECONDARY INSTITUTIONS: **Improve internal controls program to mitigate key financial risks** We recommend that the University of Calgary improve the design and effectiveness of its internal controls program to mitigate key financial risks.	November 2018, Financial Statement Auditing, p. 17	**Not Ready**

Alberta Agriculture and Forestry

There are no new recommendations to the department. The department has three outstanding recommendations, including one made jointly to the Agriculture Financial Services Corporation (AFSC).

We issued unqualified independent auditor's reports on the 2018-2019 financial statements for the Environmental Protection Enhancement Fund and the AFSC. There are no new recommendations to the Environmental Protection Enhancement Fund or the AFSC in this report. The AFSC has three outstanding recommendations, including one joint recommendation with the department.

Outstanding Recommendations

0	→	Implemented Recommendations
0	→	New Recommendations
6	→	Outstanding Recommendations
0	→	Outstanding Recommendations Older than 3 Years
4	→	Outstanding Recommendations Ready for Followup
2	→	Outstanding Recommendations Not Ready for Followup

Recommendation	When	Status
DEPARTMENT WILDFIRE MANAGEMENT: PROCESSES FOR PREVENTION AND REVIEW AND IMPROVEMENT: **Ensure processes in place to evaluate and report on wildfire prevention programs** We recommend that the Department of Agriculture and Forestry: • publicly report on its FireSmart programs, including how this work helps reduce wildfire hazard and risk • ensure there are processes in place to measure, monitor and report on the results and effectiveness of the various activities set out in the forest areas' annual wildfire prevention plans	November 2018, Performance Auditing, p. 9	**Not Ready**

Recommendation	When	Status
DEPARTMENT WILDFIRE MANAGEMENT: PROCESSES FOR PREVENTION AND REVIEW AND IMPROVEMENT: **Comply with business rules for internal reviews results reporting and establish and monitor implementation timelines for recommendations from external reviews** We recommend that the Department of Agriculture and Forestry: • comply with its established business rules for internal results reporting for the review and improvement program • establish and monitor implementation timelines for recommendations and opportunities for improvement from independent external reviews and publicly report implementation progress against these	November 2018 Performance Auditing, p. 12	**Not Ready**
DEPARTMENT AND AGRICULTURE FINANCIAL SERVICES CORPORATION SYSTEMS TO MANAGE THE LENDING PROGRAM: **Define oversight responsibilities** We recommend that the Department of Agriculture and Forestry and the board of directors of the Agriculture Financial Services Corporation clearly define the oversight responsibilities of both parties for the lending program.	October 2016, no. 2, p. 25	**Ready**
AGRICULTURE FINANCIAL SERVICES CORPORATION SYSTEMS TO MANAGE THE LENDING PROGRAM: **Define strategic objectives, articulate sector credit needs and re-evaluate the relevance of the lending program** We recommend that the Agriculture Financial Services Corporation: • clearly define the strategic objectives of the lending program; these objectives should be consistent with AFSC's legislative mandate • clearly articulate the credit needs of the agriculture sector in Alberta, which should drive its lending activities • develop a process to periodically re-evaluate the relevance of the lending products it offers to ensure they continue to be relevant	October 2016, no. 1, p. 23	**Ready**

Recommendation	When	Status
AGRICULTURE FINANCIAL SERVICES CORPORATION SYSTEMS TO MANAGE THE LENDING PROGRAM: **Develop a funding model and costing system** We recommend that the Agriculture Financial Services Corporation: • develop a product-specific government funding model • develop a costing system capable of allocating, tracking and reporting product-specific costs	October 2016, no. 3, p. 29	**Ready**
AGRICULTURE FINANCIAL SERVICES CORPORATION SYSTEMS TO MANAGE THE LENDING PROGRAM: **Monitor the performance of the loan portfolio** We recommend that the Agriculture Financial Services Corporation set up an independent function to monitor the performance of the loan portfolio.	October 2016, no. 4, p. 29	**Ready**

Alberta Children's Services

There are no new recommendations to the department in this report. The ministry has four outstanding recommendations, one of which has been outstanding for more than three years.

Outstanding Recommendations

0	→	Implemented Recommendations
0	→	New Recommendations
4	→	Outstanding Recommendations
1	→	Outstanding Recommendation Older than 3 Years
4	→	Outstanding Recommendations Ready for Followup
0	→	Outstanding Recommendations Not Ready for Followup

Recommendation	When	Status
DEPARTMENT SYSTEMS TO DELIVER CHILD AND FAMILY SERVICES TO INDIGENOUS CHILDREN IN ALBERTA: **Enhance early support services** We recommend that the Department of Children's Services: • enhance its processes so that they include the needs of Indigenous children and families in the design and delivery of its early support services • report to the public regularly on the effectiveness of early support services	July 2016, no. 1, p. 13	**Ready**

Recommendation	When	Status
DEPARTMENT SYSTEMS TO DELIVER CHILD AND FAMILY SERVICES TO INDIGENOUS CHILDREN IN ALBERTA: **Ensure a child-centred approach** We recommend that the Department of Children's Services improve its systems to: • ensure the care plan for each Indigenous child requiring intervention services is adhered to and meets the standards of care the department sets for all children in Alberta • analyze the results of services to Indigenous children and report to the public regularly on its progress in achieving planned results	July 2016, no. 2, p. 17	Ready
DEPARTMENT SYSTEMS TO DELIVER CHILD AND FAMILY SERVICES TO INDIGENOUS CHILDREN IN ALBERTA: **Strengthen intercultural understanding** We recommend that the Department of Children's Services continue to enhance its staff training of the history and culture of Indigenous peoples, as well as its training of intercultural understanding. The department should seek the expertise of Indigenous leaders and communities when developing the training.	July 2016, no. 3, p. 24	Ready
DEPARTMENT USER ACCESS CONTROL: **Improve access control processes** We recommend that the Department of Children's Services improve access control processes for all its information systems to ensure: • user access to application systems and data is properly authorized • user access is disabled promptly when employees leave their employment or role	**October 2014, no. 18, p. 151**	Ready

Alberta Community and Social Services

There are no new recommendations to the department in this report. The department has four outstanding recommendations, one of which has been outstanding for more than three years.

Outstanding Recommendations

0 → Implemented Recommendations

0 → New Recommendations

4 → Outstanding Recommendations

1 → Outstanding Recommendation Older than 3 Years

4 → Outstanding Recommendations Ready for Followup

0 → Outstanding Recommendations Not Ready for Followup

Recommendation	When	Status
DEPARTMENT SYSTEMS TO MANAGE THE ASSURED INCOME FOR THE SEVERELY HANDICAPPED (AISH) PROGRAM: **Improve program accessibility** We recommend that the Department of Community and Social Services ensure its application processes are user friendly.	October 2016, no. 5, p. 35	**Ready**

Recommendation	When	Status
DEPARTMENT SYSTEMS TO MANAGE THE AISH PROGRAM: **Set service standards and improve eligibility procedures and guidelines** We recommend that the Department of Community and Social Services: • set service standards for application processing times and regularly monitor against these standards • improve procedures and guidelines to ensure staff apply policy in a consistent manner	October 2016, no. 6, p. 38	**Ready**
DEPARTMENT SYSTEMS TO MANAGE THE AISH PROGRAM: **Improve reporting on efficiency** We recommend that the Department of Community and Social Services improve its processes to measure, monitor and report on the efficiency of the AISH program	October 2016, no. 7, p. 42	**Ready**
DEPARTMENT USER ACCESS CONTROL: **Improve access control processes** We recommend that the Department of Community and Social Services improve access control processes for all its information systems to ensure: • user access to application systems and data is properly authorized • user access is disabled promptly when employees leave their employment or role	**October 2014, no. 18, p. 151**	**Ready**

Alberta Culture, Multiculturalism and Status of Women

Due to government reorganization effective April 1, 2019, the former Ministry of Status of Women was transferred to the Ministry of Culture and Tourism, and responsibility for Tourism and Travel Alberta was transferred to the Ministry of Economic Development, Trade and Tourism.

There are no new recommendations to the department in this report. The department has one outstanding recommendation, which is ready for a followup audit.

We issued unqualified independent auditor’s reports on the 2018-2019 financial statements for Alberta Foundation for the Arts, Alberta Historical Resources Foundation, Alberta Sports Connection and the Historical Resources Fund. There are no new recommendations to these entities in this report.

Outstanding Recommendations

0	→	Implemented Recommendations
0	→	New Recommendations
1	→	Outstanding Recommendation
0	→	Outstanding Recommendations Older than 3 Years
1	→	Outstanding Recommendation Ready for Followup
0	→	Outstanding Recommendations Not Ready for Followup

<table>
<tr><th>Recommendation</th><th>When</th><th>Status</th></tr>
<tr><td>DEPARTMENT
ALBERTA PRODUCTION GRANT (APG) PROGRAM:
Improve controls over administration of the Alberta Production Grant (APG) program
We recommend that the Department of Culture and Tourism improve its controls over administration of the APG program by:
• defining and documenting clear, easy-to understand criteria for Alberta eligible expense; and communicating them to stakeholders
• using a risk based approach when selecting grant files to audit
• establishing an appropriate mechanism to facilitate a timely recovery of funds in instances where the department identified applicants claiming ineligible expenses</td><td>October 2017, Financial Statement Auditing, p. 37</td><td>Ready</td></tr>
</table>

Alberta Economic Development, Trade and Tourism

Due to government reorganization, Travel Alberta was transferred to the Ministry of Economic Development, Trade and Tourism from the Ministry of Culture, Multiculturalism and Status of Women effective April 1, 2019. There are no new recommendations to the department in this report.

We issued unqualified independent auditor's reports on the 2018-2019 financial statements for Alberta Innovates, Alberta Enterprise Corporation and Travel Alberta. There are no new recommendations to any of these entities in this report. Alberta Innovates has one outstanding recommendation, which is ready for a followup audit. Alberta Enterprise Corporation and Travel Alberta have no outstanding recommendations.

Outstanding Recommendations

0 ⟶ Implemented Recommendations

0 ⟶ New Recommendations

1 ⟶ Outstanding Recommendation

0 ⟶ Outstanding Recommendations Older than 3 Years

1 ⟶ Outstanding Recommendation Ready for Followup

0 ⟶ Outstanding Recommendations Not Ready for Followup

Recommendation	When	Status
ALBERTA INNOVATES STRENGTHEN ACCESS CONTROLS AND SEGREGATE INCOMPATIBLE DUTIES: **Improve financial reporting system controls** We recommend that Alberta Innovates improve user access controls and segregate incompatible duties within its financial reporting system.	November 2018, Financial Statement Auditing, p. 45	**Ready**

Alberta Education

Department

There are no new recommendations to the department in this report. The department has 11 outstanding recommendations, one of which have been outstanding for more than three years.

The department has implemented our recommendation to implement an enterprise risk management process—see page 35.

We issued an unqualified independent auditor's report on the 2018-2019 financial statements for the Alberta School Foundation Fund.

In accordance with Section 19(4) of the *Auditor General Act*, we have compiled a summary of the results of school jurisdictions' audited fiscal 2018 financial statements and management letters —see page 36.

Northland School Division No. 61

In May 2017, the *Northland School Division Act* changed, resulting in the Auditor General no longer being the legislated auditor for the division. The board of trustees of the division chooses its external auditor, a process consistent with all other school jurisdictions in the province. The division has two outstanding recommendations from the Auditor General on systems to improve student attendance in the division, which have been outstanding for more than three years. We will follow up once the division confirms implementation.

Findings

Department

Matters from prior audits

IMPLEMENTED Recommendation
Enterprise Risk Management Process

Context

Enterprise risk management is a continuous, proactive, and systematic process to understand, manage, and communicate risk from an organization-wide perspective. Treasury Board and Finance requires every ministry to implement and document an enterprise risk management process.

In 2017, we issued a recommendation to the department to implement an enterprise risk management process.[1]

Our audit findings

We examined the department's policies and processes, enterprise risk register, risk mitigation strategies, and quarterly reporting on the effectiveness of those strategies. We found that the department implemented an adequate formal process to assess, respond, monitor, and report on its strategic risks.

1 *Report of the Auditor General of Alberta—October 2017*, Financial Statement Auditing, page 50.

School Jurisdictions' Financial Statement Audit Results Section 19(4) Report

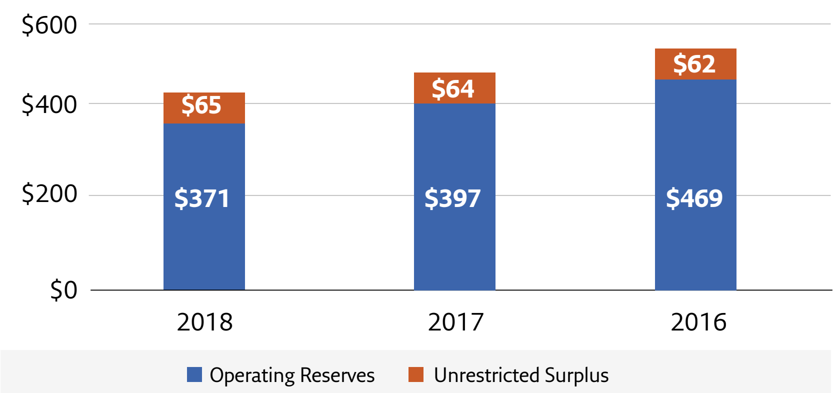
Section 19(4) of the *Alberta Auditor General Act* requires the Auditor General to report each fiscal year to the Legislative Assembly the results of examinations by the auditor of a regional authority. The Act defines a regional authority as including "a board under the *School Act*."[2]

We have completed our Section 19(4) summary of results of school jurisdictions' audited financial statements, and the management letters provided by their auditors for the year ended August 31, 2018. We have also provided comparative results for the fiscal years ended August 31, 2017 and 2016.

Summary

One school jurisdiction received a qualified audit opinion on its financial statements. This also occurred in 2017 and 2016. The qualified opinion each year was issued because the auditor could not verify the completeness of gifts, donations, and fundraising revenue.

Total Unrestricted Surplus and Operating Reserves (in millions)

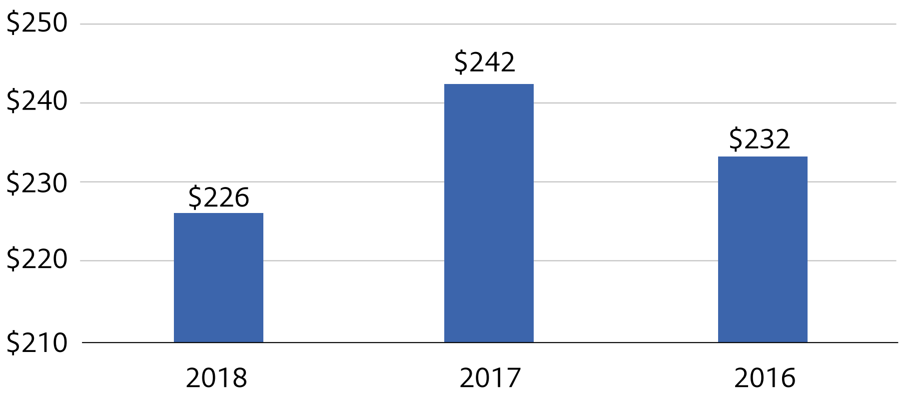


The net consolidated accumulated unrestricted operating surplus and operating reserves[3] decreased to $436 million (2017—$461 million; 2016—$531 million) as some school jurisdictions used operating reserves to offset a planned annual operating deficit. Four jurisdictions have accumulated operating deficits (2017—two; 2016—none).

2 *Education Act* came into force on September 1, 2019, replacing the *School Act*.

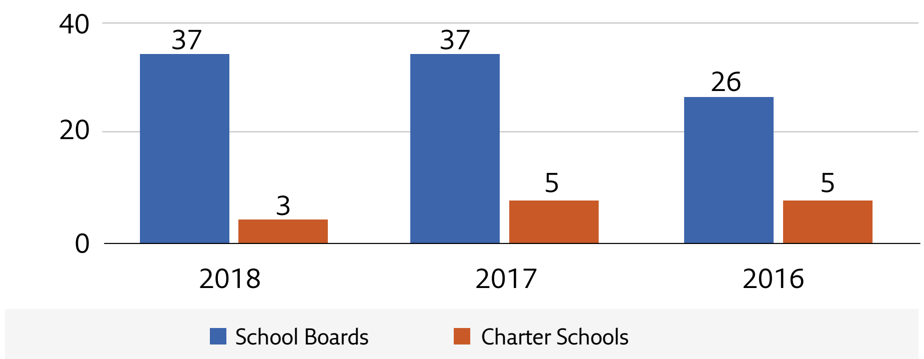
3 Reserves are an unrestricted surplus that the school trustees have internally restricted for a planned future operating or capital expenditure. The trustees restrict the unrestricted surplus into a reserve (or remove restrictions to increase the unrestricted surplus) at their discretion through an approved board of trustees resolution. Operating reserves also include school-generated funds, which are non-discretionary funds raised by the schools for a specific purpose. School-generated funds in 2018 are $43 million (2017—$50 million; 2016—$42 million).

Capital Reserves (in millions)



Capital reserves[4] decreased to $226 million (2017—$242 million; 2016—$232 million) because some school jurisdictions used reserves for previously planned capital projects.

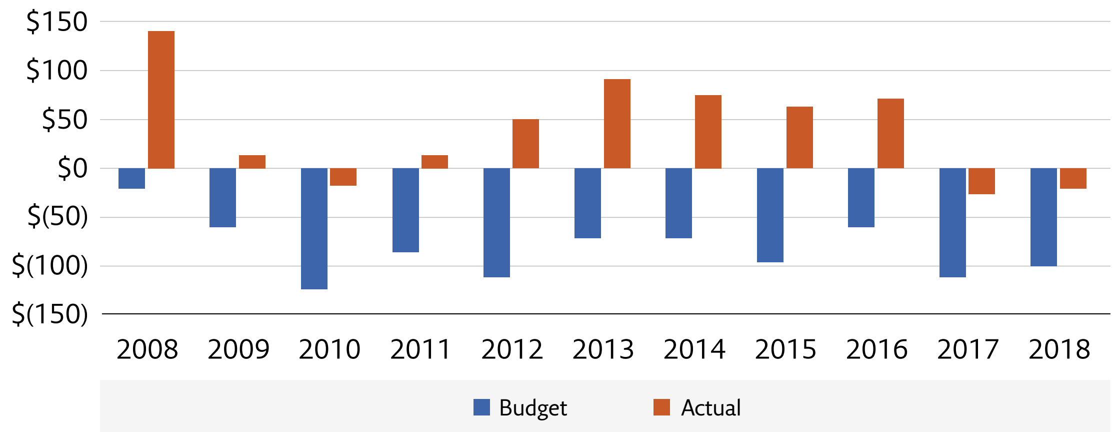
Annual Operating Deficit (number of school jurisdictions)



The number of school jurisdictions that incurred annual operating deficits decreased to 40 (2017—42; 2016—31).

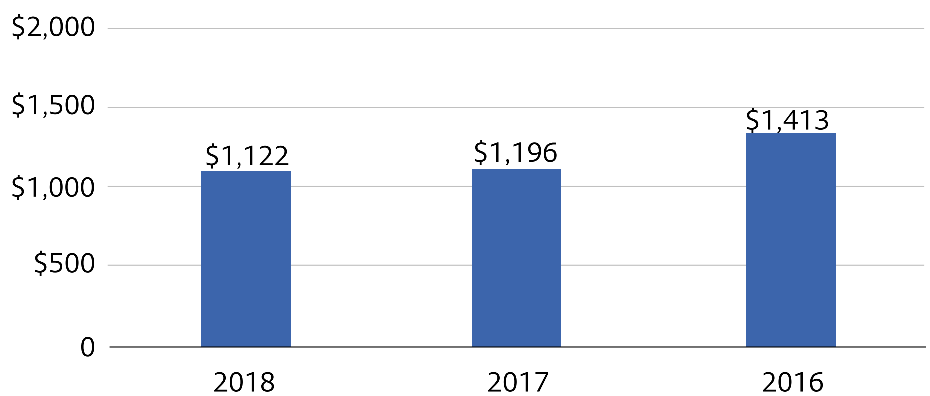
[4] Capital reserves are the funds set aside by the board to meet future capital expenditures. Once the capital reserves are established, the funds cannot be spent on operating purposes without ministerial approval.

Total Net Operating Surplus (Deficit) By Year (in millions)



The combined net operating deficit of all jurisdictions was $20 million on a budgeted deficit of $103 million (2017—$28 million deficit on a budgeted deficit of $113 million; 2016—$79 million surplus on a budgeted deficit of $60 million) because some school jurisdictions received more revenue than anticipated to offset increased expenditures. Over the past 10 years, jurisdictions incurred a combined net operating surplus of $486 million, compared to the combined budgeted deficit of $914 million.

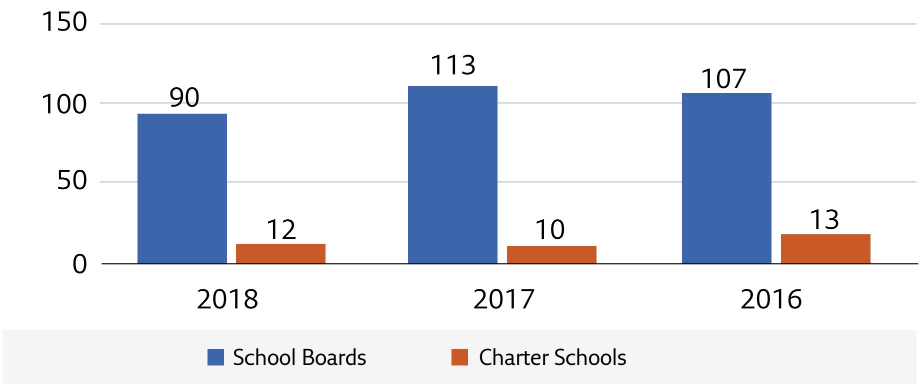
Cash, Cash Equivalents & Portfolio Investments (in millions)



The total cash, cash equivalents, and portfolio investments decreased to $1.1 billion (2017—$1.2 billion; 2016—$1.4 billion). The current year decrease relates to timing of government funding for school construction projects. Under the department's "pay-as-you-go" payment process[5], school jurisdictions do not receive advance funding for school-construction cost but rather are reimbursed when costs are incurred. In addition, some school jurisdictions used reserves to finance planned capital projects.

[5] Implemented in 2016.

Number of Recommendations



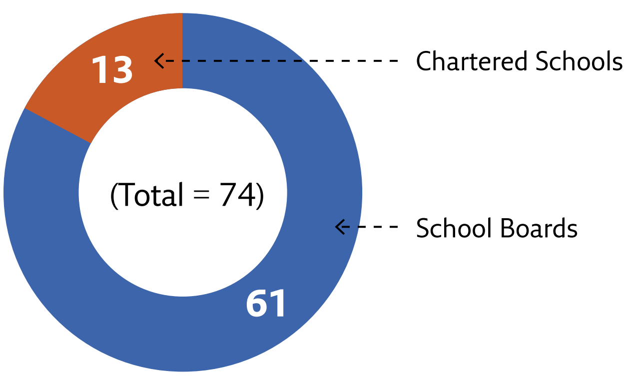
The total number of recommendations made to school jurisdictions by their auditors decreased to 102 (2017—123; 2016—120). Ten of 16 process areas reported on by auditors improved in the past year. The types of recommendations made to school jurisdictions primarily related to the following areas: review of financial information, implementation of policies and procedures, controls over purchasing, and payroll. At least 86 per cent of jurisdictions have been assessed to have effective controls in each of the areas in which auditors recommended improvements (2017—82 per cent).

39 jurisdictions had no recommendations (2017—34; 2016—38).

Background

We examined the auditors' reports on the financial statements and their management letters for all school jurisdictions. The auditors did not design the audits to assess all key systems of control and accountability. When auditing the financial statements, however, the auditors do report to management those control weaknesses that come to their attention.

The composition of school jurisdictions for 2016, 2017, and 2018 was:



Summary of Results

Financial reporting

- Under Section 139 of the *Education Act*, school jurisdiction auditors must send management letters, auditors' reports, and audited financial statements to the minister by November 30 of each year.
- Auditors' reports: One school jurisdiction received a qualified auditor's report on its fiscal 2018 financial statements (2017—1, 2016—1). The auditor issued a qualified report in each of these years as he/she was unable to verify the completeness of gifts, donations and fundraising revenue at the jurisdiction.
- Financial statements: Thirty-seven school jurisdictions and three charter schools incurred an annual operating deficit (2017—37 school jurisdictions and five charter schools; 2016—25 school jurisdictions and six charter schools). Annual operating deficits are acceptable to the department as long as jurisdictions have sufficient accumulated surpluses available to cover the shortfall. School jurisdictions continue to incur annual operating deficits as operating expenses increase.

Cash and cash equivalents

- The total cash, cash equivalents, and portfolio investments decreased to $1.1 billion (2017—$1.2 billion; 2016—$1.4 billion). In 2016, the department implemented a pay-as-you-go payment process under which school jurisdictions do not receive advance funding for school-construction costs. The current year decrease relates to timing of government funding for school jurisdictions that have not yet been reimbursed for construction costs incurred at the end of the year. In addition, school jurisdictions used their reserves to finance planned capital projects.

Tangible capital assets

- The net book value of tangible capital assets at school jurisdictions is approximately $8.1 billion (2017—$7.6 billion; 2016—$6.6 billion). School jurisdictions fund these assets through a combination of the jurisdictions' accumulated surpluses, restricted grant funding, and debt. As at August 31, 2018, school jurisdictions funded approximately $699 million, or nine per cent, of these assets from unrestricted operating surpluses (2017—$678 million; 2016—$646 million). School jurisdictions have also set aside capital reserves of $226 million for future capital expenses (2017—$242 million; 2016—$232 million) that the department does not fund or does not fund enough to cover the full costs.

Annual operating deficits

- School jurisdictions had a combined net annual operating deficit of $20 million (2017—$28 million deficit; 2016—$79 million surplus) compared to the budgeted deficit of $103 million because they received more revenue than anticipated that helped to offset increased expenditures. Some school jurisdictions used their operating reserves to cover the current year deficit. Over the past 10 years, jurisdictions incurred a combined net operating surplus of $486 million, compared to the combined budgeted deficit of $914 million.

Accumulated deficits from operations

- Accumulated deficits from operations are not acceptable to the department. The department expects school jurisdictions with accumulated deficits from operations to submit a deficit elimination plan and work with the department to eliminate the deficit within five-year period. Four school jurisdictions had an accumulated deficit from operations in 2018, one of which was from prior year (two in 2017, none in 2016). The department received deficit elimination plans from the four school jurisdictions and is monitoring them to ensure the accumulated deficits are eliminated as planned.

Accumulated unrestricted surplus and operating reserves

- The combined accumulated unrestricted surplus and operating reserves decreased to $436 million (2017—$461 million; 2016—$531 million), or five per cent of the total operating expenses for jurisdictions in fiscal 2018. The department monitors whether the school jurisdictions' combined accumulated unrestricted surplus and operating reserves, as a percentage of total operating expenses, are within a reasonable range of one to five per cent. Thirty-seven jurisdictions were above five per cent, and five jurisdictions were below one per cent at August 31, 2018. (2017—42 jurisdictions above five per cent and four below one per cent; 2016—44 jurisdictions above five per cent and two below one per cent). Total accumulated operating surplus decreased due to planned annual deficits at a number of school jurisdictions.

Plans to use operating and capital reserves

- Since 2016, the department requires school jurisdictions to outline their plans for using operating and capital reserves. If the department concludes that school jurisdictions have excessive reserves, the department has authority under the *Education Grants Regulation*[6] to utilize various mechanisms to reduce accumulated operating reserve balances. Mechanisms include recovering funds from the jurisdictions, directing jurisdictions to apply reserves to targeted areas, or implementing an overall short-term funding reduction to the system.
- In 2018, we issued a recommendation to the department to improve its processes to monitor, assess and report on school jurisdictions' reserve balances[7]. Management asserted in May 2019 that this recommendation is implemented for school jurisdictions fiscal 2019 financial information and ready for a followup audit. We anticipate reporting our followup audit work in our fall 2020 report.
- We found that Alberta Education's 2018-19 annual report disclosed school jurisdictions' operating and capital reserve balances for the 2017 and 2018 school years.[8] Similar to findings in our last five summary reports[9], the department did not report analyses of the reasonableness of school jurisdictions' fiscal 2018 financial information in its 2018-19 annual report for the following:
  - the unrestricted surplus and operating reserve balances and the expected future performance improvements at jurisdictions from applying these funds

[6] *Education Grants Regulation 120/2008, Sections 9 and 10*: the minister may request a repayment of the grant or make a deduction from a grant amount under his or her discretion.

[7] *Report of the Auditor General of Alberta—November 2018*, Financial Statement Auditing, page 49.

[8] Alberta Education Annual Report 2018-19, page 171.

[9] *Report of the Auditor General of Alberta—November 2018*, Financial Statement Auditing, page 54, *Report of the Auditor General of Alberta—October 2017*, Financial Statement Auditing, page 55, *Report of the Auditor General of Alberta—October 2016*, page 93, *Report of the Auditor General of Alberta—October 2015*, page 84, and *Report of the Auditor General of Alberta—October 2014*, page 122.

- cash, cash equivalent, and portfolio investment balances and their correlation with future plans at the school jurisdictions to apply these funds
- surplus amounts and the expected future budgeted operating surplus or deficits at jurisdictions
- capital reserves relative to the department's future capital plans

Management letter recommendations

- There were 102 recommendations made to school jurisdictions for fiscal 2018 (2017—123; 2016—120). Auditors for 39 school jurisdictions did not report any findings and recommendations to management (2017—34; 2016—38). Ten of 16 process areas reported on by auditors had fewer recommendations made than in 2017.
- More school jurisdictions received recommendations on personnel and staff shortages, segregation of duties and change management than in the prior year. Processes related to review of financial information, purchasing, and payroll continue to pose the most difficulty for school jurisdictions to sustain annually.
- Despite the weaknesses in processes identified, the vast majority of school jurisdictions had adequate processes in each of the process areas. The largest number of jurisdictions to receive a recommendation in any one area was 10 out of 74 school jurisdictions. As a result, at least 86 per cent of school jurisdictions were assessed to have adequate controls in each of the specific process areas.
- In total, 16 recommendations made to various jurisdictions in the prior year were repeated in the current year. We encourage all school jurisdiction trustees to hold management of their respective jurisdictions accountable for implementing all process recommendations identified. The department contacts jurisdictions, where necessary, to encourage them to resolve control weaknesses identified in the management letters, particularly recommendations repeated from prior years.
- The next table summarizes audit findings and recommendations reported to school jurisdictions for fiscal years ended August 31, 2018, and August 31, 2017.
- The findings are grouped into three categories:
  - financial reporting and oversight
  - internal control weaknesses
  - information technology management
- Users of this summary should keep in mind that the audits from which these findings came were not designed to assess all key control and accountability systems. Our summary of the recommendations made to school jurisdictions identifies trends across the sector. The department and school jurisdictions can use this information to work together to rectify identified common control weaknesses. Management of individual school jurisdictions can also use this information to proactively consider the sustainability of their jurisdictions' control environment, particularly where the trend is an increasing number of recommendations. We do not identify the school jurisdictions associated with recommendations, as this information is not necessary in order for the department and school jurisdictions to achieve their desired outcome—establishing sector-wide strong, sustainable internal controls for financial reporting.

Legend:
Fewer recommendations
More recommendations

	Number of jurisdictions (repeated from prior year)		Recommendations made (repeated from prior year)	
	2018	2017	2018	2017
Financial reporting and oversight recommendations				
Accounting issues—improve accounting treatment in areas including capitalization of expenses, liability recognition, revenue recognition, and leases.	8 (0)	11	10 (0)	15
Board approval—improve appropriate approval of board minutes.	0 (0)	2	0 (0)	2
Budgetary process—improve overall budgetary processes.	0 (0)	1	0 (0)	1
Review of financial information—improve the review and approval of financial information such as bank reconciliations, journal entries, monthly financial statements, and variances between budget and actual expenditures.	10 (4)	11	14 (4)	14
Timeliness of recording financial information—improve accurate recording of accounting transactions for capital assets and capital grant expenditures, accruals and receivables, and prompt preparation of financial statements.	3 (0)	3	3 (0)	3
Personnel and staff shortages—improve succession plans or cross-training for key financial positions or review the allocation of staff resources in the accounting function.	5 (1)	2	5 (1)	2
Internal control weaknesses recommendations				
Cash management—improve cash management processes and controls.	7 (2)	10	9 (2)	18
Capital assets—improve the recording and monitoring of capital assets.	3 (0)	3	3 (0)	3
Goods and services tax—improve their processes for charging the appropriate amount of GST and for recording accurately the amount of GST paid and recoverable.	3 (1)	4	3 (1)	4
Payroll—improve controls over the administration of employee payroll information, processing of expense claims, application of vacation pay policies, and regular reviews of payroll expenses.	10 (3)	11	14 (3)	15
Policies and procedures—implement, update, or follow formal procedures and policies.	7 (1)	10	12 (1)	13
Purchases—improve controls over the purchase cycle, such as review and authorization processes over purchases and payments, employee sign-off for goods received, and retention of supporting documentation.	10 (3)	13	13 (3)	15

Legend:
Fewer recommendations
More recommendations

	Number of jurisdictions (repeated from prior year)		Recommendations made (repeated from prior year)	
	2018	2017	2018	2017
Internal control weaknesses recommendations cont'd				
Segregation of duties—improve segregation of duties over authorization and recording of transactions or custody of and accounting for certain assets.	5 (0)	3	5 (0)	3
School-generated funds—improve the processes used to collect, record, spend, and report school-generated funds.	3 (0)	6	3 (0)	7
Information technology management recommendations				
Computer security—improve computer-security processes by having unique individual usernames and passwords, implementing a mandatory password change policy, having user access restricted for the appropriate information, and backing up data at an offsite location.	3 (1)	5	4 (1)	6
Change management—implement or enhance formal documented policies and procedures for managing and testing changes to system and network software or hardware.	3 (0)	2	3 (0)	2

Outstanding Recommendations

1	⟶	Implemented Recommendation
0	⟶	New Recommendations
13	⟶	Outstanding Recommendations
3	⟶	Outstanding Recommendations Older than 3 Years
3	⟶	Outstanding Recommendations Ready for Followup
10	⟶	Outstanding Recommendations Not Ready for Followup

Recommendation	When	Status
DEPARTMENT MONITORING SCHOOL JURISDICTIONS' ACCUMULATED OPERATING RESERVES: **Improve monitoring, assessing, and reporting processes on school jurisdictions'** We recommend that the Department of Education improve its processes to monitor, asses and report on school jurisdictions' accumulated operating reserves.	November 2018, Financial Statement Auditing, p. 53	**Ready**
DEPARTMENT PROCESSES TO MANAGE THE STUDENT CLASS SIZE INITIATIVE **Develop an action plan and improve monitoring and reporting processes** We recommend that, if the Department of Education continues the Class Size initiative, the Department develop an action plan and improve processes to regularly monitor and report on the initiative.	February 2018, Financial Statement Auditing, p. 47	**Not Ready**

Recommendation	When	Status
DEPARTMENT EDUCATION & INFRASTRUCTURE—SCHOOL-BUILDING PROGRAM: **Clarify roles and responsibilities** We recommend that the Department of Education improve its oversight of the school-building program by: • working with the Department of Infrastructure to clarify the roles and responsibilities of each department and establishing supporting policies and procedures • developing clear decision making authorities for the program	April 2016, no. 1, p. 9	**Not Ready**
DEPARTMENT EDUCATION & INFRASTRUCTURE—SCHOOL-BUILDING PROGRAM: **Improve the planning and approval process** We recommend that the Department of Education improve project approvals for new schools and modernizations by: • implementing a gated approval process • identifying the approval gates, required deliverables and responsibilities for completion of the deliverables	April 2016, no. 2, p. 12	**Not Ready**
DEPARTMENT EDUCATION & INFRASTRUCTURE—SCHOOL-BUILDING PROGRAM: **Improve systems to manage and control projects** We recommend that the Department of Education improve its systems to manage and control school capital projects by: • agreeing on project expectations promptly with school jurisdictions and Infrastructure, including scope, budget and key milestones • developing and implementing change management policies and procedures	April 2016, no. 3, p. 13	**Not Ready**

Recommendation	When	Status
DEPARTMENT EDUCATION & INFRASTRUCTURE—SCHOOL-BUILDING PROGRAM: **Improve systems to manage and control projects** We recommend that the departments of Education and Infrastructure improve the planning process by: • identifying who must review and approve project planning deliverables and formally communicate these approvals to school jurisdictions or the Department of Infrastructure's contractors • basing oversight of projects managed by school jurisdictions on risk	April 2016, no. 4, p. 14	**Not Ready**
DEPARTMENT EDUCATION & INFRASTRUCTURE—SCHOOL-BUILDING PROGRAM: **Improve reporting systems and controls** We recommend that the Department of Education define and report on the key performance indicators of the school-building program.	April 2016, no. 6, p. 16	**Not Ready**
DEPARTMENT EDUCATION & INFRASTRUCTURE—SCHOOL-BUILDING PROGRAM: **Improve reporting systems and controls** We recommend that the departments of Education and Infrastructure improve reporting on the school-building program by: • defining reporting requirements, including measures to assess project performance • using a common reporting system that specifies where information will be retained, who will update it and how it will be updated	April 2016, no. 7, p. 16	**Not Ready**
DEPARTMENT EDUCATION & INFRASTRUCTURE—SCHOOL-BUILDING PROGRAM: **Match capital funding to project progress** We recommend that the Department of Education improve its cash flow forecasting systems and ensure capital funding requests are supported by assumptions tied to project progress.	April 2016, no. 8, p. 19	**Not Ready**

Recommendation	When	Status
DEPARTMENT EDUCATION & INFRASTRUCTURE—SCHOOL-BUILDING PROGRAM: **Submit revised plan for approval** We recommend if Treasury Board adjusts the Department of Education's funding request, the Department of Education should submit its revised school-building program plan to the Treasury Board for approval. The revised plan should align with the approved funding and should clearly identify the impact on project progress.	April 2016, no. 9, p. 19	**Ready**
NORTHLAND SCHOOL DIVISION NO. 61 SYSTEMS TO IMPROVE STUDENT ATTENDANCE IN NORTHLAND SCHOOL DIVISION: **Develop plan to improve student attendance** 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-centered 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	**March 2015, no. 1, p. 23**	**Ready**
NORTHLAND SCHOOL DIVISION NO. 61 SYSTEMS TO IMPROVE STUDENT ATTENDANCE IN NORTHLAND SCHOOL DIVISION: **Oversight by the department** 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	**March 2015, no. 2, p. 23**	**Not Ready**

Recommendation	When	Status
NORTHLAND SCHOOL DIVISION NO. 61 SYSTEMS TO IMPROVE STUDENT ATTENDANCE IN NORTHLAND SCHOOL DIVISION: **Monitor and enforce student attendance** 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	**March 2015, no. 3, p. 30**	**Not Ready**

Alberta Energy

There are no new recommendations to the Department of Energy, the Alberta Petroleum Marketing Commission (APMC), the Alberta Utilities Commission (AUC) or the Post-Closure Stewardship Fund in this report. The department has one outstanding recommendation, the APMC has four outstanding recommendations, and the Alberta Energy Regulator (AER) has 13 outstanding recommendations.

The department has implemented our recommendation to improve user access controls—see page 59.

We issued unqualified independent auditor's reports on the 2018-2019 financial statements for the APMC, AUC, and the Post-Closure Stewardship Fund.

The APMC has implemented our recommendations related to the processing agreement cash flow model—see page 60.

We issued a qualified auditor's report on AER based on our conclusion that it did not appropriately reflect financial transactions related to an entity it created (ICORE NFP) in its financial statements. Our qualification is discussed further in the next section.

In our *Alberta Energy Regulator: An Examination of the International Centre of Regulatory Excellence (ICORE)* report, issued in October 2019, we made four recommendations on AER's activities related to various iterations of the International Centre of Regulatory Excellence (ICORE), predominantly ICORE Not-For-Profit (ICORE NFP).

In our *Systems to Ensure Sufficient Financial Security for Land Disturbances from Mining Followup*, we report that one outstanding recommendation to AER to improve mine financial security program monitoring has been implemented.

As part of our financial statement audit of AER for the year ended March 31, 2019, we found instances of internal control weaknesses and legislative non-compliance. As a result, we issued three new recommendations to AER in this report—see page 53.

Findings

Alberta Energy Regulator

Qualified audit opinion of the Alberta Energy Regulator's financial statements for year ended March 31, 2019

In accordance with Section 19 (2) of the *Auditor General Act*, we draw attention to a qualification in our independent auditor's report on the financial statements of the Alberta Energy Regulator (AER). Our independent auditor's report also draws attention to instances of legislative non-compliance we observed at AER. While the non-compliance issues are discussed later in this chapter, here we discuss the qualification of our audit opinion on the financial statements of AER relating to ICORE NFP.

As part of our audit of AER's financial statements for the year ended March 31, 2019, we examined the nature of the relationship between AER and ICORE NFP, an agency created by AER to advance regulatory excellence. Specifically, we evaluated whether AER controlled ICORE NFP from an accounting perspective.

Canadian Public Sector Accounting Standards[10] include criteria for establishing whether an organization is controlled. Control is the power to govern the financial and operating policies of another organization with the expected benefits or the risk of loss from the other organization's activities. Determining whether control exists often requires the application of professional judgment and evaluation of various indicators set out in the accounting standards. The primary indicators include the power to appoint or remove the majority of members, access to or ability to direct use of assets or responsibility for loss of the other organization, holding the majority of voting rights, or unilateral power to dissolve an organization.

AER concluded that ICORE NFP was a related party and not a controlled organization. As a result, AER's financial statements present the relationship and transactions with ICORE NFP as a related party in a schedule to the financial statements.

Under the Canadian Public Sector Accounting Standards, not all indicators need to be met for control to be present.

The preponderance of evidence indicated that AER controlled ICORE NFP. We did not accept the AER Board's view that it did not control ICORE NFP. AER argues that a few key AER employees, acting in their personal capacity, controlled ICORE NFP. While our examination[11] findings indicated management supplied incomplete and inaccurate information to the AER Board regarding ICORE NFP's activities, we also found that the AER Board supported the creation of an organization to advance the ICORE initiative, and the use of AER resources to do so.

Because ICORE NFP was controlled, in our opinion AER should have consolidated the financial results of ICORE NFP for the period in which it was controlled, and described ICORE NFP as a controlled entity. We informed the AER Board and management we disagreed with their conclusion and accounting treatment of ICORE NFP. AER chose not to adjust their financial statements.

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[10] *PS 1300 – Government Reporting Entity*

[11] *An Examination of the International Centre of Regulatory Excellence—October 2019*

As a result, we qualified our audit opinion of AER's financial statements for the year ended March 31, 2019.

Matters arising from a separate examination[12] provides context of ICORE NFP in relation to AER officials and the AER Board. The following provides examples of certain germane matters identified:

- AER never achieved the objective of ICORE NFP to have operational and financial independence from AER.
- AER was the sole operating and governing member of ICORE NFP from May 17, 2017 to December 19, 2018.
- Up to 50 AER staff, in varying capacities, were involved in building and/or operating ICORE NFP from within AER. AER provided the staff and resources to carry out the managerial, financial, marketing, human resource, information technology, and legal functions for ICORE NFP.
- AER's Executive Leadership Team ("ELT") was either informed of, or directly involved in, decision-making regarding important ICORE NFP-related matters, including the structure and business model for ICORE NFP.
- AER management obtained endorsements from the AER Board for its ICORE NFP work. Our review of April and September 2018 AER board minutes showed AER board approvals to continue the development of ICORE NFP, with an emphasis on ICORE NFP achieving self-sufficiency as soon as possible.
- The AER Board's control over ICORE NFP was further demonstrated by:
  - requiring AER management prepare a business plan for ICORE NFP to be presented at the December 2018 board meeting.
  - having the AER Board represented at an ICORE NFP strategy session in October 2018 held at AER premises.
  - the AER Board working with AER management to suspend ICORE NFP operations. AER considered two options: winding up the operations and dissolving ICORE NFP itself, or resigning its membership from ICORE NFP. While AER chose the second option, both were viable options that the AER Board considered.

12 *An Examination of the International Centre of Regulatory Excellence—October 2019*

NEW Recommendation
Non-compliance with Alberta public agency compensation laws, lack of proper approvals for distance work arrangements, and insufficient support for executive succession plans

Context

From 2013 to this year, AER had a short-term incentive (STI) or "bonus" program for its executive vice-presidents (EVP). Beginning March 16, 2017, the *Reform of Agencies, Boards and Commissions Compensation Act* (RABCCA) and *Reform of Agencies, Boards and Commissions Compensation Regulation* eliminated executive bonuses. For executives already in their roles as of that date, the restrictions on receiving a STI or bonus would come into effect on March 16, 2019. Any executives assuming their roles on or after March 16, 2017 would not be able to receive a STI or bonus.

AER has a policy on distance work arrangements for its employees. The policy states that the arrangement is between the leader and the employee through a signed telecommuting agreement. The telecommuting arrangement would include specific items such as work schedule, travel to office, duties and performance expectations.

AER has a succession planning process for its vice-presidents and below, but it does not have a succession planning process for the EVPs.

The AER Board initiated an internal audit of Senior Management Expenditures after we began our financial statement audit. AER Internal Audit issued an audit report on AER Senior Management Expenditures and Total Rewards in February 2019 and shared it with the AER Board and our office. The resulting audit findings and recommendations are consistent with our audit findings.

Criteria: the standards of performance and control

AER should have processes to ensure staff compensation arrangements are fair, align with delivery of its mandate and that they are properly approved and supported.

Our audit findings

Key Findings

- Cash bonuses awarded to two senior executives breached compensation legislation
- Distance travel arrangements lacked proper approvals
- Succession plans lacked support for how they benefited AER

Cash bonuses awarded to two senior executives breached compensation legislation

AER promoted two employees to EVP after March 16, 2017, meaning they would be ineligible for STI (short-term incentives) or bonuses under RABCCA. The former AER CEO in March 2018 approved cash bonuses for the two EVPs ($21,000 each) in contravention of RABCCA. While the former AER CEO described the amounts awarded in terms of equivalence to days off with pay, evidence shows that the amounts awarded were cash bonuses. Below is an extract from a leave with pay memo to one of the EVPs, signed by the former AER CEO:

> *"You will receive a lump sum payment of $21,000 less required deductions which is equivalent to 20 days of leave with pay. This payment is in recognition of the additional time and efforts you have provided since moving into the EVP role last spring."*

We also found emails discussing costing scenarios regarding vacation days for the two newly promoted EVPs, and how amounts could be given without coming across as circumventing the spirt and intent of RABCCA.

In addition to the aforementioned two AER EVPs, the former AER CEO authorized a bonus for AER's former chiefs of staff, ($6,000 in 2017) and ($5,000 in 2018), respectively. These were the only individuals outside of the senior executive team who received this benefit. Similar to the two EVPs, a cash payment was made to the chiefs of staff and characterized as leave with pay. We found no documented rationale to support the selective approach to granting additional leave to the chiefs of staff versus others in the organization.

In April 2019, AER self-reported to the Public Agency Secretariat (PAS) the bonus overpayments under RABBCA. PAS in May 2019 responded to AER its conclusion that the bonus overpayments were in violation of RABBCA and will advise AER of any further actions when it completes its assessment of options under RABBCA. As of our report date, AER has not received direction from PAS for further actions.

Long distance work arrangements lacked the proper approvals

Former AER CEO: In 2018, the former AER CEO moved from Calgary to a city in British Columbia (BC) while still serving as CEO of AER. The former AER CEO commuted from his residence in BC to AER's head office in Calgary. On April 24, 2018, the former AER CEO asked the Chair of the AER Board at that time to approve a commuting arrangement where AER would pay for his travel expenses incurred since January 1, 2018. These travel costs include flights, vehicle travel, taxis, mileage and parking to and from his BC residence and Calgary. The AER Chair approved the request after the former AER CEO asserted the former AER Board Chair, had previously agreed to this arrangement. When we interviewed the former AER Board Chair, he told us he only agreed that AER would cover the costs associated with changes in airfare resulting from work-related scheduling changes that impacted travel times. We found no formal documentation to corroborate the accuracy of either the former AER Board Chair or the former AER CEO's account of what was agreed to. We also found no evidence that following the April 2018 request by the former AER CEO that the AER Chair sought to confirm the agreed upon terms of the arrangement with her predecessor. While the former AER CEO had board approval for AER to reimburse his travel costs from his BC residence, we found no signed telecommuting agreement as required per AER's telecommuting policy.

AER paid for travel costs for the former AER CEO from his BC residence to the AER Calgary office from January 1, 2018 until the end of his contract. AER reimbursed approximately $20,000 in travel expenses to the former AER CEO from January 2018 until his departure from AER in November 2018. Our audit testing also found the former AER CEO was reimbursed about $2,000 in travel expenses prior to January 1, 2018 (dating back to mid-2017) from his BC residence to the AER Calgary office. This amount was outside the board approved expense reimbursement timeframe of January 1, 2018 and onwards.

EVP Stakeholder and Government Engagement: The former AER EVP Stakeholder and Government Engagement also had a distance work arrangement that began in mid-2018 where AER was paying for travel costs between her BC residence and AER's Edmonton office. AER reimbursed the former AER EVP Stakeholder and Government Engagement about $10,000 in travel costs. AER was unable to provide any evidence that the former AER EVP Stakeholder and Government Engagement's arrangement was formally approved. The former AER CEO told us that he had approved the arrangement verbally to the former AER EVP Stakeholder and Government Engagement. He also told us that AER completed a travel expense analysis when the executive relocated to BC. The former AER CEO claimed the analysis demonstrated that travel costs for the executive were cheaper with the commuting arrangement as the former AER EVP Stakeholder and Government Engagement had previously commuted frequently between Calgary and Edmonton. However, AER was unable to provide this analysis and we found no evidence to support the former AER CEO's claim that it was cheaper.

AER appropriately considered the former AER CEO's and the former AER EVP Stakeholder and Government Engagement's reimbursed travel to and from their respective homes in BC as a taxable benefit to the employees.

Succession plans lacked support for how they benefited AER

In March and April of 2018, the former AER CEO approved succession plans for three AER EVPs. We followed up with AER's People and Culture branch and found that AER does not have a documented process for succession management for its EVPs. These plans were between the former AER CEO and the respective individuals. The former AER CEO's approval letters noted that the AER Board was informed during in-camera discussions related to executive vice-president succession management. However, AER Board members told us that the former AER CEO did not bring these succession plans for their approval. Our review of the board minutes also did not identify any discussion of the three AER EVP succession management plans.

Our review of these succession management plans found the plans included terms and conditions that were not clear how AER would benefit. For example, one plan included a six-month secondment to a non-government not-for-profit where the AER EVP would continue to receive salary and benefits from AER. We found no documentation that supported how this use of resources benefited AER.

NEW Recommendation:
Strengthen processes for its senior management compensation arrangements

We recommend the Alberta Energy Regulator implement processes to ensure senior management agreements, including compensation, distance work arrangements, and succession plans, are transparent, equitable, properly supported, approved and discussed with the AER Board.

Consequences of not taking action

Without proper controls over senior management compensation and benefits, there is a heightened risk of inequitable and inappropriate benefits being awarded and non-compliance with applicable laws.

NEW Recommendation
Non-compliance with tax rules for employer provided parking benefits

Context

Employees must include the current value of the parking stalls as a taxable benefit in accordance with the federal *Income Tax Act*. The responsibility of the employer is to collect the taxable amount from the employee and submit it to the Canada Revenue Agency (CRA). The affected AER employees also need to comply with this federal tax law.

Criteria: the standards of performance and control

AER should have processes to identify the applicable laws and ensure it is in compliance with the requirements.

Our audit findings

Key Finding

AER failed to calculate and assess taxes on employer subsidized parking, costing AER $1.3 million

AER intentionally did not assess taxes on employer subsidized parking, costing AER $1.3 million

During our fiscal 2018 financial statement audit of AER, we found that AER was not calculating a taxable benefit for employer-subsidized parking. As a result, we made an observation to the AER Board that AER management should be assessing and reporting to CRA this as a taxable benefit for employees. AER management responded by telling us that they were already in the process of dealing with the issue, and that CRA was conducting an employer compliance audit for the 2015 and 2016 tax years.

During the fiscal 2019 financial statement audit, we found evidence that AER was in fact informed about the parking as a taxable benefit by a Department of Energy employee on November 26, 2014. We also determined the former AER EVP Corporate Services directed his staff not to take any action.

AER's inaction resulted in a $1.3 million[13] cost to AER, as AER decided to cover the cost on behalf of employees. AER provided a cash payment (the tax amount plus top-up as the cash payment is also a taxable benefit) to current and former employees who submitted their reassessment from the CRA.

[13] CRA completed its audit and sent AER a letter on November 28, 2018 noting unreported parking benefit amounts of $1.8 million for the 2015 and 2016 tax years. This amount is included in revised tax assessment to affected AER (current and past) employees. The reassessment would also include the interest on the outstanding tax amounts. AER reimbursed current and former employees who provided to AER their Notice of Reassessments from CRA showing the tax liability. These employees are responsible to submit to the CRA their taxes owing. Overall, AER reimbursed total of $1.3 million to these employees which is lower than the CRA's assessed unreported amount of $1.8 million.

NEW Recommendation:
Identify and comply with the applicable laws

We recommend that the Board of the Alberta Energy Regulator seek assurance from management that they are in compliance with all withholding rules and regulations.

Consequences of not taking action

Non-compliance with required laws could have a negative impact to AER's reputation and could result in financial losses.

NEW Recommendation
Expense claim processes were ineffective

Context

AER employees may incur expenses for travel, meals and hospitality related to AER business and can claim expense reimbursements and certain allowances. AER has a travel and subsistence policy and procedures over expense reimbursements for its employees to follow while conducting AER business.

It is expected that employees' spending while using public funds should not be or appear to be providing a personal benefit to the individual. Hence, it is necessary for AER to have strong policies and procedures for business travel and related expenses.

Criteria: the standards of performance and control

AER should have policies and effective systems to verify that the travel, meal and hospitality expenses of employees comply with policies.

Our audit findings

Key Findings

- Inappropriate staff authorities for review and approval of expense claims
- Weak expense claim processes allowed opportunities for inappropriate expenses being claimed
- Expense claim policies are unclear and need to be strengthened

We tested a sample of expense claims during our 2019 financial statement audit. We focused our testing on transactions for travel related to ICORE, and tested whether these costs were included within the amount invoiced to ICORE for reimbursement. Our testing included verifying whether staff expenses followed travel, meal and hospitality expense policies.

Inappropriate approval of senior management expenses

In accordance with AER policy, senior employees are responsible for reviewing and approving the expense claims of employees that report to them. The AER Finance branch also reviews expense claims, but relies on the approver doing an appropriate and sufficiently-detailed review to verify the legitimacy and reasonableness of submitted expenses.

We found the former AER CEO's expenses were approved by the AER Vice President and Chief Financial Officer (CFO), who reported to an AER EVP that reported to the former AER CEO. The CFO was also approving expenses for the EVPs, except for the other EVP that the CFO reported to. It was the former AER CEO that set these guidelines for senior employee expenses approvals. This is inconsistent with best practice, which requires a higher level of authority to approve expenses. The CFO indicated they relied on review by the CEO's assistant on the former AER CEO's expense claims.

We also found instances where administrative assistants booked travel expense on behalf of executives and then submitted the expenditure to the same executives for approval. Effectively, in these situations the executives were approving their own expenses.

Expenses incurred that were not the most cost effective option

AER's travel policy states:

- employees are reimbursed for travel, based on the most direct, practical and cost-effective route and mode of transportation to reach that destination
- employees are expected to obtain accommodation, whenever possible, at hotels used regularly by AER employees and to arrange for discounts where a reduced rate for public service staff is available
- employees traveling on AER business can claim either the actual cost of the meal, excluding alcohol or the meal allowance but not both for the same meal

In our expense testing, we found:

- a few staff purchased multiple upgraded flights including business class airfare and seat upgrades
- staff frequently changed the timing of their flights, which incurred additional costs
- instances where hotel costs were expensive and no business rationale was provided to support it being cost-effective
- there are no set thresholds for actual receipt claims in AER's policy; in many instances, the actual receipts submitted were more expensive when compared to if the daily allowance of $41.55 was claimed[14]
- our testing did not find any instances where the expense claims documented the business reason for the higher cost alternative (e.g. seat upgrades)

Pre-approval required but not documented

AER's travel policy requires pre-approval for personal mileage claims as well as for travel for attending a course/conference. None of the expense claims we tested had pre-approval documented within the expense claim. AER told us pre-approval is typically provided verbally.

[14] AER employees can claim either the actual cost of a meal or the daily allowance when carrying out AER business activities.

Tracking of flight passes needs improvement

Flight passes were regularly purchased by AER staff in an effort to lower travel costs. These passes are inherently difficult for AER to track usage, and there is a risk that the passes could be used by staff for personal reasons, or expire before they can be used, resulting in wasted funds.

Unclear personal mileage versus car allowances

AER executives received an annual car allowance of $12,000. There is no guidance around what the car allowance is meant to cover. As a result, we found AER executives were being paid a car allowance as well as reimbursement for personal mileage claims for business related travel. For example, we found one AER EVP was paid a car allowance and also claimed significant personal mileage claims. This AER executive was paid personal mileage of $51,761 from April 2014 to October 2018.

NEW Recommendation:
Strengthen expense claim policy and improve controls over expense claim processes

We recommend that the Alberta Energy Regulator improve controls over expense claim processes to ensure expenses are valid, supported and appropriately approved.

Consequences of not taking action

Public sector funds may be inappropriately spent if AER does not have processes to ensure only valid, supported and approved expenses are being claimed.

Department

IMPLEMENTED Recommendation
User Access Controls

Context

In 2016,[15] we recommended that the department, improve its documentation around employee user access to key business systems by:

- identifying and documenting what roles are in conflict in its key business systems
- providing access to employees according to their roles and responsibilities and regularly monitoring conflicting roles
- implementing mitigating controls to reduce risk from conflicting roles to an acceptable level

Our audit findings

The department has implemented our recommendation to document conflicting roles within its key business systems and to ensure appropriate controls are in place where conflicting roles have been identified.

[15] *Report of the Auditor General of Alberta—October 2016*, no. 16, p. 99.

Alberta Petroleum Marketing Commission

IMPLEMENTED Recommendation User access and change-management controls

Context

In 2018,[16] we recommended that the Alberta Petroleum Marketing Commission (APMC) implement stronger access and change-management control procedures to ensure that access and changes to the financial model are working in a controlled and consistent matter.

Our audit findings

In 2019, APMC implemented the Sturgeon Refinery Model Changes Control process whereby all new user-access requests and changes in assumptions to the model are documented by program staff and approved by the CEO or Executive Director.

We tested the new processes and controls and found them to operate as designed. We concluded that the APMC has implemented our recommendation to design and enforce stronger access and change-management control procedures to the financial model.

IMPLEMENTED Recommendation Assumptions and key judgements

Context

In 2018,[17] we recommended that APMC improve its method for supporting, updating, and documenting assumptions and key judgements applied to its model analysis.

Our audit findings

In 2019, APMC implemented the Onerous Contract Model Changes Control process whereby all changes in assumptions and key judgements to the model are documented for CEO approval.

We assessed the process and concluded that the APMC has implemented our recommendation to improve its method for supporting, updating, and documenting assumptions and key judgements into its model analysis.

16 *Report of the Auditor General of Alberta—November 2018*, page 69.

17 *Report of the Auditor General of Alberta—November 2018*, page 69.

Outstanding Recommendations

4 →	Implemented Recommendations
7 →	New Recommendations
18 →	Outstanding Recommendations
7 →	Outstanding Recommendations Older than 3 Years
9 →	Outstanding Recommendations Ready for Followup
9 →	Outstanding Recommendations Not Ready for Followup

RECOMMENDATION	When	Status
DEPARTMENT SYSTEMS TO MANAGE ROYALTY REDUCTION PROGRAMS: **Evaluate and report on royalty reduction program objectives** We recommend that the Department of Energy annually evaluate and report whether the department's royalty reduction programs achieve their objectives.	**February 2016, no. 1, p. 18**	**Ready**
ALBERTA ENERGY REGULATOR: **Strengthen processes for its senior management compensation arrangements** We recommend the Alberta Energy Regulator implement processes to ensure senior management agreements, including compensation, distance work arrangements, and succession plans, are transparent, equitable, properly supported, approved and discussed with the AER Board.	November 2019, Energy Ministry Chapter, p. 55	**Not Ready**
ALBERTA ENERGY REGULATOR: **Identify and comply with the applicable laws** We recommend that the Board of the Alberta Energy Regulator seek assurance from management that they are in compliance with all withholding rules and regulations.	November 2019, Energy Ministry Chapter, p. 57	**Not Ready**

RECOMMENDATION	When	Status
ALBERTA ENERGY REGULATOR: **Strengthen expense claim policy and improve controls over expense claim processes** We recommend that the Alberta Energy Regulator improve controls over expense claim processes to ensure expenses are valid, supported and appropriately approved.	November 2019, Energy Ministry Chapter, p. 59	**Not Ready**
ALBERTA ENERGY REGULATOR AN EXAMINATION OF THE ICORE: **AER Board oversight was ineffective** We recommend that the AER Board improve its oversight by: • Ensuring the effectiveness of processes to evaluate corporate culture and senior executive performance • Obtaining formal and periodic assertions from management that activities comply with legislation and AER policies, including policies related to conflict of interest • Ensuring officers in key risk management, compliance and internal control roles are well-positioned and supported to provide complete information about AER activities • Reviewing and approving CEO travel and expenses • Ensuring the primary channel of communication to the responsible Ministers is through the Board • Establishing processes to engage with executive staff, and other staff within the organization, to gain comfort that all significant matters have been brought to the attention of the Board	October 2019, p. 39	**Not Ready**
ALBERTA ENERGY REGULATOR AN EXAMINATION OF THE ICORE: **Financial information management and human resources controls were ineffective** We recommend that AER perform sufficient due diligence to assess the risk of further waste of public resources not already identified.	October 2019, p. 44	**Not Ready**

RECOMMENDATION	When	Status
ALBERTA ENERGY REGULATOR AN EXAMINATION OF THE ICORE: **Controls to track and monitor expenses were poorly implemented** We recommend AER evaluate whether any additional funds expended on ICORE activities are recoverable.	October 2019, p. 51	**Not Ready**
ALBERTA ENERGY REGULATOR AN EXAMINATION OF THE ICORE: **AER's internal whistleblowing process — distinct from the processes involving the Public Interest Commissioner (PIC) — was not viewed as safe and effective** We recommend AER staff are made aware of, and are sufficiently trained on, AER's whistleblowing process, consistent with Section 6 of Alberta's *Public Interest Disclosure (Whistleblower Protection) Act*.	October 2019, p. 54	**Not Ready**
ALBERTA ENERGY REGULATOR SYSTEMS TO REGULATE PIPELINE SAFETY AND RELIABILITY IN ALBERTA: **Use risk management activities to make informed decisions** We recommend that the Alberta Energy Regulator use its risk management activities to make informed decisions on allocating resources and determine the nature and extent of activities to oversee pipelines.	**March 2015, no. 4, p. 46**	**Ready**
ALBERTA ENERGY REGULATOR SYSTEMS TO REGULATE PIPELINE SAFETY AND RELIABILITY IN ALBERTA: **Formalize training program for core pipeline staff** We recommend that the Alberta Energy Regulator complete a skills gap analysis and formalize a training program for its core pipeline staff.	**March 2015, no. 5, p. 46**	**Ready**

RECOMMENDATION	When	Status
ALBERTA ENERGY REGULATOR SYSTEMS TO REGULATE PIPELINE SAFETY AND RELIABILITY IN ALBERTA: **Identify performance measures and targets** We recommend that the Alberta Energy Regulator identify suitable performance measures and targets for pipeline operations, assess the results obtained against those measures and targets, and use what it learns to continue improving pipeline performance.	March 2015, no. 6, p. 51	Ready
ALBERTA ENERGY REGULATOR SYSTEMS TO REGULATE PIPELINE SAFETY AND RELIABILITY IN ALBERTA: **Review pipeline incident factors** We recommend that the Alberta Energy Regulator: • expand its analysis of pipeline incident contributing factors beyond the primary causes • promptly share lessons learned from its investigations with industry and operators	March 2015, no. 7, p. 53	Ready
ALBERTA ENERGY REGULATOR SYSTEMS TO REGULATE PIPELINE SAFETY AND RELIABILITY IN ALBERTA: **Assess current pipeline information** We recommend that the Alberta Energy Regulator complete an assessment of its current pipeline information needs to support effective decision making, and determine the type and extent of data it should collect from pipeline operators, through a proactive, risk-based submission process.	March 2015, no. 8, p. 56	Ready
ALBERTA ENERGY REGULATOR SYSTEMS TO REGULATE PIPELINE SAFETY AND RELIABILITY IN ALBERTA: **Implement risk-based compliance process** We recommend that the Alberta Energy Regulator implement a cost effective risk-based compliance process to evaluate the adequacy and effectiveness of pipeline operators' integrity management programs, and safety and loss management systems.	March 2015, no. 9, p. 59	Ready

RECOMMENDATION	When	Status
ALBERTA PETROLEUM MARKETING COMMISSION APMC'S MANAGEMENT OF AGREEMENT TO PROCESS BITUMEN AT THE STURGEON REFINERY: **Develop processes for risk management and staff capacity, and ensure board oversight** We recommend that: • The Alberta 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	February 2018, Performance Auditing, p. 74	Ready
ALBERTA PETROLEUM MARKETING COMMISSION APMC'S MANAGEMENT OF AGREEMENT TO PROCESS BITUMEN AT THE STURGEON REFINERY: **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.	February 2018, Performance Auditing, p. 79	**Not Ready**
ALBERTA PETROLEUM MARKETING COMMISSION APMC'S MANAGEMENT OF AGREEMENT TO PROCESS BITUMEN AT THE STURGEON REFINERY: **Establish performance measures and targets** We recommend that Alberta Petroleum Marketing Commission develop performance measures, set targets and compare results against planned performance.	February 2018, Performance Auditing, p. 79	Ready
ALBERTA PETROLEUM MARKETING COMMISSION APMC'S MANAGEMENT OF AGREEMENT TO PROCESS BITUMEN AT THE STURGEON REFINERY: **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.	February 2018, Performance Auditing, p. 79	**Not Ready**

Alberta Environment and Parks

In our *Management of Sand and Gravel Pits Followup* audit, we report that two recommendations to the department have been implemented, repeat one recommendation, and issue two new recommendations.

The department has 18 outstanding recommendations, 13 of which have been outstanding for more than three years.

We issued unqualified independent auditor's reports on the 2018-2019 financial statements for the Natural Resources Conservation Board, Energy Efficiency Alberta, the Climate Change and Emissions Management Fund, and the Land Stewardship Fund. There are no new or outstanding recommendations to these entities in this report.

Outstanding Recommendations

2 ⟶ Implemented Recommendations

2 ⟶ New Recommendations

18 ⟶ Outstanding Recommendations

13 ⟶ Outstanding Recommendations Older than 3 Years

4 ⟶ Outstanding Recommendations Ready for Followup

14 ⟶ Outstanding Recommendations Not Ready for Followup

Recommendation	When	Status
DEPARTMENT SAND AND GRAVEL: **Reclamation monitoring and enforcement** We again recommend that the AEP improve the effectiveness and efficiency of reclamation monitoring and enforce reclamation requirements.	Repeated November 2019, Followup Audit, p. 13 **Repeated July 2014, no. 4, p. 51** **› Originally reported October 2008, no. 40, p. 360**	**Not Ready**

Recommendation	When	Status
DEPARTMENT SAND AND GRAVEL: **Collect sufficient security** We recommend that AEP collect sufficient security to compel operators to reclaim the land and to cover reclamation costs if operators fail to do so.	November 2019, Followup Audit, p. 16	**Not Ready**
DEPARTMENT SAND AND GRAVEL: **Collect outstanding royalties** We recommend that AEP collect outstanding royalties for sand and gravel on oil sands sites.	November 2019, Followup Audit, p. 17	**Not Ready**
DEPARTMENT SYSTEMS TO MANAGE AND REPORT ON THE OIL SANDS MONITORING PROGRAM: **Improve annual reporting process** We recommend that the Department of Environment and Parks, working with Environment and Climate Change Canada, improve processes to ensure annual reporting on the environmental monitoring in the oil sands is complete, accurate, transparent and timely.	November 2018 Performance Auditing, p. 7	**Not Ready**
DEPARTMENT DESIGN OF SYSTEMS TO MANAGE THE CLIMATE LEADERSHIP PLAN AND ADAPTATION: **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	February 2018 p. 102	**Not Ready**

Recommendation	When	Status
DEPARTMENT CLIMATE CHANGE: **Outsourced service providers** We again recommend that the Department of Environment and Parks obtain assurance that data hosted or processed by its provider of registry services is accurate, complete and secure.	May 2017, no. 5, p. 62 **› Originally reported October 2009 p. 49**	**Ready**
DEPARTMENT REPORT OF THE AUDITOR GENERAL OF ALBERTA—OCTOBER 2016 **Improve capital asset monitoring and recording processes** We recommend that the Department of Environment and Parks improve its processes for monitoring and recording dam and water management structure assets by: • reconciling the Environment Infrastructure Management System with the asset management accounting system so that the assets listed in one reasonably correspond to those in the other • completing a comprehensive analysis of assets to verify existence, completeness and valuation in order to maintain reliable accounting records • applying criteria to decide when to write down an asset, and documenting the assessment of such decisions	October 2016, no. 17, p. 104	**Not Ready**
DEPARTMENT MANAGING ALBERTA'S WATER ACT PARTNERSHIPS AND REGULATORY ACTIVITIES: **Monitor wetland restoration** We again recommend that the Department of Environment and Parks formalize its wetland restoration relationships and control procedures.	**Repeated October 2015, no. 6, p. 45** **› Originally reported April 2010, no. 6, p. 71**	**Ready**

Recommendation	When	Status
DEPARTMENT SYSTEMS TO MANAGE GRAZING LEASES: **Clarify objectives, benefits and relevant performance measures** We recommend that the Department of Environment and Parks define and communicate the environmental, social and economic objectives it expects grazing leases should provide all Albertans as well as relevant performance measures to monitor and ensure those objectives are met.	**July 2015, no. 1, p. 20**	**Not Ready**
DEPARTMENT SYSTEMS TO ENSURE SUFFICIENT FINANCIAL SECURITY FOR LAND DISTURBANCES FROM MINING: **Improve program design** We recommend that the Department of Environment and Parks, as part of its regular review of the Mine Financial Security Program: • analyze and conclude on whether changes to the asset calculation are necessary due to overestimation of asset values in the methodology • demonstrate that it has appropriately analyzed and concluded on the potential impacts of inappropriately extended mine life in the calculation	**July 2015, no. 2, p. 29**	**Not Ready**
DEPARTMENT SYSTEMS TO MANAGE THE CARBON COMPETITIVENESS INCENTIVE REGULATION: **Clarify guidance documents** We recommend for a third time that the Department of Environment and Parks clarify the guidance it provides to facilities, verifiers, offset project developers and offset protocol developers, to ensure they consistently follow its requirements to achieve the Alberta government's emission reduction targets.	**Repeated July 2015, no. 4, p. 43** **Repeated November 2011, no. 1, p. 17** **› Originally reported October 2009, no. 4, p. 46**	**Ready**

Recommendation	When	Status
DEPARTMENT SYSTEMS TO MANAGE THE CARBON COMPETITIVENESS INCENTIVE REGULATION: **Ensure offset protocols meet new standard and improve transparency** We again recommend that the Department of Environment and Parks implement processes to ensure that all approved protocols adhere to its protocol development standard.	**Repeated July 2015, no. 5, p. 46** **› Originally reported November 2011, no. 2, p. 23**	**Ready**
DEPARTMENT FLOOD MITIGATION SYSTEMS: **Update flood hazard maps and mapping guidelines** We recommend that the Department of Environment and Parks improve its processes to identify flood hazards by: • mapping flood areas that are not currently mapped but are at risk of flooding communities • updating and maintaining its flood hazard maps • updating its flood hazard mapping guidelines	**March 2015, no. 10, p. 76**	**Not Ready**
DEPARTMENT FLOOD MITIGATION SYSTEMS: **Assess risk to support mitigation policies and spending** We recommend that the Department of Environment and Parks conduct risk assessments to support flood mitigation decisions.	**March 2015, no. 11, p. 78**	**Not Ready**

<table>
<tr><th>Recommendation</th><th>When</th><th>Status</th></tr>
<tr><td>DEPARTMENT
FLOOD MITIGATION SYSTEMS:
Designate flood hazard areas and complete floodway development regulation

To minimize public safety risk and to avoid unnecessary expenditure of public money, we recommend that the:
• Department of Environment and Parks identify flood hazard areas for designation by the minister
• Department of Municipal Affairs:
› establish processes for controlling, regulating or prohibiting future land use or development to control risk in designated flood hazard areas
› put in place processes to enforce the regulatory requirements</td><td>March 2015, no. 12, p. 80</td><td>Not Ready</td></tr>
<tr><td>DEPARTMENT
FLOOD MITIGATION SYSTEMS:
Assess effects of flood mitigation actions

We recommend that the Department of Environment and Parks establish processes to assess what will be the cumulative effect of flood mitigation actions in communities when approving new projects and initiatives.</td><td>March 2015, no. 13, p. 82</td><td>Not Ready</td></tr>
<tr><td>DEPARTMENT
SYSTEMS TO REGULATE DAM SAFETY:
Develop plan to regulate dams

We recommend that the Department of Environment and Parks develop a plan to regulate dams and report on the results of its regulatory activities.</td><td>March 2015, no. 14, p. 90</td><td>Not Ready</td></tr>
<tr><td>DEPARTMENT
SYSTEMS TO REGULATE DAM SAFETY:
Improve dam regulatory activities

We recommend that the Department of Environment and Parks improve its dam regulatory activities by:
• maintaining a reliable registry of dams
• obtaining sufficient information to assess the risk and consequences of dam failure
• retaining evidence of regulatory activities performed
• following up to ensure that owners correct deficiencies or manage them until they are corrected</td><td>March 2015, no. 15, p. 92</td><td>Not Ready</td></tr>
</table>

Executive Council

There are no new recommendations to the department in this report. The department has one outstanding recommendation, which has been outstanding for more than three years.

Outstanding Recommendations

0 →	Implemented Recommendations
0 →	New Recommendations
1 →	Outstanding Recommendation
1 →	Outstanding Recommendation Older than 3 Years
1 →	Outstanding Recommendation Ready for Followup
0 →	Outstanding Recommendations Not Ready for Followup

Recommendation	When	Status
DEPARTMENT CONTRACTING PROCESSES FOLLOWUP: **Improve contracting processes** We again recommend that the Department of Executive Council improve its contracting processes by documenting: • the rationale for contracting services and selecting vendors when entering into sole-sourced contracts • its assessment of whether proposed contract rates are reasonable, and ensuring contracts are authorized and in place before contracted services are received	October 2016, no. 8, p. 55 **› Originally reported October 2014, no. 10, p. 62**	**Ready**

Alberta Health

There are no new recommendations to the department in this report. The department has 14 outstanding recommendations, 11 of which have been outstanding for more than three years.

In our *Crown's Right of Recovery of Healthcare Costs from Motor Vehicle Accidents Followup*, we report that two recommendations have been implemented.

We issued unqualified independent auditor's reports on the 2018–2019 financial statements for Alberta Health Services (AHS), Carewest, Capital Care Group Inc., Alberta Public Laboratories, and the Health Quality Council of Alberta. There are no new recommendations to these entities in this report. Alberta Health Services has 10 outstanding recommendations, all of which have been outstanding for more than three years.

Matters from Prior Audits

Alberta Health Services has implemented our October 2012 recommendation to reinforce its admission policies and review controls and processes over fees and charges—see below.

Findings

Alberta Health Services

Matters from prior audits

IMPLEMENTED Recommendation
Fees and charges

Context

In 2012,[18] we recommended that AHS reinforce its admission policies and review controls and processes over fees and charges to ensure that they were properly designed and consistently applied throughout the province. We had concluded that there was inconsistent understanding and documentation of the admissions and billings processes throughout the province.

We made this recommendation because AHS still collects accounts receivable at individual sites due to the multiple legacy systems and processes. If AHS employees do not fully understand admissions information flow, there is a risk of inappropriate billing.

18 *Report of the Auditor General of Alberta—October 2012*, page 123

We repeated our recommendation in 2018,[19] as AHS could not determine if admission policies were being followed and consistently applied.

Our audit findings

AHS has implemented our recommendation by:

- implementing policies to standardize the admissions process and formally documenting the processes and controls related to billings
- assessing and accepting the residual risk related to monitoring the application of admission policies for consistency

As we reported in 2018, management implemented policies to standardize the admissions process and training programs rolled out to staff.

This year, management reviewed the current controls and the actions taken in response to the recommendation and assessed them as being appropriate for ensuring consistent application of admission policies. The residual risk relates to registration areas outside of Health Information Management control.

Management accepts the residual risk, as it has deemed it is not significant, and determined that implementing additional controls at this time would not be cost effective. The deployment of AHS's new Connect Care system over the next few years will contain admitting and billing software, and this process will be standardized province-wide.

We have accepted management's conclusion to accept residual risks until the deployment of Connect Care, which should standardize billing processes.

[19] *Report of the Auditor General of Alberta—November 2018*, page 87

Outstanding Recommendations

3	→	Implemented Recommendations
0	→	New Recommendations
24	→	Outstanding Recommendations
21	→	Outstanding Recommendations Older than 3 Years
7	→	Outstanding Recommendations Ready for Followup
17	→	Outstanding Recommendations Not Ready for Followup

Recommendation	When	Status
DEPARTMENT PURE NORTH GRANTS: **Improve conflict of interest processes** We recommend that the Department of Health 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	February 2018, p. 111	**Ready**
DEPARTMENT PRIMARY CARE NETWORKS: **Evaluate PCN effectiveness** We recommend that the Department of Health, through its leadership role in the PCN Governance Structure, work with the PCNs and PCN physicians to: • agree on appropriate targets for each PCN program performance measure, and require PCNs to measure and report results in relation to the targets • develop a formal action plan for public reporting of PCN program performance	October 2017, Performance Auditing, p. 79	**Not Ready**

Recommendation	When	Status
DEPARTMENT PRIMARY CARE NETWORKS: **Informing Albertans about PCN services** We recommend that the Department of Health, through its leadership role in the PCN Governance Structure, work with PCNs and PCN physicians to: • require PCN physicians to complete the established patient attachment process, and set appropriate timelines for completing this process • agree on the best approaches for engaging Albertans as active participants in their own care, and explaining the PCN services available to help them achieve their health goals	October 2017, Performance Auditing, p. 84	**Not Ready**
DEPARTMENT HEALTHCARE PROCESSES: **Establish a proactive check to ensure that individuals with an Alberta healthcare number continue to meet residency requirements** We recommend that the Department of Health improve its processes by establishing a proactive check to ensure that individuals who have been issued an Alberta healthcare number continue to meet the residency requirements specified in the *Alberta Health Care Insurance Act* and Regulation.	**October 2015, no. 12, p. 101**	**Not Ready**
DEPARTMENT HEALTHCARE PROCESSES: **Enhance processes to check for receipt of services for which physicians billed** We recommend that the Department of Health enhance the processes it uses to check whether: • patients received the medical services for which physicians billed the department • payments are being made in accordance with the provisions of the *Alberta Health Care Insurance Act*	**October 2015, no. 13, p. 102**	**Not Ready**

Recommendation	When	Status
DEPARTMENT SYSTEMS TO MANAGE THE DELIVERY OF MENTAL HEALTH SERVICES: **Use action plan and progress reporting to implement strategy** We recommend that the Department of Health: • use an action plan to implement the strategy for mental health and addictions • monitor and regularly report on implementation progress	**July 2015, no. 6, p. 63**	**Not Ready**
DEPARTMENT SENIORS CARE IN LONG-TERM CARE FACILITIES: **Oversight at the provincial level** We recommend that the Department of Health: • clearly define and separate its role and responsibilities from those of AHS in monitoring and managing long-term care service delivery • improve public reporting on what results the provincial long-term care system is expected to achieve and whether it is achieving them • finish the review of the continuing care health service standards • implement a mechanism for timely analysis and action on the accommodation cost data	**October 2014, no. 13, p. 91**	**Ready**

Recommendation	When	Status
DEPARTMENT CHRONIC DISEASE MANAGEMENT: **Improve delivery of chronic disease management services** We recommend that the Department of Health improve the delivery of chronic disease management services in the province by: • defining the care services it expects physicians, Primary Care Networks and Alberta Health Services to provide to individuals with chronic disease • requesting family physicians to deliver comprehensive team-based care to their patients with chronic disease, through a Primary Care Network or appropriate alternative • establishing processes to assess the volumes, costs and, most importantly, the results of chronic disease management services delivered by the healthcare providers it funds • facilitating secure sharing of patients' healthcare information among authorized providers • strengthening its support for advancing chronic disease management services, particularly among family physicians where the need for better systems and information is most critical	September 2014, no. 1, p. 11	Not Ready
DEPARTMENT CHRONIC DISEASE MANAGEMENT: **Improve delivery of pharmacist care plan initiative** We recommend that the Department of Health improve the delivery of its pharmacist care plan initiative by: • establishing a formal process to ensure pharmacists integrate their care plan advice with the care being provided by a patient's family physician and care team • strengthening claims administration and oversight, including requiring pharmacists to submit diagnostic information showing patients qualify for a care plan, and making care plans subject to audit verification by Alberta Blue Cross • setting expectations and targets for pharmacists' involvement in care plans and evaluating the effectiveness of their involvement on an ongoing basis	September 2014, no. 7, p. 32	Not Ready

Recommendation	When	Status
DEPARTMENT CHRONIC DISEASE MANAGEMENT: **Strengthen electronic medical records systems** We recommend that the Department of Health strengthen support to family physicians and care teams in implementing electronic medical record systems capable of: • identifying patient-physician relationships and each patient's main health conditions and risk factors • tracking patient care plans and alerting physicians and care teams when medical services are due, and health goals or clinical targets are not met appropriately and securely sharing patient health information between authorized healthcare providers • reporting key activity and outcome information for selected patient groups (e.g., diabetics) as the basis for continuous quality improvement	**September 2014, no. 8, p. 37**	**Not Ready**
DEPARTMENT CHRONIC DISEASE MANAGEMENT: **Provide individuals access to their personal health information** We recommend that the Department of Health provide individuals with chronic disease access to the following personal health information: • their medical history, such as physician visits, medications and test results • their care plan, showing recommended tests, diagnostic procedures and medications, including milestone dates and targets set out in the plan	**September 2014, no. 9, p. 41**	**Not Ready**
DEPARTMENT ELECTRONIC HEALTH RECORDS: **User access management** We recommend that the Department of Health ensure that its user access management policies are followed and that user access to health information is removed when access privileges are no longer required.	**October 2009, p. 80**	**Ready**

Recommendation	When	Status
ALBERTA HEALTH AND ALBERTA HEALTH SERVICES CHRONIC DISEASE MANAGEMENT: **Improve support of patient-physician relationships** We recommend that the Department of Health improve its support of patient-physician relationships by: • requesting all family physicians establish a process to identify their patient panels and which of those patients have chronic disease, and providing them with healthcare data to help them do so • determining what it considers to be an effective care team size and composition, and working with family physicians, Primary Care Networks and other providers to help build teams to this level	**September 2014, no. 2, p. 18**	**Not Ready**
ALBERTA HEALTH AND ALBERTA HEALTH SERVICES CHRONIC DISEASE MANAGEMENT: **Improve support of patient-physician relationships** We recommend that Alberta Health Services identify individuals with chronic disease who do not have a family physician and actively manage their care until they can be linked with a family physician.	**September 2014, no. 3, p. 18**	**Not Ready**
ALBERTA HEALTH AND ALBERTA HEALTH SERVICES CHRONIC DISEASE MANAGEMENT: **Improve physician care plan initiative** We recommend that the Department of Health improve its physician care plan initiative by: • defining its expectations for what care plans should contain and how they should be managed by physicians and care teams • setting targets for care plan coverage and evaluating the effectiveness of care plans on an ongoing basis • strengthening care plan administration by ensuring that claims identify qualifying diagnoses, and that care plan billings by individual physicians are reasonable	**September 2014, no. 5, p. 26**	**Not Ready**

Recommendation	When	Status
ALBERTA HEALTH AND ALBERTA HEALTH SERVICES CHRONIC DISEASE MANAGEMENT: **Improve physician care plan initiative** We recommend that Alberta Health Services coordinate its services to patients with chronic disease with the care plans developed by family physicians and care teams.	**September 2014, no. 6, p. 26**	**Not Ready**
ALBERTA HEALTH SERVICES DISASTER RECOVERY PLANNING: **Develop a detailed plan for implementing risk-based disaster recovery processes** We recommend that Alberta Health Services develop and follow a comprehensive plan for implementing risk-based disaster recovery processes, including the necessary IT infrastructure.	**October 2015, no. 14, p. 104**	**Ready**
ALBERTA HEALTH SERVICES SYSTEMS TO MANAGE THE DELIVERY OF MENTAL HEALTH SERVICES: **Integrate mental health service delivery and eliminate gaps in service** We recommend that Alberta Health Services for its own community and hospital mental health and addictions services: • work with physicians and other non-AHS providers to advance integrated care planning and use of interdisciplinary care teams where appropriate for clients with severe and persistent mental illness who need a comprehensive level of care • improve availability of mental health resources at hospital emergency departments • improve its system to monitor and ensure community mental health clinics comply with AHS's expectations for treatment planning and case management • improve its process to identify and evaluate good operational practices used by local mental health and addictions staff, and deploy the best ones across the province	**July 2015, no. 7, p. 67**	**Not Ready**

Recommendation	When	Status
ALBERTA HEALTH SERVICES SYSTEMS TO MANAGE THE DELIVERY OF MENTAL HEALTH SERVICES: **Improve information management in mental health and addictions** We recommend that Alberta Health Services make the best use of its current mental health and addictions information systems by: • providing authorized healthcare workers within all AHS sites access to AHS mental health and addictions clinical information systems • strengthening information management support for its mental health treatment outcomes measurement tools	July 2015, no. 8, p. 75	**Not Ready**
ALBERTA HEALTH SERVICES SYSTEMS TO MANAGE THE DELIVERY OF MENTAL HEALTH SERVICES: **Complete assessment and develop wait-list for Albertans who need community housing supports** We recommend that Alberta Health Services in supporting the work of the cross-ministry housing planning team established under the mandate of the Minister of Seniors: • complete its assessment and report on gaps between supply and demand for specialized community housing support services for mental health and addictions in the province • develop a wait-list management system to formally assess the housing support needs of AHS's mental health hospital and community patients and coordinate their placement into specialized community spaces funded by AHS	July 2015, no. 9, p. 79	**Not Ready**

Recommendation	When	Status
ALBERTA HEALTH SERVICES SENIORS CARE IN LONG-TERM CARE FACILITIES: **Monitoring care at the resident level** We recommend that Alberta Health Services improve the design of its current monitoring activities. AHS should: • develop a system to periodically verify that facilities provide residents with an adequate number and level of staff, every day of their operation • develop a system to periodically verify that facilities deliver the right care every day by implementing individual resident care plans and meeting basic needs of residents	**October 2014, no. 11, p. 84**	**Not Ready**
ALBERTA HEALTH SERVICES SENIORS CARE IN LONG-TERM CARE FACILITIES: **Managing performance of long-term care facilities** We recommend that Alberta Health Services improve its system to monitor and manage performance of long-term care facilities. AHS should: • clearly define which program area within AHS is responsible for managing performance of individual facilities • establish a formal mechanism to use all available compliance data to review periodically the overall performance of each facility, and initiate proactive compliance action with facilities based on the level of risk to health and safety of residents • establish a formal mechanism to escalate compliance action for higher risk facilities	**October 2014, no. 12, p. 88**	**Ready**

Recommendation	When	Status
ALBERTA HEALTH SERVICES CHRONIC DISEASE MANAGEMENT: **Improve AHS chronic disease management services** We recommend that Alberta Health Services improve its chronic disease management services by: • assessing the total demand for chronic disease management services across Alberta • developing evidence to support decisions on how services provided by Alberta Health Services, family physicians, Primary Care Networks and Family Care Clinics should be integrated • setting provincial objectives and standards for its chronic disease management services • establishing systems to measure and report the effectiveness of its chronic disease management services	**September 2014, no. 4, p. 22**	**Ready**
ALBERTA HEALTH SERVICES AHS CONTROLS OVER EXPENSE CLAIMS, PURCHASING CARD TRANSACTIONS, AND OTHER TRAVEL EXPENSES: **Controls over expenses** We recommend that Alberta Health Services tighten its controls over expense claims, purchasing card transactions and other travel expenses by: • improving the analysis and documentation that support the business reasons for—and the cost effectiveness of—these expenses • improving education and training of staff on their responsibilities for complying with policies • monitoring expenses and reporting results to the board	**February 2013, no. 1, p. 24**	**Ready**

Alberta Indigenous Relations

There are no new recommendations to the department in this report.

In our *Systems to Manage First Nations Development Fund Grants Followup* audit, we report that two recommendations have been implemented.

The department has also implemented our recommendation to improve processes for preparing, reviewing and publicly disclosing travel, meal and hospitality expenses—see below.

Findings

Department

IMPLEMENTED Recommendation Improve processes for preparing, reviewing and publicly disclosing travel, meal and hospitality expenses

Context

In 2018,[20] we recommended that management improve its processes to prepare, review and publicly disclose travel, meal and hospitality expenses. We found minister's office expenses were often delayed in processing, errors were not identified during review and management was not identifying and correcting errors in the public disclosure of expenses.

Our audit findings

To implement our recommendation, management completed a comprehensive review of procurement card and expense processes. Management also provided additional training to staff involved in the process.

Compliance with policy and directives

We tested a sample of expense claims and found all complied with Government of Alberta policies and directives. We found evidence that department staff promptly reviewed and reconciled expenses. We also found that the claimants and approvers provided adequate documentary support and written rationales for their expenses.

20 *Report of the Auditor General of Alberta—February 2018*, p. 125.

Public disclosure

We examined a sample of the public disclosure of minister's office expenses. We found expenses tested were:

- supported by correct descriptions and receipts
- disclosed completely, as required by government policy
- disclosed under the name of the responsible individual

Outstanding Recommendations

3	→	Implemented Recommendations
0	→	New Recommendations
0	→	Outstanding Recommendations
0	→	Outstanding Recommendations Older than 3 Years
0	→	Outstanding Recommendations Ready for Followup
0	→	Outstanding Recommendations Not Ready for Followup

There are no outstanding recommendations to Alberta Indigenous Relations.

Alberta Infrastructure

There are no new recommendations to the department in this report. The department has three outstanding recommendations, none of which have been outstanding for more than three years.

Outstanding Recommendations

0	→	Implemented Recommendations
0	→	New Recommendations
3	→	Outstanding Recommendations
0	→	Outstanding Recommendations Older than 3 Years
0	→	Outstanding Recommendations Ready for Followup
3	→	Outstanding Recommendations Not Ready for Followup

Recommendation	When	Status
DEPARTMENT EDUCATION & INFRASTRUCTURE—SCHOOL-BUILDING PROGRAM: **Improve systems to manage and control projects** We recommend that the departments of Education and Infrastructure improve the planning process by: • identifying who must review and approve project planning deliverables and formally communicate these approvals to school jurisdictions or the Department of Infrastructure's contractors • basing oversight of projects managed by school jurisdictions on risk	April 2016, no. 4, p. 14	**Not Ready**

Recommendation	When	Status
DEPARTMENT EDUCATION & INFRASTRUCTURE—SCHOOL-BUILDING PROGRAM: **Improve reporting systems and controls** We recommend that the Department of Infrastructure improve its systems for publicly reporting on the status of school capital projects.	April 2016, no. 5, p. 16	**Not Ready**
DEPARTMENT EDUCATION & INFRASTRUCTURE—SCHOOL-BUILDING PROGRAM: **Improve reporting systems and controls** We recommend that the departments of Education and Infrastructure improve reporting on the school-building program by: • defining reporting requirements, including measures to assess project performance • using a common reporting system that specifies where information will be retained, who will update it and how it will be updated	April 2016, no. 7, p. 16	**Not Ready**

Alberta Justice and Solicitor General

There are no new recommendations to the department in this report. The department has 11 outstanding recommendations, nine of which have been outstanding for more than three years.

We issued unqualified independent auditor's reports on the 2018–2019 financial statements for the Victims of Crime Fund, the Human Rights Education and Multiculturalism Fund, and the Office of the Public Guardian and Trustee, Estates and Trusts. There are no new recommendations to these entities in this report.

Outstanding Recommendations

0 →	Implemented Recommendations
0 →	New Recommendations
11 →	Outstanding Recommendations
9 →	Outstanding Recommendations Older than 3 Years
9 →	Outstanding Recommendations Ready for Followup
2 →	Outstanding Recommendations Not Ready for Followup

Recommendation	When	Status
DEPARTMENT FUNDING SUSTAINABLE AND COST-EFFECTIVE LEGAL AID SERVICES: **Determine the type and scope of services a public legal aid system can sustain** We recommend that the Department of Justice and Solicitor General determine, through analysis, the type and scope of services Alberta's publicly funded legal aid system can provide and sustain.	May 2017, no. 1, p. 39	**Not Ready**

Recommendation	When	Status
DEPARTMENT FUNDING SUSTAINABLE AND COST-EFFECTIVE LEGAL AID SERVICES: **Ensure performance measures in place for legal aid services** We recommend that the Department of Justice and Solicitor General ensure there are processes in place to measure, monitor and report on the quality, efficiency and cost-effectiveness of publicly funded legal aid services.	May 2017, no. 2, p. 42	**Not Ready**
DEPARTMENT VICTIMS OF CRIME FUND: SYSTEMS TO MANAGE SUSTAINABILITY AND ASSESS RESULTS: **Develop and publicly report on a plan for the Victims of Crime Fund program** We recommend that the Department of Justice and Solicitor General: • develop and approve a business plan with measurable desired results for the Victims of Crime Fund • publicly report on the results of this business plan	**February 2016, no. 5, p. 46**	**Ready**
DEPARTMENT VICTIMS OF CRIME FUND: SYSTEMS TO MANAGE SUSTAINABILITY AND ASSESS RESULTS: **Determine best use of Victims of Crime Fund accumulated surplus** We recommend that the Department of Justice and Solicitor General, supported by sufficient analysis, determine an appropriate use of the Victims of Crime Fund accumulated surplus.	**February 2016, no. 6, p. 49**	**Ready**
DEPARTMENT AND OFFICE OF THE PUBLIC GUARDIAN & TRUSTEE SURPLUS MANAGEMENT AND RESULTS REPORTING: **Improve results analysis processes and reporting** We recommend that the Public Trustee and Ministry of Justice and Solicitor General improve the performance reporting for the operations of the Public Trustee.	**February 2016, no. 4, p. 40**	**Ready**

Recommendation	When	Status
OFFICE OF THE PUBLIC GUARDIAN & TRUSTEE SURPLUS MANAGEMENT AND RESULTS REPORTING: **Determine and manage surplus** We recommend that the Public Trustee develop processes to effectively manage the growth and use of the accumulated surplus in the Common Fund.	**February 2016, no. 3, p. 36**	**Ready**
OFFICE OF THE PUBLIC GUARDIAN & TRUSTEE OFFICE OF THE PUBLIC TRUSTEE: **Supervisory review of client files** We recommend that the Office of the Public Guardian and Trustee improve its file management processes to ensure all client files are subject to adequate supervisory review.	**February 2013, no. 2, p. 42**	**Ready**
OFFICE OF THE PUBLIC GUARDIAN & TRUSTEE OFFICE OF THE PUBLIC TRUSTEE: **Internal audit role** We recommend that the Office of the Public Guardian and Trustee strengthen the role of its internal audit, ensuring it has adequate authority and independence to effectively perform its function.	**February 2013, no. 3, p. 42**	**Ready**
OFFICE OF THE PUBLIC GUARDIAN & TRUSTEE OFFICE OF THE PUBLIC TRUSTEE: **Improve and follow policies** We recommend that the Office of the Public Guardian and Trustee: • review and assess whether its policies are appropriate, and procedures are adequate to mitigate the risk that client assets could be misappropriated or otherwise mismanaged • improve its processes for ensuring compliance with policies and procedures	**February 2013, no. 4, p. 45**	**Ready**
OFFICE OF THE PUBLIC GUARDIAN & TRUSTEE OFFICE OF THE PUBLIC TRUSTEE: **Segregation of duties** We recommend that the Office of the Public Guardian and Trustee strengthen its processes for the approval and payment of client expenses or disbursements.	**February 2013, no. 5, p. 47**	**Ready**

Recommendation	When	Status
OFFICE OF THE PUBLIC GUARDIAN & TRUSTEE OFFICE OF THE PUBLIC TRUSTEE: **Documentation** We recommend that the Office of the Public Guardian and Trustee improve its processes for ensuring client files are appropriately documented, including adequate documentation of supervisory review and internal audit.	**February 2013, no. 6, p. 48**	**Ready**

Alberta Labour and Immigration

Effective April 30, 2019, the department's name changed from Labour to Labour and Immigration.

There are no new recommendations to the department in this report. The department has one outstanding recommendation.

We issued an unqualified auditor's report for the December 31, 2018 year-end financial statements for the Workers' Compensation Board—Alberta. The financial statements of the Workers' Compensation Board—Alberta are not consolidated into the Government of Alberta financial statements.

Outstanding Recommendations

0 → Implemented Recommendations

0 → New Recommendations

1 → Outstanding Recommendation

0 → Outstanding Recommendations Older than 3 Years

0 → Outstanding Recommendations Ready for Followup

1 → Outstanding Recommendation Not Ready for Followup

Recommendation	When	Status
DEPARTMENT SYSTEMS TO UPDATE ALBERTA'S WORKFORCE STRATEGIES: **Report on results of workforce strategies** We recommend that the Department of Labour and Immigration regularly measure and report on the results of its current workforce strategies, including lessons learned.	November 2018, Performance Auditing, p. 8	**Not Ready**

Alberta Municipal Affairs

There are no new recommendations to the department in this report. The department has two outstanding recommendations, both of which have been outstanding for more than three years.

We issued unqualified independent auditor's reports on the 2018–2019 financial statements for Improvements Districts' Trust (Improvement Districts 4, 9, 12, 13, 24, 25, and 349), Kananaskis Improvement District, and the Special Areas Trust. There are no new recommendations to any of these entities in this report.

Outstanding Recommendations

0	⟶	Implemented Recommendations
0	⟶	New Recommendations
2	⟶	Outstanding Recommendations
2	⟶	Outstanding Recommendations Older than 3 Years
0	⟶	Outstanding Recommendations Ready for Followup
2	⟶	Outstanding Recommendations Not Ready for Followup

Recommendation	When	Status
DEPARTMENT DISASTER RECOVERY PROGRAM TRANSITION: **Implement a transition plan** We recommend that the Department of Municipal Affairs implement its transition work plan to improve its disaster recovery program delivery system by: • obtaining skilled project managers and implementing project management practices that will achieve the objectives outlined in the plan • improving project oversight to monitor implementation of the plan to ensure desired results are achieved within an acceptable time frame	**February 2016, no. 7, p. 62**	**Not Ready**

Recommendation	When	Status
DEPARTMENT FLOOD MITIGATION SYSTEMS: **Designate flood hazard area and complete floodway development regulation** To minimize public safety risk and to avoid unnecessary expenditure of public money, we recommend that: • the Department of Environment and Parks identify flood hazard areas for designation by the minister • the Department of Municipal Affairs: › establish processes for controlling, regulating or prohibiting future land use or development to control risk in designated flood hazard areas › put in place processes to enforce the regulatory requirement	**March 2015, no. 12, p. 80**	**Not Ready**

Alberta Seniors and Housing

There are no new recommendations to the department in this report. The department has one outstanding recommendation, which has been outstanding for more than three years.

We issued an unqualified independent auditor's report on the 2018-2019 financial statements for the Alberta Social Housing Corporation.

Outstanding Recommendations

0 →	Implemented Recommendations
0 →	New Recommendations
1 →	Outstanding Recommendation
1 →	Outstanding Recommendation Older than 3 Years
1 →	Outstanding Recommendation Ready for Followup
0 →	Outstanding Recommendations Not Ready for Followup

Recommendation	When	Status
DEPARTMENT SENIORS LODGE PROGRAM: **Effectiveness of Seniors Lodge Program** We again recommend that the Department of Seniors and Housing: • improve the measures it uses to assess the effectiveness of the Seniors Lodge Program and obtain sufficient information periodically to set the minimum disposable income of seniors used as a basis for seniors lodge rent charges • improve its processes for identifying the increasing care needs of lodge residents and consider this information in its plans for the Seniors Lodge Program	**Repeated October 2014, no. 20, p. 183** › **Originally reported October 2005, no. 12, p. 66**	**Ready**

Service Alberta

There are no new recommendations to the department in this report. The department has seven outstanding recommendations, three of which have been outstanding for more than three years.

In our *Information Technology Disaster Recovery Program Followup* audit, we repeat one recommendation to the department.

Outstanding Recommendations

0 → Implemented Recommendations

0 → New Recommendations

7 → Outstanding Recommendations

3 → Outstanding Recommendations Older than 3 Years

5 → Outstanding Recommendations Ready for Followup

2 → Outstanding Recommendations Not Ready for Followup

Recommendation	When	Status
DEPARTMENT IT DISASTER RECOVERY PROGRAM: **Improve recovery of critical information technology applications** We again recommend that the Department of Service Alberta: • identify the most critical IT applications throughout all government departments • identify the times, after a disaster, that critical IT applications must be recovered • ensure that there are tested plans and adequate resources to recover critical IT applications within those times	Repeated November 2019, Followup Audit, p. 9 › **Originally reported October 2014, no. 5, p. 45**	**Not Ready**

Recommendation	When	Status
DEPARTMENT CONTRACT MANAGEMENT PROCESSES: **Improve performance measurement processes** We recommend that the Department of Service Alberta develop processes to improve its measuring, monitoring, and reporting of the performance of its large and complex contracts.	November 2018, Performance Auditing, p. 5	Ready
DEPARTMENT CONTRACT MANAGEMENT PROCESSES: **Improve compliance processes** We recommend that the Department of Service Alberta develop processes to improve its monitoring and enforcement of contract compliance to ensure that the desired results of the contract are achieved.	November 2018 Performance Auditing, p. 10	Ready
DEPARTMENT CONTRACT MANAGEMENT PROCESSES: **Incorporate lessons learned** We recommend that the Department of Service Alberta develop processes to improve its evaluation of contracts and implement risk mitigation strategies and lessons learned where required.	November 2018, Performance Auditing, p. 13	Ready
DEPARTMENT SYSTEMS TO MANAGE A COMPREHENSIVE INVENTORY OF INFORMATION TECHNOLOGY APPLICATIONS: **Establish a comprehensive inventory system for information technology applications used across government** We recommend that the Department of Service Alberta complete its plans to implement a comprehensive inventory system of all IT applications used across government, with supporting processes to maintain the inventory. If required, Service Alberta should seek necessary authority to complete the project.	May 2017, no. 3, p. 51	Ready

<table>
<tr><th>Recommendation</th><th>When</th><th>Status</th></tr>
<tr><td>DEPARTMENT
PROTECTING INFORMATION ASSETS FOLLOWUP:
Assess risk and improve oversight

We recommend that the Department of Service Alberta:
• assess the risks to public information assets throughout the government
• determine if the government has adequate IT security policies, standards and controls to mitigate risks
• determine who is responsible and accountable to ensure that public information assets are adequately protected. Specifically:
› who is responsible for monitoring compliance with IT security requirements
› who is responsible for ensuring or enforcing compliance with security requirements
› what actions should be taken when non-compliance is identified
› how is compliance to security requirements demonstrated</td><td>October 2012, no. 11, p. 62</td><td>Not Ready</td></tr>
<tr><td>DEPARTMENT
REPORT OF THE AUDITOR GENERAL OF ALBERTA—OCTOBER 2008:
System conversion process

We recommend that the Department of Service Alberta document its review of actual system conversion activities to ensure that they comply with the approved test plan for system conversion and data migration.</td><td>October 2008, p. 349</td><td>Ready</td></tr>
</table>

Alberta Transportation

There are no new recommendations to the department in this report. The department has one outstanding recommendation, which has been outstanding for more than three years.

We issued an unqualified independent auditor's report on the 2018-2019 financial statements for the Alberta Transportation Safety Board.

Outstanding Recommendations

0	→	Implemented Recommendations
0	→	New Recommendations
1	→	Outstanding Recommendation
1	→	Outstanding Recommendation Older than 3 Years
1	→	Outstanding Recommendation Ready for Followup
0	→	Outstanding Recommendations Not Ready for Followup

Recommendation	When	Status
DEPARTMENT COMMERCIAL VEHICLE SAFETY: **Progressive sanctions** 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.	Repeated February 2018, p. 115 **Repeated July 2014, no. 7, p. 70** **› Originally reported October 2009, no. 14, p. 127**	**Ready**

Alberta Treasury Board and Finance

There are no new recommendations to the department in this report. Due to government reorganization, three recommendations regarding capital planning were moved to the department from the Department of Infrastructure in fiscal 2019-2020. The department has 18 outstanding recommendations, 10 of which have been outstanding for more than three years.

We issued unqualified independent auditor's reports on the 2018-2019 financial statements for the Alberta Gaming, Liquor and Cannabis Commission; ATB Financial; the Credit Union Deposit Guarantee Corporation; and the endowment funds, regulated funds, pension plans, and other entities in the ministry. There are no new recommendations to any of these entities in this report.

Outstanding Recommendations

0 → Implemented Recommendations

0 → New Recommendations

18 → Outstanding Recommendations

10 → Outstanding Recommendations Older than 3 Years

4 → Outstanding Recommendations Ready for Followup

14 → Outstanding Recommendations Not Ready for Followup

Recommendation	When	Status
DEPARTMENT REPORTING PERFORMANCE RESULTS TO ALBERTANS FOLLOWUP: **Results Analysis Performance** We again recommend that the Department of Treasury Board and Finance improve: • guidance and training for ministry management to identify, analyze and report on results in ministry annual reports • processes to monitor ministry compliance with results analysis reporting standards	Repeated August 2019, p. 12 › **Originally reported July 2014, no. 1, p. 18**	**Not Ready**

Recommendation	When	Status
DEPARTMENT ALBERTA PUBLIC SERVICE COMMISSION: PUBLIC AGENCY BOARD MEMBER RECRUITMENT AND SELECTION: **Improve the usage of succession plans and reappointments** We recommend that the Public Agency Secretariat improve the processes described in the guidebook by requiring departments to: • include the board succession plan in the recruitment package • evaluate incumbent candidates seeking reappointment before proceeding to open competition	August 2019, p. 13	**Not Ready**
DEPARTMENT ALBERTA PUBLIC SERVICE COMMISSION: PUBLIC AGENCY BOARD MEMBER RECRUITMENT AND SELECTION: **Improve guidance on use of professional recruitment** We recommend that the Public Agency Secretariat improve the guidance used by departments by requiring the recruitment package include an assessment of whether professional recruitment services are needed given the skills and experience sought by the agency.	August 2019, p. 14	**Not Ready**
DEPARTMENT ALBERTA PUBLIC SERVICE COMMISSION: PUBLIC AGENCY BOARD MEMBER RECRUITMENT AND SELECTION: **Strengthen the recruitment, screening, and selection processes** We recommend that the Public Agency Secretariat strengthen the guidance for recruitment, screening, and selection processes that departments follow by: • including in the selection package the candidate competency assessment along with the agency board's written recommendation of qualified candidates • setting standards for boards and departments in assessing, resolving and documenting potential conflicts of interest prior to appointment, and including a documented assessment for any potential conflicts pertaining to candidates in the selection package	August 2019, p. 17	**Not Ready**

Recommendation	When	Status
DEPARTMENT ALBERTA PUBLIC SERVICE COMMISSION: PUBLIC AGENCY BOARD MEMBER RECRUITMENT AND SELECTION: **Improve information systems to monitor process outcomes** We recommend that the Public Agency Secretariat: • consolidate information systems used to track competitions and appointments • develop reports that can be used by departments to measure and monitor upcoming and existing board vacancies, the status of open competitions, and metrics on board continuity	August 2019, p. 19	**Not Ready**
DEPARTMENT GOVERNMENT OF ALBERTA CAPITAL PLANNING: **Improve capital planning standards and phased approach to capital planning and approval** We recommend that the Department of Treasury Board and Finance improve the government capital planning system by: • updating its capital planning standards • clarifying the capital planning phases and the planning deliverables required for each phase • verifying if departments have completed the required planning for capital submissions and, if not, reporting this information to government committees	October 2017, Performance Auditing, p. 20	**Not Ready**
DEPARTMENT GOVERNMENT OF ALBERTA CAPITAL PLANNING: **Improve maintenance planning systems** We recommend that the Department of Treasury Board and Finance: • obtain information from departments on their maintenance needs and risks, and on the results they aim to achieve with the maintenance funding they request • analyze the departments' maintenance information and provide objective advice to government committees on maintenance funding	October 2017, Performance Auditing, p. 23	**Not Ready**

Recommendation	When	Status
DEPARTMENT GOVERNMENT OF ALBERTA CAPITAL PLANNING: **Evaluate capital maintenance programs for buildings** We recommend that the Department of Treasury Board and Finance work with affected departments to lead a review of the four capital maintenance programs for buildings and evaluate whether they are working well.	October 2017, Performance Auditing, p. 26	**Not Ready**
DEPARTMENT PAYMENTS BASED ON AGREEMENT: **Apply policies when recommending approval to Treasury Board Committee** We recommend that the Department of Treasury Board and Finance consistently apply its policies when recommending to Treasury Board Committee to approve a payment based on agreement request.	October 2017, Financial Statement Auditing, p. 134	**Ready**
DEPARTMENT ENTERPRISE RISK MANAGEMENT SYSTEMS: **Update and follow enterprise risk management system** We again recommend that the Department of Treasury Board and Finance update and follow its enterprise risk management system by identifying, monitoring, communicating and appropriately mitigating relevant risks.	Repeated October 2017, Financial Statement Auditing, p. 135 › **Originally reported October 2014, no. 22, p. 194**	**Not Ready**
DEPARTMENT ECONOMY AND EFFICIENCY OF CASH MANAGEMENT: **Evaluate cash management for efficiency and economy** We recommend that the Department of Treasury Board and Finance: • evaluate how it can use excess liquidity within government-controlled entities to reduce government debt and minimize borrowing costs, and implement mechanisms to utilize excess liquidity • evaluate the Consolidated Cash Investment Trust Fund and pursue opportunities to increase its use or modify its current structure to ensure it remains a relevant cash management tool	**February 2016, no. 8, p. 77**	**Not Ready**

Recommendation	When	Status
DEPARTMENT ECONOMY AND EFFICIENCY OF CASH MANAGEMENT: **Develop policies to prevent early payment of grants and an accumulation of large cash balances** We recommend that the Department of Treasury Board and Finance issue policies and guidance for departments to monitor the working capital needs of government-controlled entities to ensure departments only provide cash when needed.	**February 2016, no. 9, p. 79**	**Not Ready**
DEPARTMENT ECONOMY AND EFFICIENCY OF CASH MANAGEMENT: **Implement and use information technology to manage cash** We recommend that the Department of Treasury Board and Finance implement an integrated treasury management system to manage treasury functions and processes, including government-wide cash pooling and management.	**February 2016, no. 10, p. 82**	**Not Ready**
DEPARTMENT ECONOMY AND EFFICIENCY OF CASH MANAGEMENT: **Use leading banking and related practices and evaluate cost benefits of bank accounts** We recommend that the Department of Treasury Board and Finance work with departments to implement leading banking practices and evaluate the benefits of existing bank accounts compared to the costs of administering them, and make changes where the costs exceed the benefits.	**February 2016, no. 11, p. 85**	**Not Ready**
DEPARTMENT ECONOMY AND EFFICIENCY OF CASH MANAGEMENT: **Improve policies for payments** We recommend that the Department of Treasury Board and Finance: • periodically analyze payment data to identify non-compliance with policies and seek opportunities for improvements • ensure that cost recoveries between government entities consider costs and benefits, and a transaction threshold	**February 2016, no. 12, p. 86**	**Not Ready**

Recommendation	When	Status
DEPARTMENT DEPARTMENT'S OVERSIGHT SYSTEMS FOR ALBERTA'S PUBLIC SECTOR PENSION PLANS: **Policies designed to achieve plan objectives** We recommend that the Department of Treasury Board and Finance set standards for the public sector pension plan boards to establish funding and benefit policies with: • tolerances for the cost and funding components • alignment between plan objectives and benefit, investment and funding policies • predefined responses when tolerances are exceeded or objectives are not met	February 2014, no. 1, p. 24	Ready
DEPARTMENT DEPARTMENT'S OVERSIGHT SYSTEMS FOR ALBERTA'S PUBLIC SECTOR PENSION PLANS: **Risk management system** We recommend that the Department of Treasury Board and Finance establish an Alberta public sector pension plan risk management system to support the minister in fulfilling his responsibilities for those plans.	February 2014, no. 2, p. 26	Ready
DEPARTMENT DEPARTMENT'S OVERSIGHT SYSTEMS FOR ALBERTA'S PUBLIC SECTOR PENSION PLANS: **Sustainability support processes** We recommend that the Department of Treasury Board and Finance: • validate the objectives for the pension plan sustainability review with stakeholders • evaluate and report on how each proposed change meets the objectives for the review • cost and stress test all proposed changes to assess the likely and possible future impacts on Alberta's public sector pension plans • conduct or obtain further analysis of the impact of proposed pension plan design changes on employee attraction and retention • prepare a detailed implementation plan for the changes	February 2014, no. 3, p. 28	Ready

Legislative Assembly Offices

We issued unqualified independent auditor's reports on the 2018-2019 financial statements for each of the eight legislative offices: Legislative Assembly Office, Office of the Ethics Commissioner, Office of the Information and Privacy Commissioner, Office of the Chief Electoral Officer, Office of the Ombudsman, Office of the Public Interest Commissioner, Office of the Child and Youth Advocate, and Office of the Election Commissioner.

The Office of the Auditor General of Alberta is audited by an external, independent auditor engaged by and reporting to the Standing Committee on Legislative Offices.

Outstanding Recommendations

0 ⟶ Implemented Recommendations

0 ⟶ New Recommendations

0 ⟶ Outstanding Recommendations

0 ⟶ Outstanding Recommendations Older than 3 Years

0 ⟶ Outstanding Recommendations Ready for Followup

0 ⟶ Outstanding Recommendations Not Ready for Followup

There are no new or outstanding recommendations to the Legislative Assembly Offices in this report.

3 Followup Audits

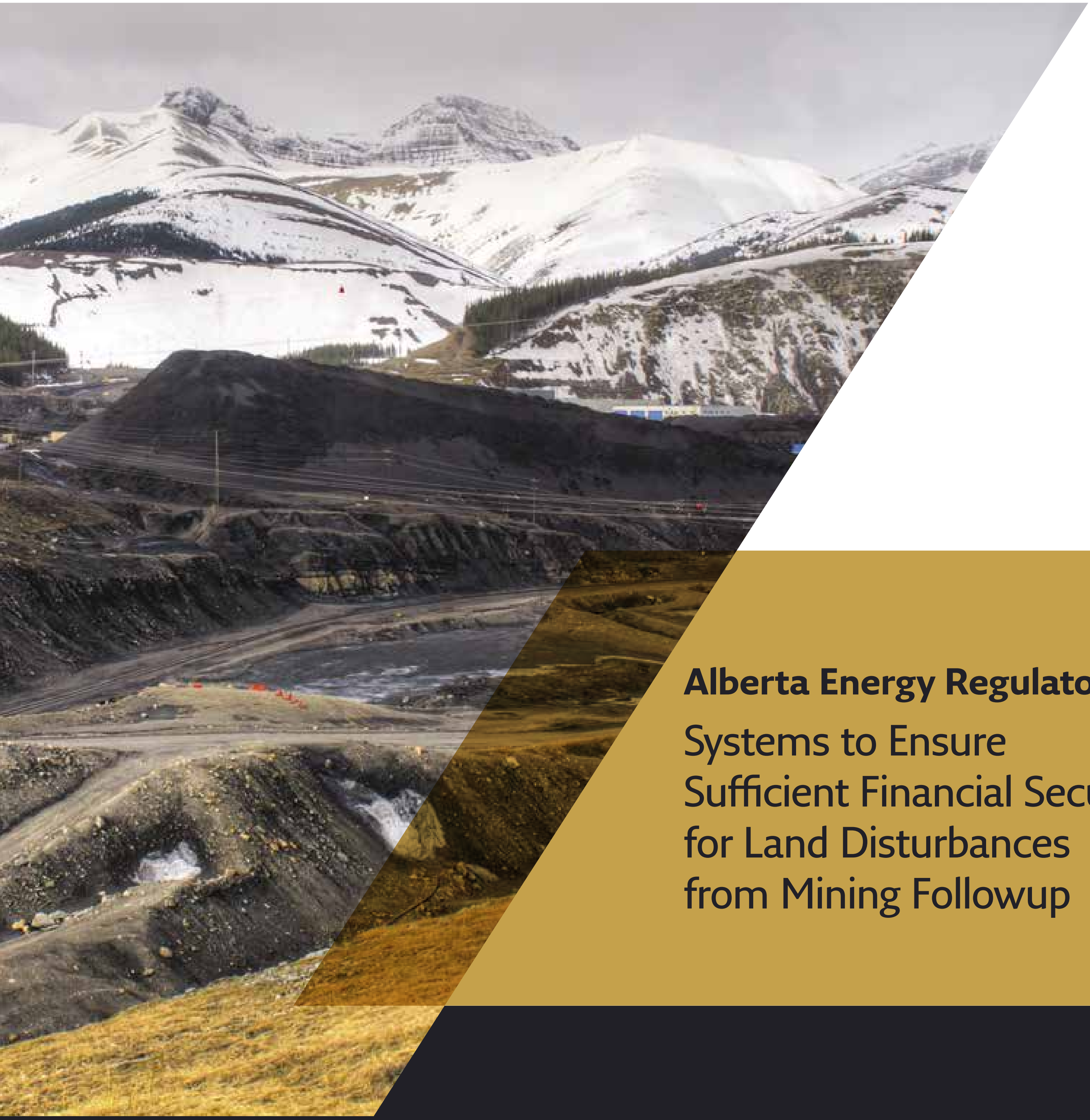
Contents

Introduction

This section of our report includes the results of five followup audits completed within the last year. Once management informs us it has implemented one or more recommendations, we conduct followup audits to confirm to the Members of the Legislative Assembly and to Albertans any resulting improvements. When concluding these audits, we may affirm that management has implemented our recommendations, we may issue new recommendations, and we may repeat recommendations if we find that management has insufficiently implemented them.

In the followup audits that follow:

- we affirm that government has implemented seven of our previous recommendations
- we note some progress on two other recommendations but repeat them
- we issue two new recommendations



Alberta Energy Regulator

Systems to Ensure Sufficient Financial Security for Land Disturbances from Mining Followup

Auditor General
OF ALBERTA

Report of the Auditor General
November 2019

Contents

Related Reports:

- Systems to Ensure Sufficient Financial Security for Land Disturbances from Mining (July 2015 Report)
- Management of Sand and Gravel Pits (second followup) (July 2014 Report)
- Management of Sand and Gravel Pits (first followup) (April 2010 Report)
- Management of Sand and Gravel Pits (original audit) (October 2008 Report, p. 362)
- Regulatory Approval Systems (October 1999 Report, p 157)

Appointed under Alberta's *Auditor General Act*, the Auditor General is the legislated auditor of every provincial ministry, department, public post-secondary institution, and most provincial agencies, boards, commissions, and regulated funds. The audits conducted by the Office of the Auditor General report on how government is managing its responsibilities and the province's resources. Through our audit reports, we provide independent assurance to the 87 Members of the Legislative Assembly of Alberta, and the people of Alberta, that public money is spent properly and provides value.

Report Highlights

With a long history of energy development & economic fluctuations, the oil and gas industry in Alberta has a growing liability related to abandoned or inactive oil & gas wells, pipelines, facilities, mines & their associated costs. p. 2

This audit focuses on the administration of the program not the overall MSFP program

AEP has yet to implement our July 2015 recommendation to improve the design of the MSFP system p. 3

If a mine operator cannot or does not fulfill its reclamation obligations, **Albertans may have to pay the costs to complete conservation and reclamation work** p. 4

MFSP

The Mine Financial Security Program (MFSP) is one of many government liability management programs p. 3

Alberta Environment & Parks (AEP) is responsible for the policy and design of the Mine Financial Security Program (MSFP)

The Alberta Energy Regulator (AER) administers the MSFP p. 3

Under the program, AER oversees **10 oil sands sites & 18 coal mines**

The coal industry provides full financial security to reclaim its mines because the industry elected to do so when the program began p. 3

As of June 30, 2018, AER held

$1.46B

of financial security

VS

$28.35B

(estimate)

in reclamation liabilities for mines p. 3

AER:

- uses a monthly assessment tool to monitor operators
- designed and uses an annual risk-based audit tool to assess operators
- applies a process to decide & complete sufficient numbers & types of audits guided by informed risk assessments p.8

AER's approach meets the intent of a risk-focused plan to monitor & verify the sufficiency of mine financial securities p. 8

Summary

With a long history of energy development & economic fluctuations, the oil and gas industry in Alberta has a growing liability related to abandoned or inactive oil & gas wells, pipelines, facilities, mines & their associated costs. The government has programs to limit financial exposures to Albertans and ensure operators are promptly completing conservation and reclamation work. One such program is the Mine Financial Security Program (MFSP) designed by the Department of Environment and Parks. The goal of this program is to obtain sufficient financial security to ensure conservation and reclamation of oil sands and coal mines sites is completed.

Effective March 2014, the Alberta Energy Regulator (AER) took over the administration of the program from the department of Environment and Parks, but the MFSP policy and design of the program remained the responsibility of the department. AER oversees 10 oil sands sites and at least 18 coal mines.

In 2015, we recommended AER develop and execute a risk-based plan for its MFSP monitoring activities to ensure it is carrying out the appropriate amount of MFSP security verification audits. In the same year, we recommended to the department to improve program design.

Our followup audit focused on the recommendation to AER. The department's management told us their recommendation is not yet implemented. We are planning a separate audit at the department to look at the overall MFSP system to gauge if it is well designed or effectively mitigates risks to Albertans.

We concluded as of August 31, 2018, AER had implemented our 2015 recommendation to develop and execute a risk-based plan for its MFSP monitoring activities to ensure it is carrying out the appropriate amount of MFSP security verification audits. Should there be significant MFSP program, policy and design changes, we may consider initiating a new audit at AER.

About this Audit

The Department of Environment and Parks designed the Mine Financial Security Program (MFSP) for obtaining sufficient financial security to ensure conservation and reclamation of oil sands and coal mine sites is completed. This program is one of many government liability-management programs that promote prompt conservation and reclamation to limit financial exposure to Albertans if industry fails to meet its obligations. The MFSP uses “asset-to-liability” as one of the approaches to managing financial risks in relation to reclamation liabilities for mining-related land disturbances in the oil sands and coal mining sectors. Effective March 2014, the Alberta Energy Regulator (AER) took over administration of the program from the department. The department is still responsible for MFSP policy and design changes.

In 2015, we audited the department and AER’s MFSP systems. At that time, we made 5 separate recommendations to each organization. In this audit, we focused on the steps AER took to implement the recommendation to improve MFSP program monitoring to ensure that, under a risk-based plan, AER completes the appropriate amount of verification.[1]

The government is reviewing the liability management programs in the province in response to concerns surrounding the growing liabilities related to abandoned or inactive oil and gas wells, pipelines, facilities, mines and the associated sites. This review may recommend policy changes. If AER needs to significantly alter its monitoring systems to accommodate policy changes, we may consider initiating a new audit.

The MFSP is a tool the government uses to manage the liabilities associated with reclamation work in the oils sands and coal mining sectors, in particular the activity at the oil sands and coal mines to return them to the similar state before it was disturbed. The core principle guiding the program is the authority to collect sufficient financial security from oil sands and coal mine operators to encourage reclamation and help protect taxpayers from paying for end-of-life mine closure costs. Under Alberta’s program, AER oversees 10 oil sands sites and 18 coal mines. By law, coal and oil sands mining companies are responsible for removing all infrastructure, completing remediation work, and reclaiming the site. The Government of Alberta sets remediation and reclamation standards.

As of June 30, 2018, the regulator held $1.46 billion of security in comparison to estimated reclamation liabilities of $28.35 billion.[2] Because the MFSP applies an “asset to liability” approach, both the security held and the value of the resource in the ground are considered assets in the program, which is designed to offset liabilities. As the resources are depleted, the security requirements increase to reflect greater liability exposure. The security requirements are reduced as reclamation takes place, and accordingly the liability is reduced. The entire coal industry provides full[3] financial security to reclaim its mines because the industry elected to do so when the program began.

1 We did not followup the recommendation to the department to improve the program design related to the security calculation methodology because the department’s management informed us that the recommendation was not ready for followup. As of August 31, 2018, the department had not set a timeline for implementing the recommendation.

2 Industry operators self-report estimated total reclamation liabilities to AER. AER uses monitoring processes to verify the accuracy of the operators’ estimates.

3 Under AER’s standards, full financial security is intended to equate the liabilities (primarily for abandonment, remediation and surface reclamation) covered under the MFSP program.

Objective and Scope

Our objective is to determine whether AER has implemented our 2015 recommendation[4] to develop and execute a risk-based plan, as part of its enterprise risk assessment process, for its MFSP monitoring activities to ensure it is carrying out the appropriate amount of verification.

Our audit scope was limited to AER, which since March 2014 took over the MFSP monitoring activities from the department. We audited the new processes applied by the regulator to implement our recommendation over the period July 2015 to August 2018.

Criteria

We used the same criteria from our original audit, and management agreed with their suitability.

What We Examined

Our followup audit examined AER's systems to monitor the MFSP program to ensure it collects financial securities from operators to conserve and reclaim mine sites in accordance with the formula and methodology prescribed in the program. The processes included:

- developing a risk-based plan to direct the nature and extent of monitoring activity
- ensuring the level of audit verification of operators is sufficient to mitigate risk
- performing monitoring activities

We reviewed the policies and procedures for each process and examined samples to determine if the regulator had implemented our recommendation. We conducted our field work between November 2017 and March 2018 and completed our audit on August 31, 2018.

Conclusion

We conclude that as of August 31, 2018, AER had implemented our recommendation to develop and execute a risk-based plan for its MFSP monitoring activities to ensure it is carrying out the appropriate amount of MFSP security verification audits. Our conclusion relates to confirmation of the design and operating effectiveness of AER monitoring systems. Our conclusion does not focus on whether the overall MFSP system is well designed or if it effectively mitigates risks to Albertans.

We have not assessed the overall MSFP program because the department of Environment and Parks has not yet implemented our 2015 program recommendation.

Why This Conclusion Matters to Albertans

In the event that a mine operator cannot fulfill its reclamation obligations, and no other private operator assumes the liability, the province may have to pay for costs to complete the conservation and reclamation work. Thus, a robust and responsive system will ensure sufficient security is collected from mine operators to reduce the risk of Albertans covering the liability.

[4] *Report of the Office of the Auditor General—July 2015*, no. 3, page 31.

Summary of Recommendations

IMPLEMENTED Recommendation:
Improve Mine Financial Security Program monitoring

AER has implemented our recommendation to develop and execute a risk-based plan for its MFSP monitoring activities to ensure it is carrying out the appropriate amount of MFSP security verification audits.

Detailed Findings and Recommendations

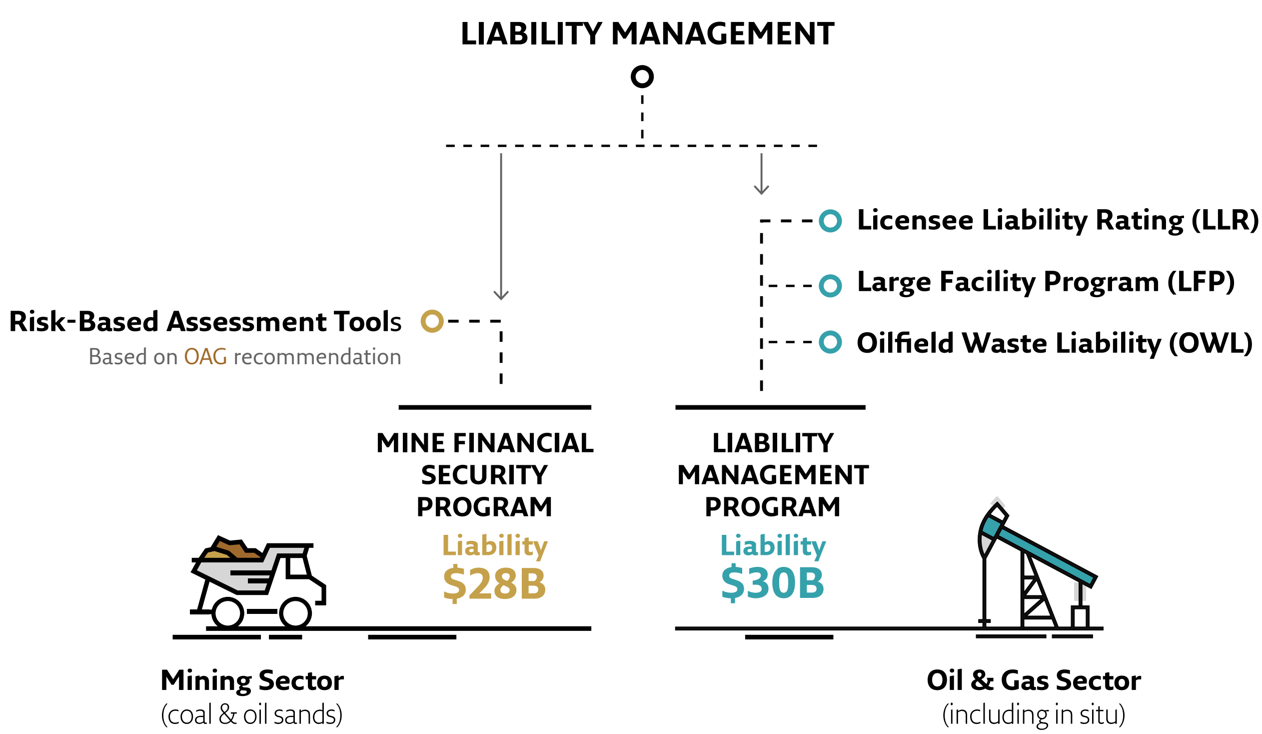
Improve Mine Financial Security Program Monitoring

IMPLEMENTED

Context

AER works with the energy industry to manage energy development and to ensure energy operators meet their responsibilities to safely abandon, remediate and reclaim their energy development sites. At times, companies are not able to meet their responsibilities by the end of a project's life. With a long history of energy development & economic fluctuations, the oil and gas industry in Alberta has a growing liability related to abandoned or inactive oil & gas wells, pipelines, facilities, mines & their associated costs. The regulator has two core programs to manage liabilities: the Mine Financial Security Program and the Liability Management Rating program. An overview of the regulator's programs is illustrated below.

Current State of Liability Management Programs at AER



AER manages financial risks to Albertans by collecting security deposits from industry operators.
For MFSP, the program was designed by the department and the regulator monitors financial security requirements prescribed by the program. Under this program, operators are required to file prescribed annual reports that disclose their conservation and reclamation liabilities, their resource assets and the components of the resource asset calculations, and the amounts required for each security deposit under the program. This report is certified by the operator's chief executive officer or chief financial officer. No supporting documentation is required with the report.

AER is able to "audit" the information documented in the annual report; however, our previous audit found there was a lack of direction on the number and types of audits to be completed.

There are four levels of audits under the program.

- **Level 1 audit**—phone or in-person discussions with the operator to clarify information in the annual report.
- **Level 2 audit**—written questions and responses to confirm the scope of and the methodology used in preparing the annual report.
- **Level 3 audit**—detailed audits performed by AER staff, with possible involvement of the Department of Environment and Parks or Department of Energy staff, on all or a portion of the data and assumptions in the annual report. These audits are typically performed at the operator's offices.
- **Level 4 audit**—detailed audits performed by a third-party auditor. These audits are typically performed at the operator's offices.

Criteria

AER should demonstrate that it has effective risk-based processes and tools to plan and carry out the appropriate amount of MFSP security verification audits.

Our followup audit findings

AER implemented our recommendation by:

- regularly using a monthly assessment tool to monitor operators
- designing and using an annual risk-based audit tool to assess operators
- applying a process to decide and complete sufficient numbers and types of audits guided by informed risk assessments

Our findings relate to the design and operating effectiveness of AER monitoring systems. It does not reflect the effectiveness of the overall MFSP system to manage and appropriately mitigate risks to Albertans as that responsibility is a function of the overall design performed by Environment and Parks. We have a separate audit planned at Environment and Parks to assess the design of the program.

MFSP monthly monitoring activities to mitigate risks

We tested a sample of operators on which the monthly monitoring assessment process was applied for both oil sand and coal mines and found this process to be operating effectively. AER uses a monthly assessment tool to identify material changes to an operator's continuing operations and financial conditions. The assessment is completed for each mine and allows the regulator the opportunity to promptly respond to new risks. Using criteria such as policy changes, commodity prices, and production changes, the tool assesses a mine and assigns it a risk rating (extreme, high, moderate, or low).

MFSP annual risk-based audit plan assessment tool

We tested a sample of operators to assess how the annual risk assessment tool was applied and found the process to be appropriately followed. Each June, the operators submit their annual reports to AER, and the regulator applies an annual risk-based audit tool to assess these annual reports. This tool assesses the mine's annual report based on criteria such as MFSP liability ratio, reserves depletion, and incidents affecting operations. The tool generates a risk rating of extreme, high, moderate, or low. During its annual audit selection process, AER uses the tool's results to determine if a mine should be selected for an audit.

MFSP annual mine audit selection and verification

AER has designed and is using a risk-based approach to carry out, in management's judgment, a sufficient level of verification work guided by a plan. Each year, AER plans the number and type of audits to be performed for the operators. The results from the monthly monitoring activities and the annual risk-based audit plan assessment tool are inputs to the annual audit selection process and identify risks for focus. The overall audit selection process heavily relies on AER's judgment as to which operator to select and the type of audits to be completed.

We found AER focused its resources to perform audits on high-risk mines to ensure sufficient audit verification of the data in the annual reports that the operators submit. For example, in 2016, risk to the coal sector increased due to declining coal prices and demand. To respond to the risk, AER hired a third-party consultant to analyze mines with elevated risks. AER performed audit verifications on those mines the third party consultant identified as high risk.

> **Overall, AER's approach met the intent of a risk-focused plan to monitor and verify the sufficiency of mine financial securities.**

Audit Responsibilities and Quality Assurance Statement

Management of AER is responsible for monitoring the MFSP.

> **Our responsibility is to express an independent conclusion on whether AER has implemented recommendation to develop and execute on a risk-based plan for its MFSP monitoring activities to ensure it is carrying out the appropriate amount of verification.**

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.

Auditor General
OF ALBERTA

oag.ab.ca

Contact us:
info@oag.ab.ca
780.427.4222

ISSN 1999-4242 (print)
ISSN 1927-9604 (online)

Making a difference in the lives of Albertans.

Alberta Environment and Parks

Management of Sand and Gravel Pits Followup

Auditor General OF ALBERTA

Report of the Auditor General

November 2019

Contents

Related Reports:

- Management of Sand and Gravel Pits (second followup) (July 2014 Report)
- Management of Sand and Gravel Pits (first followup) (April 2010 Report)
- Management of Sand and Gravel Pits (original audit) (October 2008 Report, p. 364)

Appointed under *Alberta's Auditor General Act*, the Auditor General is the legislated auditor of every provincial ministry, department, public post-secondary institution, and most provincial agencies, boards, commissions, and regulated funds. The audits conducted by the Office of the Auditor General report on how government is managing its responsibilities and the province's resources. Through our audit reports, we provide independent assurance to the 87 Members of the Legislative Assembly of Alberta, and the people of Alberta, that public money is spent properly and provides value.

Report Highlights

Sand and gravel are **non-renewable natural resources** vital to Alberta's economy p. 5

Alberta Environment & Parks (AEP) is responsible for regulating the sand and gravel industry to ensure mining and reclamation comply with laws and requirements p. 5

Un-reclaimed sand and gravel pits create environmental and financial risks p. 4 & 5

AEP does not do enough to protect Albertans from these risks p. 3

10 years after our original audit, AEP's processes for reclamation monitoring and enforcement are still inadequate, and so is the reclamation security p. 3

715 out of **2,700** pits are not meeting reclamation requirements

260 of **715** have been inactive for up to **10 years**

No enforcement actions taken p. 11 & 12

Security collected by AEP does not cover reclamation costs. Albertans will have to cover the shortfall if operators fail to reclaim the land p. 16

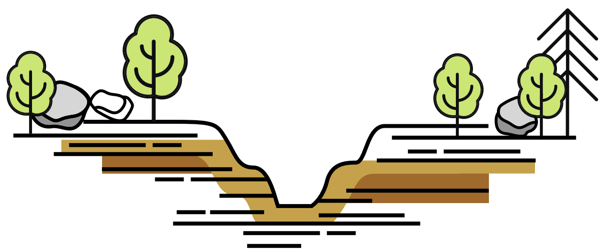
Albertans owed
$25 million
in uncollected royalties on oil sands sites due to unauthorized exemptions given by AEP p. 17

AEP implemented our recommendations to p. 18 & 19

- verify reported volume and royalties
- assess sufficiency of security

Sand and Gravel in Alberta

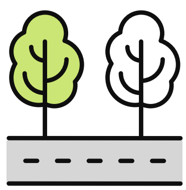
Source: The Alberta Sand and Gravel Association (asga.ab.ca)



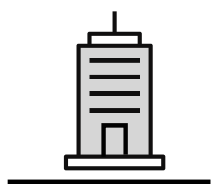
Sand and gravel are non-renewable resources that are extracted through open pit mining that occurs in both rural and urban communities throughout Alberta.

Sand and gravel, also known as "aggregate" includes sand, gravel, rocks, crushed stone, shale and any rock product mined from the ground.

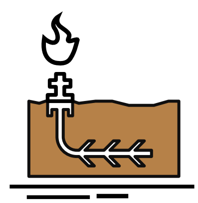
Common Uses for Sand and Gravel



Roads and pavement:
Roads, highways, parking lots, tennis and basketball courts, sidewalks



Buildings:
Office towers, homes, shopping malls, water treatment plants, schools, hospitals, overpasses, parkades



Resource development:
Hydraulic fracturing

One tonne is the equivalent weight of two fully grown moose.

How much sand and gravel is used annually in Alberta?

3 to 4 Million Truck Loads

or

10 to 15 Tonnes per Albertan

Number of tonnes of sand and gravel used to construct:

1 km of Highway: **30,000**

1 km of Railroad: **16,000**

House: **100 to 300**

School or Hospital: **2,000 to 4,000**

Summary

The Department of Environment and Parks (AEP) does not do enough to protect Albertans from the risks created by sand and gravel pits. Specifically, **AEP does not:**

- **collect enough security** from pit operators to compel them to reclaim the land and to cover the cost of reclaiming pits—if AEP reclaims the land because operators fail to do so, Albertans may have to pay all costs above the security that AEP holds. If AEP does not reclaim the land, environmental and safety problems will likely result
- **enforce reclamation requirements** when operators repeatedly fail to meet them
- **collect all royalty payments** that pit operators owe to Albertans—oil sands operators owe $25 million because AEP gave them exemptions it had no authority to issue

Un-reclaimed sand and gravel pits expose Albertans to unnecessary environmental and safety risks.

Albertans may have to pay millions of dollars to cover the cost of reclamation if AEP continues to collect insufficient security while not enforcing reclamation requirements.

Sand and gravel are non-renewable natural resources, vital to Alberta's economy. They are used in all types of construction: roads, schools, houses, hospitals, bridges, and water-treatment plants. Sand and gravel are the main components of concrete and asphalt.

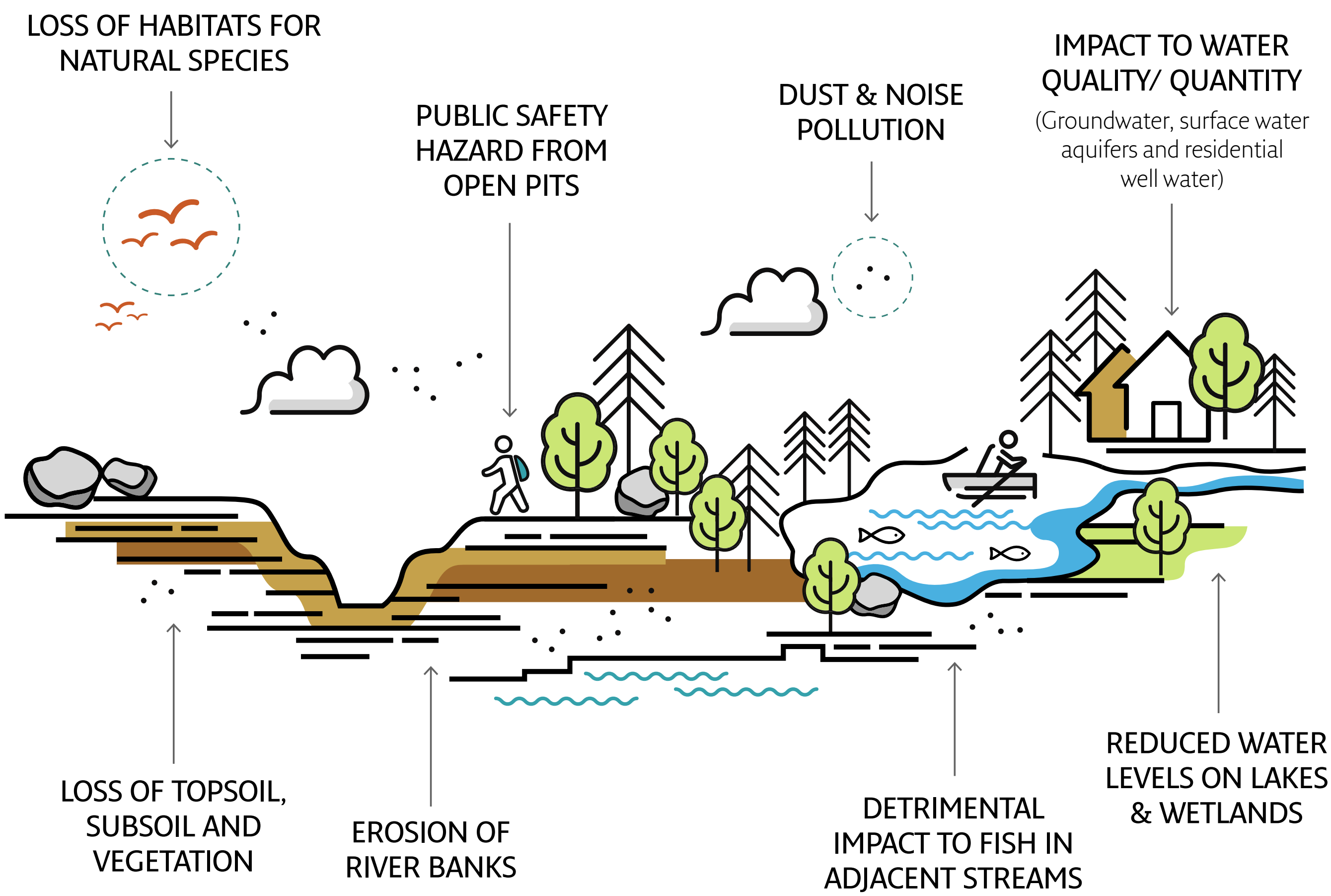
In 2008, we recommended that AEP assess if reclamation security is sufficient to cover reclamation costs. We also recommended that AEP improve inspection and enforcement of reclamation, and in our 2014 followup audit, we repeated the recommendation. As of January 31, 2019, 10 years after our original audit, AEP's reclamation inspection and enforcement processes are still inadequate, and so is the security.

In this report, we recommend that AEP collect sufficient security to compel operators to reclaim the land and to cover reclamation costs. We also recommend—a third time—that AEP enforce reclamation requirements. We also make a new recommendation that AEP collect outstanding royalties for sand and gravel used on oil sands sites.

Implementing the recommendations will mitigate the financial, environmental and safety risks from sand and gravel pits, produce a consistent approach to security and enforcement on public and private land, and allow AEP to use its resources more efficiently—demonstrating fiscal responsibility in a time of restraint.

On a positive note, AEP has implemented our recommendations to ensure operators report the correct volume of sand and gravel they extract and the royalties due, and to assess the sufficiency of the security.

Environmental Risks Associated with Sand and Gravel Pits



Background

Sand and gravel[1] are non-renewable natural resources vital to Alberta's economy. Sand and gravel are used in all types of construction. Everything from roads, schools, and houses to hospitals, bridges, and water treatment plants require sand and gravel. It is the main component of both concrete and asphalt, key building ingredients. Sand is also used in hydraulic fracturing, a way to extract underground oil and natural gas from shale gas formations.[2]

But the industry creates risks: sand and gravel mining temporarily disturbs the land. It also disrupts water and air. Un-reclaimed gravel pits can pose risks to the environment and to public safety. The major risks include destruction and disturbance of ecosystems and habitats that leads to reduction or loss of species, surface and groundwater pollution, and riverbank erosion.

Several laws apply to the sand and gravel industry in Alberta. Since this audit involved sand and gravel pits on public land, we focused on the *Public Lands Administration Regulation* and the Environmental *Protection and Enhancement Act*, and AEP's duties under them.

The purpose of the *Environmental Protection and Enhancement Act* is to protect the environment and ensure environmentally responsible development of natural resources. To achieve this goal, the Alberta government, through the Department of Environment and Parks (AEP), regulates the sand and gravel industry to ensure mining and reclamation complies with laws and requirements.

There are over 2,700 sand and gravel pits on public land and 2,400 pits on private land.[3]

AEP approves leases that give operators the right to mine sand and gravel. AEP also collects royalties, monitors operators' compliance with lease conditions and legislation, and verifies that operators reclaimed the land to an acceptable standard.[4]

Did you know...

Key statistics on Alberta's sand and gravel industry (2015)[5, 6]

Revenue $1,522 million[7]
GDP $806 million[8]
Employment 4,120 FTE's[9]

1 Sand and gravel are also called aggregate. Aggregate includes sand, gravel, rocks, crushed stone, shale and any rock product mined from the ground.

2 Most natural gas in Alberta is extracted using hydraulic fracturing. Hydraulic fracturing has been used in more than 180,000 wells in Alberta since the 1950s. The process requires large volumes of sand. For example, a shale gas well requires over two million kilograms of sand or other proppant (solid material designed to keep a hydraulic fracture open, during or after a fracturing treatment).

3 On private land, there are 900 Class I pits (five hectares or more in area) and over 1,500 Class II pits (under five hectares), as at July 2018. https://www.alberta.ca/land-conservation-and-reclamation-guidelines-for-pits-and-surface-materials.aspx?utm_source=redirector#toc-4.

4 Under the *Conservation and Reclamation Regulation*, an operator must reclaim the land in accordance with the applicable standards, criteria and guidelines established by AEP.

5 http://asga.ab.ca/upload/assets/ASGA%20Report%20%20-%20January%202,%202018%20FINAL.pdf

6 Direct impacts arise from the industry's core activities (sand and gravel mining). Indirect and induced impacts arise from linkages that exist with suppliers and other industries, including the transportation of sand and gravel, equipment suppliers, technology developers and service providers, and machinery and vehicle maintenance.

7 Includes direct output of $932 million, and indirect and induced output of $590 million.

8 Includes direct GDP of $480 million, and indirect and induced GDP of $326 million.

9 Includes direct employment of 2,098 FTEs, and indirect and induced employment of 2,022 FTEs.

About this Audit

We first audited how AEP manages sand and gravel resources in 2008 and followed up on our recommendations in 2010 and 2014. This audit assessed if AEP has implemented the three remaining recommendations from 2008.

Objective and Scope

The objective of our audit was to assess if AEP has implemented our outstanding 2008 recommendations[10] to:

- improve processes to verify operator reports of sand and gravel mined from public land and royalties due to the Crown
- improve processes to inspect sand and gravel mines on public land and to enforce reclamation requirements
- assess the sufficiency of security deposits collected to reclaim the land

Our audit focused on AEP's 2016-2017 and 2017-2018 processes for royalty audits and reclamation monitoring and enforcement. For the security, we focused on AEP's activities in the past five years.

Criteria

We used the audit criteria from our original 2008 audit and management agreed with their suitability.

What We Examined

The audit covered AEP's processes to:

- verify operator reports of quantities of sand and gravel mined from public land and royalties due to the Crown
- monitor sand and gravel pits on public land and enforce reclamation requirements

We also examined AEP's actions and plans for evaluating the sufficiency of the current security, and developing and implementing sufficient security.

We conducted our fieldwork between June 2018 and January 2019, and completed our audit on September 26, 2019.

10 *Report of the Auditor General of Alberta—October 2008*, pages 355-367.

Conclusion

We conclude that AEP did not implement our recommendation to improve processes to inspect sand and gravel mines on public land and to enforce reclamation requirements.

AEP implemented our recommendation to assess the sufficiency of security deposits collected to reclaim the land. However, AEP has not acted on findings from that assessment.

AEP implemented our recommendation to improve processes to verify operator reports of sand and gravel mined from public land and royalties due to the Crown.

Why This Conclusion Matters to Albertans

Un-reclaimed sand and gravel pits expose Albertans to unnecessary environmental and safety risks such as destroyed ecosystem and habitats, water pollution and riverbank erosion.

Albertans may have to pay millions of dollars to cover the cost of reclamation if AEP continues to collect insufficient security while not enforcing reclamation requirements.

Albertans are owed $25 million of royalties that AEP has not yet collected.

Summary of Recommendations

REPEATED Recommendation:
Improve reclamation monitoring and enforcement

We again recommend that AEP improve the effectiveness and efficiency of reclamation monitoring and enforce reclamation requirements.

NEW Recommendation:
Collect sufficient security

We recommend that AEP collect sufficient security to compel operators to reclaim the land and to cover reclamation costs if operators fail to do so.

NEW Recommendation:
Collect outstanding royalties

We recommend that AEP collect outstanding royalties for sand and gravel on oil sands sites.

IMPLEMENTED Recommendation:
Material and royalties not properly verified

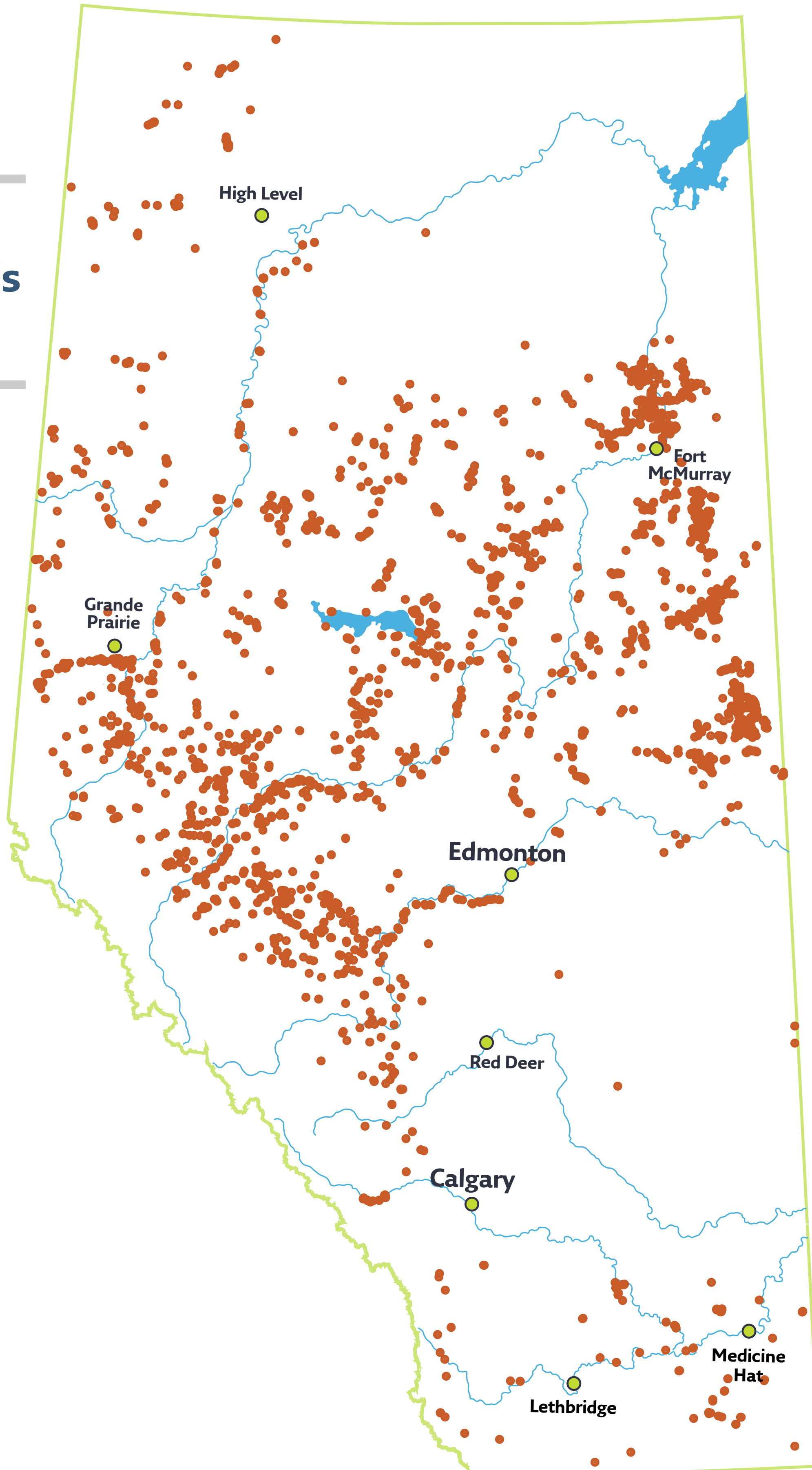
AEP implemented our recommendation to verify reported volumes and royalties.

IMPLEMENTED Recommendation:
Sufficiency of security not assessed

AEP implemented our recommendation to assess whether the security for pits on public land is sufficient.

Location of Sand and Gravel Pits

Over 2,700 pits on Alberta's public land



Life Cycle of a Sand and Gravel Pit

Exploration

Operator collects information about the site to determine if it is suitable for development and to estimate the available quantity of sand and gravel.

Operator's Role:

- Explore site
- Pay security
- Reclaim site

AEP's Role:

- Approve exploration lease
- Collect security
- Verify reclamation meets standard

Regulatory Approval

Operator seeks regulatory approval from AEP to mine sand and gravel. Successful applicant receives approval to mine a specified area for a set period. Operator submits conservation and reclamation business plan (plan).

Operator's Role:

- Submit application for approval
- Submit plan
- Pay security

AEP's Role:

- Approve lease or reject application
- Approve plan

Mining

Operator annually reports to AEP on volume of sand and gravel mined and royalties due, and AEP audits the reported amounts. Operator progressively reclaims the pit, and reports to AEP on the disturbed and reclaimed areas. AEP inspects the pit to verify whether operations and progressive reclamation meets the plan, and evaluates if security is sufficient.

Operator's Role:

- Report on volume mined and royalties due
- Report on areas disturbed and reclaimed
- Progressively reclaim pit

AEP's Role:

- Audit reported volume and royalties
- Inspect pit for reclamation compliance
- Evaluate if security is sufficient or needs to increase

Reclamation

When mining is complete, operator carries out remaining reclamation in accordance with the plan and applies for a reclamation certificate. AEP conducts final inspection to verify that reclamation meets the plan, issues reclamation certificate, and returns security to operator.

Operator's Role:

- Complete final reclamation
- Apply for reclamation certificate

AEP's Role:

- Inspect pit and verify reclamation meets the plan
- Issue reclamation certificate
- Return security to operator

Areas covered by the Office of the Auditor General of Alberta followup audit: Management of Sand and Gravel Pits

Detailed Findings and Recommendations

Our findings fit into four key themes:

- deficient reclamation monitoring and enforcement
- security collected not sufficient to cover reclamation costs
- uncollected royalties
- implementation of recommendations to verify reported volumes and royalties and assess sufficiency of security

Deficient Reclamation Monitoring and Enforcement

REPEATED

Context

To mine sand and gravel on public land, an operator must first obtain an exploration lease, which authorizes access to a maximum of 130 hectares for six months. The purpose is to estimate the quantity of sand and gravel available and define working parameters such as overburden depth and groundwater levels.

Successful exploration typically leads to an application for a long-term lease, which authorizes access to a maximum of 30 hectares for 10 years and is renewable. For smaller deposits, operators may seek a short-term lease, which grants access to a maximum of two hectares for one year and is for a specified amount of sand and gravel.

Operators must reclaim the land disturbed by sand and gravel mining, following an AEP-approved conservation and reclamation business plan (plan).[11] The plan describes how the operator will reclaim the land during operations (progressive reclamation) and at the end of the mining (final reclamation).[12]

Operators must pay a reclamation security to AEP to ensure they will reclaim the disturbed land. Operators must also submit an annual operating report indicating the disturbed and reclaimed areas. AEP uses this information to determine if the security it currently holds is enough, or if the operator needs to pay more.

AEP periodically inspects pits to check whether operations and progressive reclamation follow the plan.[13] If the reclamation does not meet requirements, AEP can provide direction, give more time, enforce compliance through an enforcement or environmental protection order, refuse to issue or renew a lease, or cancel the lease.[14, 15]

When operators finish mining, they must complete all remaining reclamation and apply for a reclamation certificate. Once AEP conducts a final inspection and confirms that reclamation is complete, operators can get their security back.

11 *Environmental Protection and Enhancement Act. Public Lands Administration Regulation.*

12 Under the *Conservation and Reclamation Regulation*, an operator must reclaim the disturbed land to an equivalent land capability. Equivalent land capability means that the ability of the land to support various land uses after conservation and reclamation is similar to the ability that existed prior to the activity conducted on the land, but that the individual land uses will not necessarily be identical.

13 Progressive reclamation is proactive and ongoing reclamation during the life of a pit.

14 Under the *Environmental Protection and Enhancement Act*, Part 6, an order can be made to reclaim the land. The order is enforceable in court.

15 Under the *Public Lands Act*, s. 15(1), the Director can refuse to issue or renew a lease if an applicant is in non-compliance with the Act. Under the *Conservation and Reclamation Regulation*, s. 14, if reclamation is incomplete, the inspector can provide further direction, give more time, issue an environmental protection order, and refuse to issue a reclamation certificate.

Criteria

AEP should have effective processes to inspect sand and gravel pits on public land and to enforce reclamation requirements.

Our followup audit findings

Key Findings

- No enforcement actions taken.
- Reclamation inspections inefficient.
- Reclamation not actively monitored on pits operated by government.
- No evaluation of reclamation trends and lack of data to enable it.

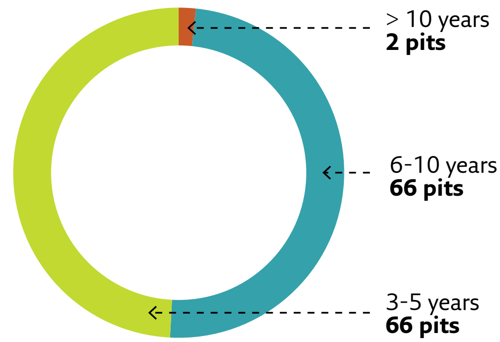
No enforcement actions taken

Inspections based on completion rates—not risk

AEP requires annual inspections of all sand and gravel pits on public land.[16] It measures the success of its inspection program and evaluates inspectors' performance by the number of inspections completed. So inspectors visit as many pits as possible rather than focusing on pits with increased compliance risk, for example, pits that are currently not meeting requirements, have never been inspected, or have a history of non-compliance.

Currently, 715 of 2,700 pits are not meeting reclamation requirements; 260 of these pits have been inactive a long time—some for over 10 years. There is a risk these could be orphan pits. AEP has not prioritized inspections of these 260 inactive, un-reclaimed pits. Further, over 400 pits have no inspection record so AEP does not know their reclamation status. Without inspecting the pits, AEP cannot assess what needs to be done, compel operators to reclaim them, or assess what it will cost AEP to reclaim the land.

Number of Un-reclaimed and Inactive Pits Not Meeting Reclamation Requirements



[16] AEP inspected nearly 2,500 pits during 2016-2017 and 2017-2018.

No escalation of response to repeated non-compliance

AEP is supposed to take corrective actions if it finds non-compliance during inspections. If that does not work, AEP is supposed to escalate the case for enforcement action.[17] AEP's records show many pits that are un-reclaimed for a long time. Yet AEP has never taken enforcement action on reclamation. And, AEP knows that if it does not start legal action within two years of finding non-compliance, a court will likely dismiss it.[18]

No deadline to finish reclaiming land

Operators must reclaim land, but there is no deadline (in law or plans) for finishing the reclamation. Without a deadline, enforcement is difficult or impossible.

Requirement for reclamation plan not enforced

Since 2006, operators have had to provide a specific reclamation plan upon lease approval and renewal. But AEP has not been enforcing this requirement. As a result, some pits are operating without plans. Other pits have a plan that is unclear about how reclamation will be done, or a plan that no longer reflects current operations.

No or inadequate plans, combined with no reclamation deadline, increase the risk of land not being reclaimed.

Leases renewed despite outstanding non-compliance

Operators must apply for a lease renewal before their lease expires or risk losing the right to use the land.[19] They can also continue operating month-to-month with an expired lease. Since 2017, AEP has renewed over 300 expired leases but over 200 active pits are still operating under an expired lease, some expired for 10 years.

AEP renewed leases for pits not meeting reclamation requirements and for pits lacking a reclamation plan.[20] AEP gave operators without a plan four years to provide one. It did not require a plan before renewing the leases. Further, AEP does not track whether operators eventually submit a plan.

AEP renewed leases for pits that were inactive, and that had not submitted annual royalty returns in several consecutive years. The operators might not be occupying the land, but that is a condition for renewal.

Reclamation inspections inefficient

Inspection planning does not consider key information that would help AEP decide when to assess reclamation and make reclamation assessments more efficient. For example, AEP did not consider mining phases (described in approved reclamation plans) and areas disturbed and reclaimed (described in annual reports operators submit). Since operators do not have to begin reclamation of one phase until mining in the previous phase is complete, reclamation inspections are inefficient if they do not consider mining phases. Further, AEP did not consider the location of pits to optimize inspector travel time.

17 Available enforcement tools include administrative penalties; enforcement, environmental protection and court orders; prosecution and creative sentencing.

18 The limitation only applies to pits where an operator no longer occupies the land.

19 *Public Lands Administration Regulation*, s. 18 and s. 21.

20 Nearly 90 leases were renewed for pits assessed as not meeting reclamation requirements when last inspected.

Reclamation not actively monitored on government-operated pits

AEP does not regularly monitor reclamation of pits operated by government entities, mainly, the Department of Transportation.[21]

AEP and Transportation jointly monitor compliance, but responsibilities are not clear and there is no established information-sharing process. Transportation inspects a sample of pits annually and maintains inspection records. But it does not assess reclamation. AEP inspects pits on an ad-hoc basis and assesses progressive reclamation, but the inspection records are in paper files with insufficient details. Therefore, there is no formal record of reclamation status. We estimated that it would cost $48 million to reclaim the government-operated pits.[22]

AEP's electronic records show that 85 per cent of active pits operated by government have no reclamation plan.[23] Since the electronic records were not always complete or reliable, and existing plans were in paper files, we could not establish how many active pits operate without a plan.

Lack of reclamation plans and monitoring increases the risk of no reclamation and future generations having to deal with the financial and environmental impacts.

No evaluation of reclamation trends and lack of data to enable it

AEP does not regularly evaluate reclamation trends or the effectiveness and efficiency of reclamation monitoring and enforcement. So AEP does not know if its processes are working, and cannot identify areas that need to improve. AEP last examined reclamation trends in 2013.

Our own analysis found that the area containing pits not meeting reclamation requirements has more than doubled since 2013, and covers between 67,000 and 235,000 hectares.[24]

Most of the data needed for the evaluation is either unavailable or hard to get, and the available data is not reliable. There are three causes:

1. Data is fragmented. For example, information on inspections, reclamation, enforcement, security and royalties is divided among three databases. Lease agreement information, reclamation plans and annual operating reports are only in paper form. Information on areas reclaimed, orphan pits and the cost to reclaim them is currently unavailable.
2. Information management is deficient. For example:
    - AEP does not track whether operators submit the annual operating reports and does not review the submitted reports within a reasonable time.
    - Cancelled leases lack records indicating pre-cancellation inspection results or why inspection was not required.
    - AEP received over 200 applications for reclamation certificates but issued only 34 certificates in the past 10 years. AEP claims that more certificates may have been issued but not recorded in the system due to limited resources.
3. Quality control over the accuracy and completeness of electronic records is inconsistent or absent. For example, inspection records lacked information on why reclamation was considered satisfactory or unsatisfactory, and what actions were taken to resolve non-compliance. In some cases, incorrect data was entered.

REPEATED RECOMMENDATION:
Improve reclamation monitoring and enforcement

We again recommend that AEP improve the effectiveness and efficiency of reclamation monitoring and enforce reclamation requirements.

Consequences of not taking action

Un-reclaimed pits create environmental and safety risks. Albertans may have to pay reclamation costs.

21 The operation and reclamation of government-operated pits is subject to the same regulatory requirements as the privately operated pits, except for the security deposit.

22 This is the cost to reclaim government pits with currently disturbed land. No reclamation security is collected for these pits because the government is responsible for reclamation.

23 Based on Alberta Biodiversity Monitoring Institute satellite data and AEP's electronic records.

24 Our analysis used AEP's data, and assumptions based on AEP's historical inspection results.

Security Collected Not Sufficient to Cover Reclamation Costs

Context

The goal of reclamation security is to ensure land disturbed by sand and gravel mining is reclaimed after the mining. *The Public Lands Act* authorizes AEP to require security in an amount and form acceptable to the director.[25] The security must be sufficient to ensure reclamation, based on the estimated cost of reclamation submitted by the operator.[26]

Our 2008 audit found that security for pits on public land was insufficient to cover the full cost of reclamation, thus creating a risk that operators would abandon their security instead of reclaiming the land. Further, AEP lacked processes to identify orphan, un-reclaimed pits.

Operators of pits on private land must pay security based on the estimated full cost of reclaiming the pits. In contrast, the current security for pits on public land is $2,500 per hectare.[27] The security amount operators have to pay corresponds to the planned phases of operation in the approved plan. For example, if the first phase covers 10 hectares, the security will be $25,000, even if the total lease is for a greater area. The expectation is that the operator will finish mining on the 10 hectares and begin reclamation before moving to the next phase of operation. Operators can carry security forward by showing progressive reclamation of the first phase or pay more security for the next phase.

Performance bonds and surety bonds are acceptable forms of security.[28] The use of bonds as security is common in construction contracts and contracts with defined deliverables. Industry prefers bonds to lines of credit or other financial security because they do not tie up operating funds and generally cost less.

Criteria

AEP should collect sufficient security to compel operators to reclaim the land, or to cover AEP's cost of reclamation if they fail to do so.

Our followup audit findings

Key Findings

- AEP agreed to assess if security is sufficient but took seven years to do so.
- New security formula developed but needs further testing.
- AEP knows that current security is too low to cover reclamation costs but has not increased it.
- Process for collecting security is deficient.

Little progress since 2008

After accepting our 2008 recommendation to assess the sufficiency of the reclamation security for sand and gravel pits on public land, AEP decided not to change it. Instead, it planned to improve its compliance and enforcement tools to encourage reclamation—even though pits on private land require much higher security, based on the estimated full cost of reclaiming the land.

AEP implemented a new inspection program, resulting in mandatory annual inspections for sand and gravel pits, and more pits being inspected. In 2013, the AEP completed its only overall evaluation of reclamation and found that 5,000 hectares of inactive leases and 20,000 hectares of active leases were not meeting reclamation requirements. No further evaluation has been done to see if the problem is improving.

In 2014, AEP started to evaluate the actual cost to reclaim pits and the sufficiency of the security. That was after an independent study reported shortfalls in the management of pits on public lands, and inconsistencies in the security for pits on private and public land.[29] AEP found that the current security for pits on public land is insufficient to cover the full cost of reclamation. Full reclamation was estimated as $15,000 per hectare, six times higher than the current security requirements.

25 *Public Lands Act*, s. 20(8).

26 *Conservation and Reclamation Regulation*, s. 18(1).

27 The security of $2,500 per hectare applies to long-term and short-term leases. Security for exploration leases ranges from $600 to $2,500 per hectare, depending on size.

28 Under the *Conservation and Reclamation Regulation*, s. 21, AEP (Director) has discretion to determine what constitutes an acceptable form of security.

29 In 2011, the *Alberta Association of Municipal Districts and Counties* and the *Alberta Sand and Gravel Association* released a report identifying the shortfalls in the sand and gravel program, and recommendations for improvement.

Timeline

- 2008 → AEP accepts OAG Recommendation
- 6-YEAR GAP NO CHANGE TO SECURITY
- 2014 → AEP determines reclamation cost is 6 times higher than current security
- 2016 → 3-YEAR GAP NO CHANGE TO SECURITY
- 2019 → PLANNED 2-YEAR GAP BEFORE SECURITY INCREASES
- 2021 →

New formula developed but needs more testing

AEP developed and tested a new formula that operators could use to estimate reclamation cost. It developed the formula using reclamation costs from construction projects because the data for sand and gravel pits was unavailable. And the data was limited and is now over five years old. AEP has not collected any sand and gravel reclamation costs data to further test and refine the formula, and ensure it produces a reasonable estimate of full reclamation cost.

AEP knows security is too low but has not increased it

The security remains unchanged because AEP has not yet decided how to implement the increase and minimize the perceived burden on sand and gravel operators and customers.[30] AEP is deciding on an acceptable form of security that could help reduce this perceived burden.[31]

The Sand and Gravel Association told AEP that a full cost security should be required for pits on both private and public lands to ensure the government has sufficient funds to reclaim the pits in case operators fail to do so. The association requested more information on the security calculation, how it will apply, acceptable forms of security, and process changes, so operators understand the impact on their cost, and business and administrative practices. AEP has not yet provided this information.

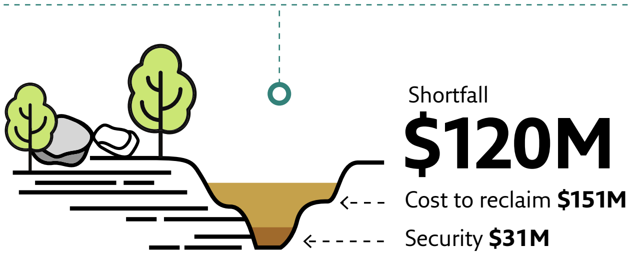
AEP said it intends to release new program requirements in 2019 and fully implement them in 2020-2021, even if a new form of security is not available.

[30] AEP's internal document states that higher security might result in decreased working capital that could jeopardize operation viability, and increased cost of business that could be passed on to customers, and thus increase project costs. We found no analysis supporting AEP's perception of burden on industry from higher security.

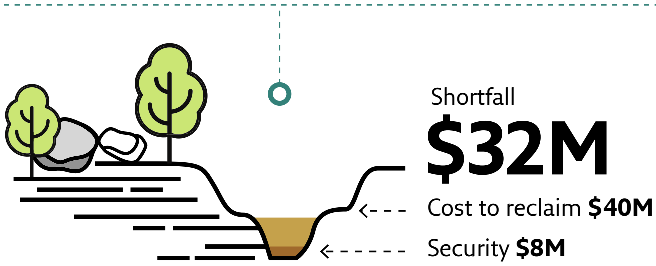
[31] AEP is considering demand forfeiture bonds as a form of security.

Security shortfall scenarios

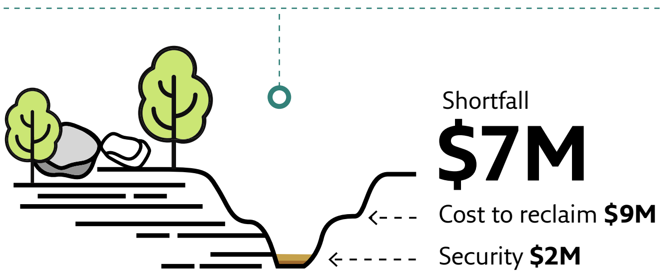
If government has to reclaim all pits (all operators fail to reclaim the land)



If government has to reclaim pits currently not meeting reclamation requirements



If government has to reclaim pits currently inactive and not meeting reclamation requirements, some of which could be orphan pits



Security does not cover reclamation costs

AEP currently holds $31 million in security but it would cost $151 million to reclaim all the currently disturbed pits on public land. In the very unlikely scenario of all operators failing to reclaim the land, Albertans would have to pay $120 million[32]—the difference between the security AEP holds and reclamation cost.

A more likely scenario is that Albertans will have to cover the shortfall between security collected and reclamation costs for pits currently not meeting reclamation requirements. The shortfall for these pits is $32 million.

The most likely scenario is that Albertans will have to cover the shortfall for the un-reclaimed and inactive pits, some of which could be orphan pits. The shortfall for these pits is $7 million.

Process for collecting security is deficient

AEP has failed to collect security in some cases and has collected insufficient security in others. For example, nearly 50 pits had no security; the security should have been $400,000. For over 800 pits, AEP did not collect enough based on the disturbed area. The shortfall is $9 million. For over 80 pits on oil and gas sites, AEP did not collect any security. The security is expected to be collected under the oil and gas lease program, which this audit did not cover.

NEW Recommendation:
Collect sufficient security

We recommend that AEP collect sufficient security to compel operators to reclaim the land or to cover reclamation costs if operators fail to do so.

Consequences of not taking action

Albertans may have to pay reclamation costs.

32 Using $15,000 per hectare as the estimated cost of reclamation.

Uncollected Royalties

Context

All operators must submit annual returns reporting volume of materials removed and the royalties due. AEP conducts desk and field audits to verify the reported amounts.

Operators must pay royalties on all sand and gravel removed during the year. The only general exception is sand and gravel required by government or used on government-owned projects.[33]

Criteria

AEP should collect royalties on all sand and gravel subject to royalties.

Our followup audit findings

Key Findings

- AEP did not charge royalties to oil sands operators that it should have.
- AEP collected $16 million in 2018 but $25 million is still owed—there is no concrete plan or timeline for collecting the remaining royalties.

Unauthorized royalty exemptions resulted in $25 million owing to Albertans

AEP commonly allows oil sands operators to mine sand and gravel and use it for on-site construction and maintenance. Operators are required to pay only royalties, which cost them much less than buying the sand and gravel. In the Fort McMurray region, it could cost an oil sands operator $20 to $30 per cubic yard to buy the sand and gravel offsite while current royalties are $0.70 per cubic yard for sand and $1.20 for gravel.[34]

Between 2009 and 2018, AEP did not charge royalties to some oil sands operators for the sand they mined and used on-site although the legislation required royalties to be paid.[35] The unauthorized exemptions started when AEP implemented a policy that contradicted legislation, and continued undetected for nine years. We discovered that AEP's royalty internal audit found $16 million of the unauthorized exemptions but AEP did not disclose this to us. We determined that the $16 million are royalties for one pit but AEP gave the same exemptions to operators of six other pits.

AEP has since collected the $16 million, and says it intends to carry out royalty audits during the 2019-2020 audit year to determine the remaining royalties due. But it has no concrete plan or timelines to do so. We estimate that $25 million is still due.

NEW Recommendation:
Collect outstanding royalties

We recommend that AEP collect outstanding royalties for sand and gravel on oil sands sites.

Consequences of not taking action

Albertans will not receive the royalties due for the province's sand and gravel.

Uncollected Royalties Timeline

2009 → AEP allows royalty exemption for **one** pit on oil sands site

2017 → AEP is allowing royalty exemptions for **seven** pits on oil sands sites

2018 → AEP's royalty audit detects unauthorized exemptions for one pit, bills and collects **$16 million** from operator

2019 → OAG audit estimates **$25 million** is still due for the other six pits

2019 → AEP has no specific plan or timelines to collect the **$25 million**

33 *Public Lands Administration Regulation*, s.115.
34 AEP's internal document dated April 25, 2018.
35 Royalties must be paid for all sand and gravel except material required by government or used on government-owned projects.

Material and Royalties not Properly Verified

IMPLEMENTED

Context

We previously found that AEP's royalty audits focused on operators who reported material mined but no royalties. AEP did not audit operators reporting both material and royalties.

Criteria

AEP should have processes to verify operator reports of sand and gravel mined from public land and royalties due to the Crown.

Our followup audit findings

AEP implemented our recommendation to verify reported volumes and royalties.

AEP used a risk-based audit approach considering both material mined and royalties. The audits included royalty returns with significant royalties, material mined but no royalties, and no material mined and no royalties. AEP audited nearly 600 returns during 2016-2017 and 2017-2018.

AEP implemented a rigorous process to select audits and review completed audit files, and developed audit procedures and templates. It completed an analysis of the annual audit results, which identifies key issues and trends and informs next year's audit approach. AEP plans to use a similar audit process for the next three years.

Sufficiency of Security not Assessed

IMPLEMENTED

Context

Our 2008 audit found that security was insufficient to cover the full cost of reclamation, thus creating a risk that operators would abandon their security instead of reclaiming the land. In contrast, pits on private land required security that estimated the full reclamation cost.

Criteria

AEP should have processes to ensure operators of sand and gravel pits meet regulatory requirements.

Our followup audit findings

AEP implemented our recommendation to assess whether the security for pits on public land is sufficient.

In 2014, AEP evaluated the actual cost to reclaim pits and the sufficiency of the security, and found that the current security for pits on public land is insufficient to cover the full cost of reclamation.

The security remains unchanged while AEP is determining how to implement the increase. See *Security Collected Not Sufficient to Cover Reclamation Cost* section of this report for our new recommendation.

Audit Responsibilities and Quality Assurance Statement

AEP's management is responsible for the systems to ensure sand and gravel operators comply with their obligations to pay royalties and reclaim public land.

> **Our responsibility is to express an independent conclusion on whether AEP has improved these systems in areas where our previous audits have found deficiencies.**

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.

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OF ALBERTA

oag.ab.ca

Contact us:
info@oag.ab.ca
780.427.4222

ISSN 1999-4242 (print)
ISSN 1927-9604 (online)

Making a difference in the lives of Albertans.

Alberta Health

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

Auditor General OF ALBERTA

Report of the Auditor General

November 2019

Contents

Related Reports:

- Health: Crown's Right of Recovery of Healthcare Costs from Motor Vehicle Accidents—October 2014

Appointed under *Alberta's Auditor General Act*, the Auditor General is the legislated auditor of every provincial ministry, department, public post-secondary institution, and most provincial agencies, boards, commissions, and regulated funds. The audits conducted by the Office of the Auditor General report on how government is managing its responsibilities and the province's resources. Through our audit reports, we provide independent assurance to the 87 Members of the Legislative Assembly of Alberta, and the people of Alberta, that public money is spent properly and provides value.

Report Highlights

Our two recommendations **were implemented** p. 5 & 6

Between 2013 and 2017, the department did not recover approximately

$140 million

a **$28 million** per year average that it could have p. 2

The department now recovers the full amount of healthcare costs that it estimates it is entitled to p. 6

The department updated its methodology to more accurately **estimate healthcare costs from motor vehicle accidents** p. 5

Amount not collected in prior years ($ millions)

	2013	2014	2015	2016	2017
Amount estimated	133	140	150	161	171
Amount collected	100	105	120	135	155
Amount not collected	33	35	30	26	16

Summary

The *Crown's Right of Recovery Act* (the Act) allows the government to recover healthcare costs that it incurs as a result of personal injuries suffered by Alberta residents due to the wrongful act or omission of a third party. This right of recovery includes injuries caused by motor vehicle accidents (MVA). Most of the recovery regarding MVA comes from an amount called the aggregate assessment,[1] paid by automobile insurers.

Each calendar year, the Minister of Health sets the aggregate assessment amount based on an estimate of MVA costs each year. This amount is then collected from the insurance companies of Alberta drivers.

In our 2014 audit, we assessed whether the department had adequate processes in place to recover the Crown's healthcare costs caused by MVA. We reported that the department did not collect the full amount of estimated MVA costs nor articulate why it did not. We recommended that the department ensure its methodology to estimate MVA costs was accurate and to publicly articulate its objectives in setting the aggregate assessment if it is less than estimated MVA costs.

The department implemented our two outstanding recommendations from our 2014 audit. It now collects the full amount of healthcare costs from MVA that it estimates. Between 2013 and 2017, the department did not recover approximately $140 million, or a $28 million per year average, that it could have.

This audit is important because Alberta taxpayers should not be responsible to pay for healthcare costs resulting from wrongful acts of third parties.

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

About this Audit

Objective and Scope

The objective of our audit was to determine whether the department had implemented our two recommendations regarding the Crown's right of recovery of healthcare costs from motor vehicle accidents.

We audited the processes used by the department to set the aggregate assessment for the 2018 and 2019 calendar years.

Criteria

To determine whether the department has implemented our two recommendations, we used the following criteria carried forward from the original audit:

The department should have a process to:

- monitor that objectives are being met[2]
- ensure applicable legislation is followed
- publicly report its objectives for recovering healthcare costs caused by MVA
- publicly report the extent to which it estimates it is recovering these costs

Management of the department acknowledged the suitability of the audit criteria on January 25, 2019.

What We Examined

We examined the department's processes to estimate MVA costs and to set the aggregate assessment for the 2018 and 2019 calendar years. This included:

- reviewing the updated methodology and inputs used to estimate MVA costs
- working papers used by the department to set the aggregate assessment for each calendar year based on the estimated MVA costs
- the approved ministerial orders by the Minister of Health
- applicable legislation related to MVA costs and the aggregate assessment

We performed recalculations based on the methodology to see if the department was applying the methodology correctly, and we performed an assessment of legislation against the methodology and processes used by the department.

We conducted our field work between January and February 2019 and completed our audit on April 3, 2019.

[2] This includes a process to determine if the methodology used to prepare the calculation of MVA costs is a reasonable approximation of the Crown's associated healthcare costs and a process to assess the best way to update its cost estimate.

Conclusion

We concluded that the Department of Health implemented our recommendations to:

- review the methodology it uses in the calculation of the aggregate assessment and put a process in place to periodically check whether the estimate calculated is a reasonable approximation of the Crown's associated healthcare costs
- report the extent to which the aggregate assessment recovers the department's calculation of the healthcare costs caused by motor vehicles accidents

Why This Conclusion Matters to Albertans

Alberta taxpayers should not be responsible for healthcare costs resulting from wrongful acts or omissions from third parties. Therefore, the department should recover the full amount of estimated motor vehicle accident costs allowable under the Act.

Summary of Recommendations

IMPLEMENTED Recommendation:
Calculating the aggregate assessment

The department commissioned a new study from the Institute of Health Economics and used the study to update the department's methodology to estimate MVA costs.

IMPLEMENTED Recommendation:
Clarify objectives of collecting revenue and prepare supporting rationale

The department set the aggregate assessment as the full amount of estimated MVA costs.

Detailed Findings and Recommendations

We followed up on whether our two outstanding recommendations are implemented:

- Calculating the aggregate assessment
- Clarify objectives of collecting revenue and prepare supporting rationale

Calculating the Aggregate Assessment

IMPLEMENTED

Context

In 2014[3], we recommended that the Department of Health review the methodology it uses to calculate the aggregate assessment and put a process in place to periodically check whether the estimate is a reasonable approximation of the Crown's associated healthcare costs.

We found the department was using a dated study from 2003 and did not have a process in place to revisit this study to ensure the calculation was still providing a reasonable approximation of the healthcare costs associated with MVA.

Criteria

The department should have processes to:

- monitor that objectives are being met[4]
- ensure the applicable legislation is followed

Our followup audit findings

The department commissioned a new study from the Institute of Health Economics and used the study to update the department's methodology to estimate MVA costs. The new study includes a comprehensive estimate of both short and long-term healthcare costs[5] and made improvements from the old study such as estimating MVA costs by severity level. The study was further strengthened, as it used sensitivity analysis to show the accuracy of the methodology.

To estimate MVA costs in subsequent years, the department adjusts the severity level costs with updated accident data from Alberta Transportation and updated healthcare costs from the Department of Health. The department also created a policy that requires it to revisit the methodology every five to seven years.

We examined the inputs and calculations used to estimate the 2018 and 2019 calendar year MVA costs and concluded they were consistent with the updated study as well as recoverable costs allowed in the Act.

3 *Report of the Auditor General of Alberta—October 2014*, no. 3, page 38

4 This includes a process to determine if the methodology used to prepare the calculation of MVA costs is a reasonable approximation of the Crown's associated healthcare costs and a process to assess the best way to update its cost estimates.

5 Costs included in the estimate were: in-patient care, outpatient care, practitioner services, prescription drugs, long-term care, home care and Alberta Aids to Daily Living (AADL). Laboratory, rehabilitation, and mental health costs were included in-patient and outpatient care services.

Clarify Objectives of Collecting Revenue and Prepare Supporting Rationale

IMPLEMENTED

Context

In our original audit, we reported that the department was setting the aggregate assessment below what it estimated MVA costs to be. This meant the department was not recovering the full amount of MVA costs that it was entitled to under the Act. We therefore recommended[6] that the department:

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

Criteria

The department should have processes to publicly report:

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

Our followup audit findings

The department set the aggregate assessment as the full amount of estimated MVA costs. We tested the processes and calculations to set the aggregate assessments for the 2018 and 2019 calendar years and concluded the aggregate assessments were equal to the estimated MVA costs.

Audit Responsibilities and Quality Assurance Statement

Management of the department is responsible for the recovery of healthcare costs attributable to MVA as set out under the Act.

> **Our responsibility is to express an independent conclusion on whether the department has implemented our two outstanding recommendations.**

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.

6 *Report of the Auditor General of Alberta—October 2014*, no. 4, page 37

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oag.ab.ca

Contact us:
info@oag.ab.ca
780.427.4222

ISSN 1919-4242 (print)
ISSN 1927-9604 (online)

Making a difference in the lives of Albertans.

Alberta Indigenous Relations

Systems to Assess First Nations Development Fund Grants Followup

Auditor General
OF ALBERTA

Report of the Auditor General
November 2019

Contents

Related Reports:

- Systems to Assess First Nations Development Fund Grants (first followup) (May 2017)
- Systems to Assess First Nations Development Fund Grants (July 2013)

Appointed under *Alberta's Auditor General Act*, the Auditor General is the legislated auditor of every provincial ministry, department, public post-secondary institution, and most provincial agencies, boards, commissions, and regulated funds. The audits conducted by the Office of the Auditor General report on how government is managing its responsibilities and the province's resources. Through our audit reports, we provide independent assurance to the 87 Members of the Legislative Assembly of Alberta, and the people of Alberta, that public money is spent properly and provides value.

Report Highlights

We found:

The department has implemented the recommendations and improved its processes to administer the FNDF program p. 7 & 8

The **First Nations Development Fund (FNDF)** is a lottery grant program supported by a portion of revenues from government-owned slot machines on First Nations in Alberta to provide **a flexible source of funding for First Nations** community projects p. 3

Since 2006,
more than $1 billion
has been allocated to support hundreds of social, economic and community projects in First Nations communities across the province p. 3

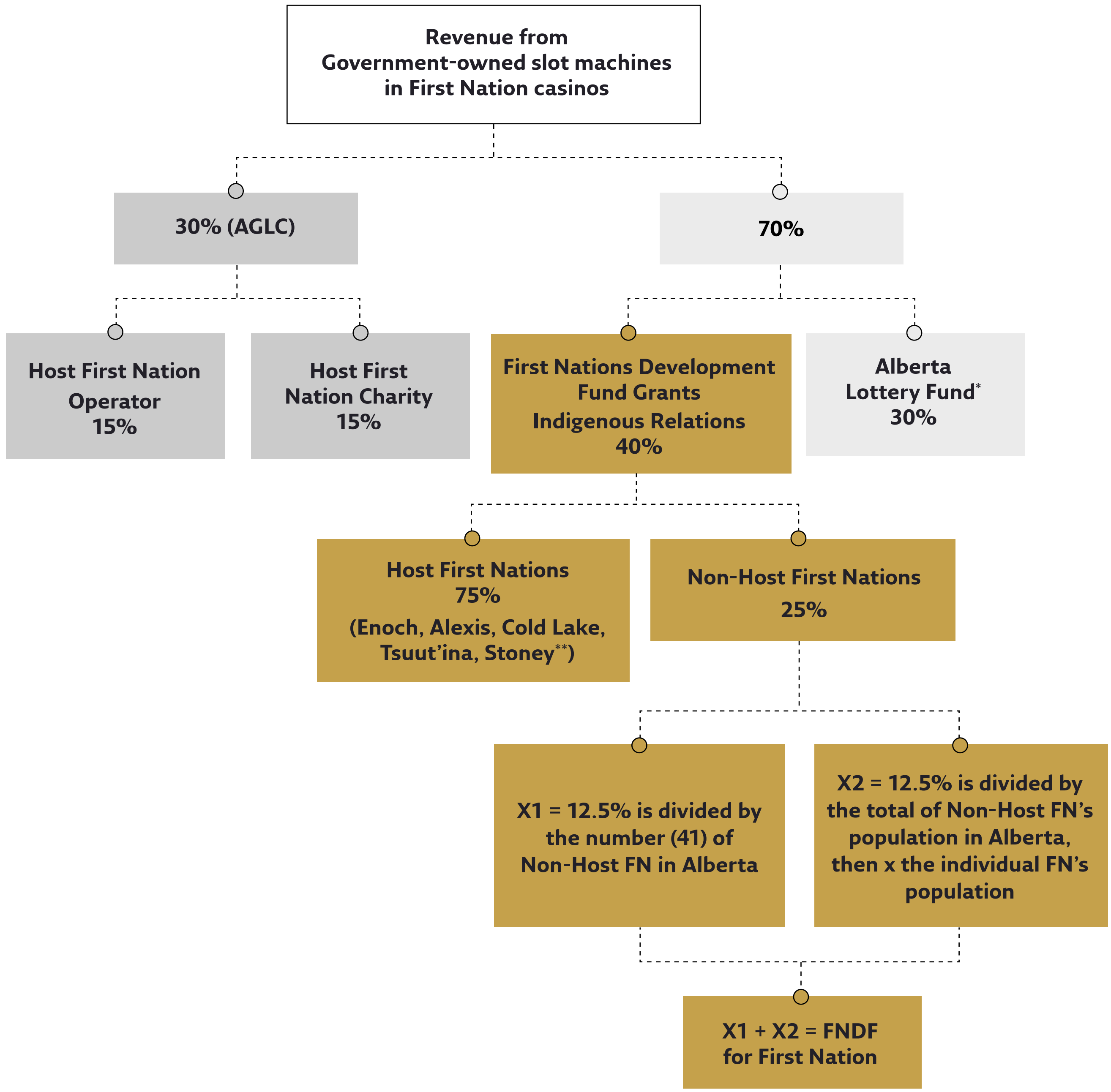
The program represents an **opportunity for the government to support self-determination of First Nations in Alberta** p. 5

The Department of Indigenous Relations administers the FNDF program p. 3

This is our second followup audit on recommendations made in July 2013 and repeated in May 2017 p. 4

We consider a recommendation implemented when the deficiencies originally identified have been resolved p. 4

FNDF Funding Model[1]



*Alberta Lottery Fund supports a variety of Alberta programs and services in communities throughout Alberta.
**The three Stoney Tribes of Chiniki, Bearspaw and Wesley, are considered one Host First Nation

Legend

Alberta Gaming Liquor and Cannabis	First Nations Development Fund Grants Indigenous Relations	*Culture, Multiculturalism and Status of Women

1 Source: First Nations Development Fund Grant Program Guide, Second Edition, March 2018, page 3 accessed July 24, 2019 at https://open.alberta.ca/dataset/b164e4c0-5e0c-4716-848a-f86012c39257/resource/c3af8969-2061-4c4d-bf6b-e2c967208f4c/download/fndf-program-guide-2018.pdf

Summary

The First Nations Development Fund (FNDF) is a lottery grant program administered by the Department of Indigenous Relations available exclusively to First Nations in Alberta. The FNDF program provides First Nations a flexible source of funding that First Nations can direct to meet their needs for social, economic and community projects. FNDF is supported by a portion of revenues from government-owned slot machines in First Nations casinos in Alberta.

Since its inception in 2006, the FNDF has allocated more than $1 billion to support hundreds of social, economic and community development projects in First Nations in Alberta.

In July 2013, we conducted an audit on the FNDF grant program because it represents a significant portion of the expenditures for the Department of Indigenous Relations, and it was receiving large and complex multi-year grant applications that had a higher level of risk than the less complex applications it typically received. In that audit, we made three recommendations where the department needed to improve its processes.

In May 2017 we performed a followup audit and concluded that the department had implemented one recommendation, but repeated two recommendations because the department was still working on implementing needed improvements to how it administered and monitored the program.

Since 2017, the department has taken several steps to improve its processes to review and approve complex applications, and to monitor compliance with the grant agreement. It has worked with participating First Nations to provide additional training and guidance on program requirements, maintaining regular ongoing communication, and completing some additional improvements to the program.

Based on our examination of these recent improvements, we conclude that the recommendations have been implemented.

About this Audit

Our July 2013 audit report of the FNDF program found the department needed to improve processes in three key areas:

- communicating program eligibility requirements
- reviewing and approving grant applications
- monitoring grant recipient compliance with grant agreements[2]

Our May 2017 followup audit found that the department implemented needed changes to formalize and communicate eligible uses of FNDF grant program funding to recipient First Nations.[3] At that time, we repeated two recommendations because we found processes to review and approve complex grant applications and to monitor for, and to support First Nations to correct, non-compliance required further improvement.[4]

In March 2018, management asserted it had implemented the two outstanding recommendations.

Objective and Scope

The objective of this audit was to determine if the Department of Indigenous Relations implemented the following two recommendations to improve its FNDF grant administration processes:

- improve processes to review and approve grant applications by:
  - formalizing review processes for complex grant applications
  - obtaining sufficient information to support assessments of complex grant applications
- improve monitoring processes by consistently ensuring that First Nations comply with reporting requirements and acting to correct non-compliance with grant agreements

We consider a recommendation to be implemented when the deficiencies we originally identified, which formed the basis of the recommendation, have been resolved.

We audited the department's processes to manage FNDF grants in place for the 2018-2019 fiscal year.

2 *Report of the Auditor General of Alberta – July 2013*, pages 17-28.

3 *Report of the Auditor General of Alberta – May 2017*, pages 63-73.

4 *Report of the Auditor General of Alberta – May 2017*, pages 63-73.

Criteria

The criteria we used in our audit were carried forward from our July 2013 Audit Report and our May 2017 Followup Audit Report.

Management of Indigenous Relations acknowledged the suitability of the audit criteria on January 22, 2019.

What We Examined

We examined the design, implementation and operating effectiveness of key processes and controls put in place by management to administer the FNDF grant program.

We:

- interviewed management and staff
- examined the department's policies, processes and systems to administer the FNDF grant program
- performed detailed testing of the assessment and approval processes for non-complex and complex applications, and the monitoring processes for reporting requirements and non-compliance

We conducted our fieldwork between January and April 2019 and completed our audit on September 20, 2019.

Conclusion

We conclude that the department implemented our recommendations to administer the FNDF grant program for the fiscal year-ended March 31, 2019 by improving processes to:

- review and approve grant applications by formalizing its review process for complex grant applications and obtaining sufficient information to support its assessment of complex grant applications
- consistently monitor funding recipients' compliance with reporting requirements and clarifying roles and responsibilities for following up on non-compliance with grant agreements

Why This Conclusion Matters to Albertans

The FNDF program represents an opportunity for the government to support self-determination of First Nations in Alberta. When administered carefully against the grant agreement, the program provides First Nations a flexible source of funding that First Nations can direct to meet their needs for social, economic and community programs

Summary of Recommendations

IMPLEMENTED Recommendation:
Review and approval processes

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

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

IMPLEMENTED Recommendation:
Monitoring processes

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

Detailed Findings and Recommendations

Review and Approval Processes

IMPLEMENTED

Context

The department occasionally receives applications for FNDF funding for projects that are deemed to be more complex than most. The department defines a complex application as proposed projects having one or more of the following factors:

- the potential to include gaming-related activities
- having project costs that include principal and interest payments for a loan of $5 million or more
- having other complex, technical or unique factors that require additional analysis

In 2013, we found that the department had not formalized processes to review and approve complex FNDF grant applications. We also found the department approved some projects without having sufficient information to support its assessment against required criteria, such as the "rationale for costs in excess of costs of similar projects."

In 2017, we found the department developed further guidance for assessing complex applications, but had not yet incorporated the guidance into its procedure manual or applied the guidance to any new complex applications. We also identified again instances of projects approved without sufficient support for project costs.

Criteria

The department should have systems and processes to review and approve grant applications.

Our followup audit findings

Key Findings

- The department has formalized and consistently followed processes to assess complex grant applications.
- Complex and non-complex applications we tested included sufficient information to support project approval.

During our followup audit, we found that the department had formalized and consistently followed the processes it developed to assess complex grant applications. Part of formalizing the process included clarifying the types of supporting documentation it may request from applicants to support complex applications.

The department assessed and approved three complex grant applications between April 1, 2018 and March 31, 2019. We examined each of these three applications and found that the complex application assessment process was followed in assessing the applications. We also examined a sample of the 215 non-complex applications received between April and December 2018. We found the department received adequate supporting documentation to support each complex and non-complex application we examined.

Monitoring Processes IMPLEMENTED

Context

Under the department's grant agreement, funding recipients are required to submit an approved financial report annually, and a final report within 90 days of completing each project. The department provides a series of notices to advise program participants of the reporting deadlines and the consequences of not complying with the requirements. If funding recipients do not provide the required reporting for any project, unpaid grant funding for all projects for the First Nation is withheld by the department.

In 2013, we found the department had not taken corrective actions when funding recipients did not submit project reporting required under the grant agreement. Recipients continued to receive funding despite not complying with the requirements. We also found that when reporting was received, the department did not document its analysis to compare actual to projected project costs, nor did it obtain explanations for significant variances identified.

In 2017, we found that the department's processes to document its analysis of project variances had improved. However, the department was still not consistently following its processes to advise First Nations of reporting deadlines, and did not enforce compliance with reporting requirements by withholding payments when necessary. We also found a lack of clarity between the department's liaison officers and its internal audit group regarding responsibility for following up on non-compliance with the grant agreement.

Criteria

The department should monitor approved grants to ensure recipients comply with agreements, and should act to ensure recipients correct any identified non-compliance with grant agreements.

Our followup audit findings

Key Findings

- Changes to the department's monitoring processes resulted in significant improvements by participating First Nations in providing project reporting on a timely basis.
- The department improved the clarity of roles and responsibilities between the FNDF compliance audit function and program staff, including the design of followup actions related to non-compliance audit findings.

We found the department improved its processes to monitor compliance with reporting requirements by grant recipients. It has worked with participating First Nations to provide training and guidance on program requirements and to maintain regular ongoing communication based on the needs of each individual First Nation.

The department eliminated an expectation that its liaison staff should visit each First Nation twice a year, instead adopting a more risk-based approach to align with the specific needs of each First Nation. For example, some First Nations have many ongoing projects while others may have one. Regular communication includes site visits, in-person visits, email and phone communication.

The department made additional improvements by:

- amending the annual deadline for project reporting from June 30 to July 31 to better align with participating First Nations' timelines for federal reporting requirements
- enhancing guidance for funding recipients and FNDF staff on accountability reporting processes
- documenting site visits and communication between department staff and participating First Nations on program requirements and the department's expectations for program deliverables
- consistently following its processes and controls for providing notifications of upcoming deadlines to funding recipients

These changes resulted in improved compliance by participating First Nations in providing the required project reporting on a timely basis. All but four of the 46 funding recipients submitted required reporting on time. In the four instances where reporting was not received within the timelines, we observed that funding payments were held until the reporting was received and approved by the director.

The department also made improvements to its processes to followup on non-compliance identified through the work of FNDF's compliance audit function. The department improved the clarity of the roles and responsibilities of the FNDF compliance audit function and program area staff. We examined the followup processes related to non-compliance audit findings and found they are clear and appropriately designed.

Audit Responsibilities and Quality Assurance Statement

Management of the Department of Indigenous Relations is responsible for the systems and processes to administer the FNDF grant program.

> **Our responsibility is to express an independent conclusion on whether the department has implemented our outstanding recommendations.**

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.

Auditor General OF ALBERTA

oag.ab.ca

Contact us:

info@oag.ab.ca
780.427.4222

ISSN 1999-4242 (print)
ISSN 1927-9604 (online)

Making a difference in the lives of Albertans.

Service Alberta
Information Technology Disaster Recovery Program Followup

Auditor General
OF ALBERTA

Report of the Auditor General
November 2019

Contents

Related Reports:

- Service Alberta: IT Disaster Recovery Program (October 2014)
- Service Alberta: Protecting Information Assets Followup (October 2012)
- Alberta Health Services: Develop a Detailed Plan for Implementing Risk-based Disaster Recovery Processes (October 2015, p.103)
- Service Alberta: Systems to Manage a Comprehensive Inventory of IT Applications (May 2017)
- Alberta Health Services: Information Technology Control Policies and Processes (November 2018, p.86)
- Athabasca University: Information Technology Resumption Plan (November 2018, p.17)

Appointed under *Alberta's Auditor General Act*, the Auditor General is the legislated auditor of every provincial ministry, department, public post-secondary institution, and most provincial agencies, boards, commissions, and regulated funds. The audits conducted by the Office of the Auditor General report on how government is managing its responsibilities and the province's resources. Through our audit reports, we provide independent assurance to the 87 Members of the Legislative Assembly of Alberta, and the people of Alberta, that public money is spent properly and provides value.

Report Highlights

An IT application is a single or group of programs used to do certain tasks. Common IT applications are email, internet browsers, and database software p. 3

Some critical Government of Alberta IT applications include:

- Alberta Netcare Portal
- motor vehicle registry
- information or evacuation payments in disasters and emergencies
- payments for equipment and supplies for people with long-term disabilities or chronic illness

p. 3

Albertans require that IT applications and systems that provide critical government services be restored as soon as possible after a disaster p. 2

We have repeated our 2014 recommendation to Service Alberta p. 6

Without proper IT disaster recovery capabilities, the government may not be able to deliver essential services when disasters occur p. 5

At the time of our audit, there were over 200 applications yet to be assessed for criticality. For 194 other applications assessed as critical, we found:

- over one-quarter had no documented disaster recovery plan
- less than one-quarter were tested for recovery in 2018
- nine failed their last recovery test

p. 7

Our audit objective was to determine if Service Alberta implemented our 2014 recommendation to ensure critical Government of Alberta IT applications were identified, tested, and recovered within required timelines p. 4

Service Alberta has made process improvements since 2014, and progress has been made in assessing criticality of applications. Of the 1,500 applications in use across government, departments have determined the criticality of 1,300 p. 7

Summary

Almost everyone has experienced their phone or computer crashing and the frustration of not knowing when or if the device can be fixed. When IT systems or services go down, we quickly find out which ones severely impact our daily lives and need to be restored.

Albertans require that IT applications and systems that provide critical government services be restored as soon as possible after a disaster.

When we first audited the government's IT disaster recovery capabilities in 2014, we found it lacked processes to identify the most critical applications to Albertans and to ensure they were available when needed. We recommended that Service Alberta improve processes to identify critical applications across government departments and ensure they are adequately tested for recovery.[1]

In this followup, we found Service Alberta has made a number of process improvements since 2014, including:

- developing a framework that provides IT disaster-recovery requirements, tools, and guidance to departments
- developing a central repository to track disaster-recovery-related information for all IT applications across government
- developing recovery time requirements for IT applications based on criticality categories
- implementing an annual exercise to help departments test the recovery of critical IT applications

We also found that Service Alberta has more work to do.

While the criticality assessments of 1,300 IT applications have been completed, more than 200 applications have yet to be assessed. Service Alberta does not ensure that all IT applications assessed as critical by departments comply with its IT disaster recovery policies, and it does not follow up with departments when IT disaster recovery requirements are not met.

Until these process weaknesses are fixed, Service Alberta cannot assure Albertans that all critical services they rely on can be promptly recovered if they go offline.

As a result, we repeat our 2014 recommendation.

[1] As government ministries managed their own IT systems at the time of our original audit, our original recommendation noted Service Alberta needed to work with the government's Deputy Minister's Council to implement our recommendation. Service Alberta has since been assigned single oversight responsibility on IT disaster recovery over government ministries, excluding agencies, boards, and commissions.

Background

An IT application is a single or group of programs used to do certain tasks. Common IT applications are email, internet browsers, and database software. The Government of Alberta relies on IT applications to provide essential services to Albertans. We expect that government departments have processes to identify and maintain IT applications that support essential services provided to Albertans. These applications should be considered critical by departments.

Every day, Albertans rely on a wide range of government programs and services that depend on IT systems and applications. Albertans need to know that if unexpected outages occur, government can quickly restore these programs and services.

Healthcare facilities provide services such as routine doctor visits, medical diagnostics, and emergency medical treatment. These facilities rely on IT applications, such as Netcare or the Pharmaceutical Information Network, to provide vital health data and patient medication histories.

According to the open government portal, there are over three million licensed drivers in Alberta. Service Alberta's Motor Vehicles System records licenses and registration information for these drivers.

The Department of Municipal Affairs uses IT applications to manage emergency and disaster preparedness, prevention, response, and financial assistance. Applications such as the AEA (Alberta Emergency Alert) and AEA Mobile (Alberta Emergency Alert Mobile) alert Albertans when a disaster or emergency event occurs.

People with disabilities or chronic or terminal illnesses rely on Alberta Aids for Daily Living for financial assistance and support for equipment and supplies. This support is critical to allow these Albertans to maintain their independence at home or in care.

About this Audit

In 2012, a fire in the Shaw Court building in Calgary left its data centre unusable. As a result, many public and private organizations could not carry on normal operations. Government entities had disaster recovery plans, but actual recovery times were delayed up to one week. So were programs and services. This fire prompted our 2014 audit of the government's IT disaster recovery program. We found that government lacked effective processes to identify its most critical IT applications and to ensure they were available to Albertans when needed, and we recommended improvement.

Objective and Scope

Our objective was to determine if Service Alberta has implemented our 2014 recommendation to:

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

We audited the department's IT disaster recovery processes and oversight in place from our 2014 recommendation to April 2019. We did not include agencies, boards, and commissions (ABCs) in the scope of our audit. Since 2014, Service Alberta has clarified it is responsible for IT disaster recovery of critical government department IT applications. Service Alberta has indicated it is not responsible for agencies, boards, and commissions. ABCs are responsible for recovering their critical IT infrastructure and applications.

Criteria

We used criteria from our original audit to assess if Service Alberta has implemented our recommendation. Service Alberta management acknowledged the suitability of the audit criteria on August 10, 2018.

What We Examined

To assess implementation, we:

- examined Service Alberta's processes to identify IT applications across government and assess their criticality
- examined processes to define the target recovery timelines for IT applications and to ensure plans and resources exist to recover applications within targeted timelines
- interviewed department management and staff responsible for these functions
- analyzed the application catalogue and reviewed disaster recovery planning and testing documentation

We conducted our fieldwork between September 2018 and April 2019 and completed our audit on September 12, 2019.

Conclusion

We conclude that Service Alberta has not implemented our 2014 recommendation to ensure critical IT applications are identified, tested, and recovered within required timelines. Audit criteria not met were oversight of business impact assessments, defined recovery timelines for all applications, adequacy of disaster recovery plans, and testing of those applications.

Why This Conclusion Matters to Albertans

IT systems are crucial to delivering government programs and services to Albertans. Without proper IT disaster recovery capabilities, government may not be able to deliver essential services when disasters occur. Albertans expect that if critical government IT applications—including key systems for health and safety—are disrupted, government can and will recover them in a timely manner.

Summary of Recommendations

REPEATED RECOMMENDATION:
Improve recovery of critical information technology applications

We again recommend that the Department of Service Alberta:

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

Detailed Findings and Recommendations

Improve Recovery of Critical IT Applications

REPEATED

Context

Service Alberta provides core IT infrastructure[2] services, such as network connections, security, and email to government. Service Alberta is also responsible for the recovery of core government IT services and business resumption. Service Alberta provides oversight to ensure critical IT infrastructure, including IT applications, is identified and recoverable within required timelines. Individual government departments own applications hosted on the IT infrastructure.

Successful recovery of IT applications requires Service Alberta and departments to work together to prepare for major service disruptions before they happen. Departments are responsible for assessing the criticality of their own applications, developing disaster recovery plans, and working with Service Alberta to test recovery of their applications. Service Alberta is responsible for oversight of these activities, which involves setting disaster recovery guidelines and requirements, monitoring the work to ensure requirements are met, and following up on any gaps or deficiencies.

Service Alberta is currently centralizing most department-managed IT resources to allow for more effective oversight of IT assets. Under this transformation project, Service Alberta will manage IT assets in departments. By leveraging resources across departments, Service Alberta will be able to prioritize and work with departments to test disaster recovery of critical IT infrastructure and applications.

To recover from a disaster or significant disruption in service delivery, the data centre environment (for example, electrical power, air cooling, and network connectivity to other locations) must be operational and safe before returning the IT infrastructure to service. IT applications can be reinstalled or restored to operation once the three essential layers of disaster recovery—people, data centres, and hardware—are available and operational.

There are many different groups involved in disaster recovery efforts—data centre owners, IT groups, application owners, and users. Effective and clear communication and knowledge of disaster recovery plans is essential to returning services to normal as soon as possible.

Our 2014 audit found that a government-wide process or comprehensive plan to identify the most critical applications to the government and Albertans and to ensure they are available when needed did not exist. There was no assurance that recovery of IT applications could be on time, and departments lacked formal processes to test disaster recovery capabilities for their applications. We recommended Service Alberta improve those processes.

Criteria

The department should have effective processes to:

- perform or obtain business impact or risk assessments for IT applications from all departments
- define the targeted recovery timelines needed for each IT application based on need, risk, and cost
- ensure adequate plans and resources exist to recover IT applications within the targeted timelines

[2] Computers hosting IT applications or data and the networks that link them together.

Our followup audit findings

Key Findings

- Service Alberta has made process improvements and progress in oversight of criticality assessments of IT applications across government departments. But these assessments are not complete—over 200 applications have not yet been assessed for criticality.
- Service Alberta does not ensure compliance with its IT disaster recovery policies. Departments assessed 194 applications as critical. Of these:
  - over one-quarter have no documented disaster recovery plan
  - less than one-quarter were tested for recovery in 2018
  - nine failed their last recovery test
- Service Alberta does not follow up with departments on deficiencies related to criticality assessments, disaster recovery plans, and testing of IT applications.

Identifying critical IT applications and defining their targeted recovery timelines

Since 2014, Service Alberta developed an IT disaster recovery framework with policies, standards, guidance, and tools to help departments with recovery solutions. Departments are responsible for assessing the criticality of their own applications. To assist with this process, Service Alberta developed a Business Impact Assessment (BIA) tool to help departments identify recovery requirements for their applications and understand the impact of a disruption in their systems. If all departments use the tool, then it should provide a consistent criticality assessment. Service Alberta has not mandated that departments use the BIA tool and does not collect completed assessments. As a result, departments are at increased risk of inconsistently assessing criticality of their applications or not assessing criticality at all.

Criticality is the main factor in determining the Recovery Time Objective (RTO)[3], the maximum time an application or system can be out of service. Service Alberta developed the RTO categories in the figure below to help departments identify applications ranging from business critical to non-critical and give them better clarity on recovery expectations.

In 2017, Service Alberta implemented an *Application Catalogue* to identify and track IT applications across government. Departments should record key information in the catalogue, such as application criticality, the availability of disaster recovery plans, and dates and results of recovery tests. If used effectively, the catalogue is a good first step for Service Alberta to identify and track the status of IT applications across government. It can be used to determine if departments have assessed their applications for criticality and if disaster recovery requirements are being met for critical applications.

As of January 2019, the application catalogue listed over 1,500 active IT applications across government departments, all of which should be assessed and assigned a criticality rating. At the time of our audit, departments have made progress, having assessed 1,300 of these applications for criticality, but more than 200 applications have yet to be assessed. The problem is more prevalent in some departments than others. For example, the Department of Environment & Parks has not assigned criticality ratings to 80 of its 160+ applications. The Department of Justice & Solicitor General has not assigned criticality ratings to 40 of its 80 applications, and the Department of Advanced Education has not assigned criticality ratings to one-third of its 180 applications.

Service Alberta's disaster recovery policy delegates responsibility to departments to assess and document the criticality of their applications using the IT disaster recovery framework. But as part of its oversight responsibility, we expect Service Alberta to use the catalogue to ensure criticality assessments are done for all IT applications and follow up with departments where gaps exist. This oversight process may include requesting supporting documentation, verifying information in the catalogue, and developing action plans based on anomalies identified. Service Alberta provided no evidence of this followup with any of the departments that have not assigned criticality ratings to all of their IT applications.

[3] The targeted timeline defined by the business or process owner during which an IT system must be restored after a disaster.

Recovering IT applications within targeted recovery timelines

As of January 2019, the catalogue shows 194 of the 1,300 applications assessed by departments are "critical." Service Alberta's policy mandates that departments must develop, implement, maintain, and test IT disaster recovery plans for all their critical IT applications. We found, however, in our examination of the catalogue that departments are not complying with this policy, as over one-quarter of the 194 critical applications do not have disaster recovery plans.

Service Alberta delegated responsibility to departments for assessing criticality of their own IT applications and ensuring critical applications are tested for recovery. Service Alberta should be using the catalogue to identify any critical applications across government that do not have documented disaster recovery plans and follow up with departments accordingly. Instead, Service Alberta stated to us that it assumes applications without disaster recovery plans are not critical. It provided no evidence that it followed up with departments to verify the criticality of applications without plans or that it worked with those departments to ensure they developed and tested plans.

Some departments appear to be doing a better job than others at documenting disaster recovery plans. Eight departments indicate in the catalogue that disaster recovery plans are in place for all of their critical applications. But two departments—Environment & Parks and Community & Social Services—indicate documented disaster recovery plans exist for only two of their combined 36 critical applications. Critical information systems related to flooding, water and fire data, and timber production management at Environment & Parks and dental, drug, and other payment processing at Community & Social Services are at higher risk of not being available if disaster recovery plans for those systems are not developed and tested regularly.

Service Alberta policy states that information and IT systems must be backed up and the recovery process tested regularly. Service Alberta stated to us that it assumes that applications are not critical if departments have neither tested them within the previous 12 months nor scheduled them to be tested in the next 12 months. We found the catalogue tracks when department applications were last tested, but it does not indicate the next scheduled testing date. As a result, Service Alberta cannot rely solely on the catalogue to conclude whether departments test critical applications as required.

In 2016, Service Alberta began an annual disaster recovery exercise to test the recovery of core IT infrastructure to an alternate data centre. Departments must conduct recovery tests for their own applications, and they can choose to do this during Service Alberta's annual exercise.

In the 2018 annual disaster recovery exercise, 21 departments participated and tested almost 300 applications. The application catalogue indicated, however, that less than one-quarter of the 194 applications assessed as critical were tested in 2018, including during the annual exercise. We found in our examination of the catalogue departments are not complying with requirements to regularly test recovery of their critical applications. Because the catalogue does not show the next scheduled testing date, we expect Service Alberta to follow up with departments having critical applications that, according to the catalogue, were not tested in 2018. We found no evidence that Service Alberta followed up with departments to ensure the catalogue is accurate and complete and to determine the next scheduled testing dates for critical applications not tested in 2018.

Only two departments recorded in the catalogue that all critical applications were tested for recovery in 2018. Two other departments—Health and Agriculture & Forestry—recorded that only one of their combined 52 critical applications were tested for recovery in 2018. Again, critical information systems supporting essential services are at higher risk of not being recovered as required if disaster recovery plans are not tested regularly.

To monitor the effectiveness of testing, the catalogue tracks how fast an application needs to be recovered based on a department's assessment of existing resource and recovery capability. Based on their last test dates, we found nine critical applications were not recovered within recovery time requirements. One such test occurred in 2013, and there is no indication in the catalogue that a more recent or successful test was performed. We found no evidence of Service Alberta followup with departments to ensure solutions are being worked on and plans exist to retest those applications.

In developing the guidance and requirements for IT disaster recovery, Service Alberta should provide oversight of departments' disaster recovery activities and results. Service Alberta should use the application catalogue to identify where departments are not meeting the policy requirements and to follow up with them on how they will rectify that non-compliance. This oversight process will be fundamental to government's planned centralization of most government IT services in Service Alberta that is currently underway.

Service Alberta provided us with an example of a monthly report it generates from the catalogue. This report lists information for all applications assessed as critical. Service Alberta sends this report to departments; however, we found no targeted followup process with departments on deficiencies related to disaster recovery plans, testing dates, or testing results. As a result, the Minister of Service Alberta cannot state to Albertans that the government disaster recovery plans for critical government IT applications are complete, adequate, and periodically tested.

REPEATED RECOMMENDATION:
Improve recovery of critical information technology applications

We again recommend that the Department of Service Alberta:

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

Consequences of not taking action

The government may not be able to deliver essential services and programs promptly in a disaster.

Audit Responsibilities and Quality Assurance Statement

Service Alberta, through the Corporate Information Security Office (CISO), is responsible for the IT disaster recovery program, including coordinating and providing IT disaster recovery services for government departments.

> **Our responsibility is to express an independent conclusion on whether Service Alberta has effective oversight of those departments to ensure that all critical IT applications can be recovered within targeted timelines.**

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.

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Contact us:
info@oag.ab.ca
780.427.4222

ISSN 1919-4242 (print)
ISSN 1927-9604 (online)

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4 Annual Summary of Recommendations

Status of Recommendations as of November 2019

We track and follow up on all recommendations we make to government. This summary lists recommendations by ministry, including the respective reporting entities. Each recommendation notes its status, based on management informing us that either:

- the recommendation is still being implemented and is not ready for a followup audit
- the recommendation has been implemented and is ready for a followup audit

As of November 2019, there are 149 recommendations, summarized by department in the table following: 135 outstanding recommendations and 14 new recommendations, including five new ones in this report.

Department	New Recommendations[1]	Outstanding Recommendations		Total	Ready / Not Ready[2]	Implemented[3]
		> 3 Years	< 3 Years			
Advanced Education	1	9	5	15	6/9	–
Agriculture and Forestry	–	–	6	6	4/2	–
Children's Services	–	1	3	4	4/0	–
Community and Social Services	–	1	3	4	4/0	–
Culture, Multiculturalism and Status of Women	–	–	1	1	1/0	–
Economic Development, Trade and Tourism	–	–	1	1	1/0	–
Education[4]	–	3	10	13	3/10	1
Energy	7	7	4	18	9/9	4
Environment and Parks	2	13	3	18	4/14	2
Executive Council	–	1	–	1	1/0	–
Health	–	21	3	24	7/17	3
Indigenous Relations	–	–	–	–	0/0	3
Infrastructure[5]	–	–	3	3	0/3	–
Justice and Solicitor General	–	9	2	11	9/2	–
Labour and Immigration	–	–	1	1	0/1	–
Municipal Affairs	–	2	–	2	0/2	–
Seniors and Housing	–	1	–	1	1/0	–
Service Alberta	–	3	4	7	5/2	–
Transportation	–	1	–	1	1/0	–
Treasury Board and Finance[5]	4	10	4	18	4/14	2
Legislative Assembly Offices	–	–	–	–	0/0	–
Total Outstanding						
Ready for Followup Audit	–	39	25	64		
Not Ready for Followup Audit	14	43	28	85		
Total	**14**	**82**	**53**	**149**		**15**

Notes:

[1] New recommendations since November 2018.
[2] Recommendations listed as "Not Ready" include new recommendations.
[3] Recommendations implemented since November 2018.
[4] The numbers for Education include two recommendations made to the Northland School Division.
[5] Three recommendations regarding capital planning were moved from Infrastructure to Treasury Board and Finance.

Auditor General
OF ALBERTA

oag.ab.ca

Contact us:
info@oag.ab.ca
780.427.4222

ISSN 1999-4242 (print)
ISSN 1927-9604 (online)

Making a difference in the lives of Albertans.