AUDITOR GENERAL
Alberta

Annual Report of the Auditor General of Alberta

2003–2004

ISSN 1703–7166

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

I am honoured to send my *2003–2004 Annual Report* to the members of the Legislative Assembly, as required by section 19(5) of the *Auditor General Act*.

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

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

Edmonton, Alberta
September 22, 2004

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Introduction

Introduction

1. Work of the Office

This section explains why we use our resources ($16.3 million in fiscal 2004) in the way we do.

The Auditor General audits the financial statements of every ministry, department, regulated fund, Provincial agency and the organizations listed on page 315. These financial statement audits and auditing the performance measures cost $12.1 million in fiscal 2004. The remainder of our resources, $4.2 million, was used to perform systems audits to improve the use of public resources, as required by section 19(2)(d) and (e) of the *Auditor General Act*.

There are four sources that we use to identify potential audit work that could improve the use of public resources. These sources are:

- knowledge of public sector program objectives, risks, controls and accountability gathered over time and specifically to plan current financial statement audits
- information about transactions, assets and liabilities obtained while doing financial statement audits
- concerns expressed by MLAs, legislative committees and the public
- requests for assistance from management of the organizations we audit

We prioritize the potential issues to get to a manageable number of systems audits by considering whether our audit work would result in recommendations to improve the safety and welfare of Albertans, the security and use of the province’s resources, or the governance and ethics with which government operations are managed.

Will the potential audit result in a significant recommendation to improve the cost-effectiveness of government operations? That is the key question. Our mandate is to report cases where management is not maintaining proper control over revenues, expenses, assets and liabilities with appropriate systems to ensure economy, efficiency and effectiveness, in other words, value for money.

These sources have led us to new systems audits on succession management, BSE-related assistance programs, and the use of P3s, all discussed in this report, and seniors core services and programs, which is an audit underway.

We know we cannot be effective if we cannot persuade senior government managers to implement our recommendations; we also know that their receptiveness to our suggestions is influenced by their perception of our knowledge and experience and our understanding of their business. This is why we try to work with management to solve issues before they become problems.

Our follow-up work on recommendations from previous systems audits takes time because we reperform the audit processes to provide evidence that the standards (criteria) we used for our original audit are now fully met. We work with management to obtain explicit action plans and timetables for implementation of the recommendations they have accepted, keeping in mind the expectation that implementation should occur within three years. It is more efficient to schedule our follow-up work when it is expected that the problem will be resolved.

The statistics in 3.3 below show fewer new recommendations. This results from our decision to follow up our recommendations until the issues have been satisfactorily resolved by management. The statistics are also a barometer of the responsiveness of the public sector to our recommendations.

2. Key recommendations this year

Indicates a key recommendation

The following are nine key recommendations. We believe their implementation will significantly improve the safety and welfare of Albertans, the security and use of the province’s resources, or the governance and ethics with which government operations are managed. In serial order, they are numbered: 1, 2, 5, 6, 9, 10, 14, 21, and 23. The repeated recommendations are: 21 and 23.

Succession management – page 26
Good systems are important for good government; good people are essential. Securing an adequate supply and succession of talented and trained people is a significant issue for the Government of Alberta. A large number of senior government employees are eligible to retire over the next five years, and there is increased competition for scarce human resources. The average age of the management group increased from 47 in 1996 to

50 in 2003 and the percentage of managers over 55 has also steadily increased from 11% in 1996 to 23% in 2003.

The objective of our succession management audit was to determine whether the government has systems and processes to anticipate and secure an adequate supply of human resources for future needs.

The Personnel Administration Office and deputy ministers have a corporate succession management framework and guidance, and departments have developed succession management systems. In Recommendation No. 1 (page 32), we recommend that the Personnel Administration Office, working with deputy ministers, should provide additional guidance and support to help all departments implement succession management systems. They should also provide further assistance to departments to facilitate developmental opportunities for employees between departments.

The risk is that without well functioning succession management systems, significant shortages of qualified employees may emerge in the government. And without appropriate developmental opportunities, employees may not be ready to advance into leadership roles when they need to.

Public Private Partnerships (P3s) – page 49

For the average person, P3s are mysterious. We read about them without knowing whether they are good or bad. There are many perceptions based on particular biases. P3s are not a fad here in Alberta; P3s are now considered an option for capital asset acquisition and service delivery, if value for money can be demonstrated by a ministry.

We audited two significant capital infrastructure projects—the Calgary Court Centre and the Southeast Edmonton Ring Road. Since these projects are being undertaken as P3s we decided to perform our work in a way that would allow us to demystify P3 projects by reporting general information on P3s and overall observations specific to the province. Our chapter starts at page 49.

Our specific findings are that the province has spent a great deal of time to improve capital asset planning processes, including alternative capital financing initiatives such as P3s. Also, the province has committed to account for these transactions in accordance with generally accepted accounting principles requiring the present value of future payment obligations to be recorded as liabilities on the province's balance sheet. With respect to the Court Centre and the Ring Road, the Ministries of Infrastructure and Transportation generally met all six of the criteria we set for assessing the quality of their systems. We believe the processes and the documentation to support the processes can be enhanced for future P3 projects. This will help ensure that value-for-money opportunities that may exist in future P3s are realized.

Since a lack of collaboration could result in ministries not benefiting from each others' experience and, therefore, the province may not achieve proper value for money, we recommend that Infrastructure and Transportation work with other ministries on improving the efficiency and effectiveness of P3 decision making (Recommendation No. 2, page 63).

BSE-related assistance programs – page 77
There are important immediate issues such as what to do with the surplus in cattle and managing the size of the 2005 calf crop. Also, it is unclear how Alberta will meet the requirement of 2,800 BSE tests in calendar 2004. As of the end of August 2004, Alberta had only tested 1,000 animals out of the 2,800 requirement.

On August 3, 2004, we released the *Report of the Auditor General on the Alberta government's BSE-related assistance programs*. In this *Annual Report*, we summarize the major financial assistance programs that began to evolve in May 2003, restate our conclusions on the effectiveness of these programs, and repeat the recommendations from our *BSE Report*—see page 77.

Two of the recommendations require the Department of Agriculture, Food and Rural Development, to take immediate action:

- Contingency planning—the Department, working with other governments and industry, should immediately develop and implement a contingency planning process (Recommendation No. 5, page 81).

As a result of the borders remaining closed to live cattle, there is a huge surplus of over thirty month of age cattle that is becoming a market factor. This surplus will continue to be a major issue until either the border opens to live cattle or the slaughter capacity in Canada increases.

- Testing quota—the Department, working with the federal Canadian Food Inspection Agency and the beef and related industries, should ensure that Alberta meets its contribution to Canada's BSE testing quota (Recommendation No. 6, page 82).

A critical issue is Canada's requirement to meet increasing BSE testing quotas in 2004 and 2005. If Canada does not harvest and test enough higher risk samples to meet international BSE testing guidelines, the re-opening of the borders will be delayed. Also, Canada may be placed in a higher risk BSE category making it that much more difficult to market Canadian beef internationally.

Developments since release of BSE report in August 2004

Since we released our BSE report in August 2004, the Alberta government has announced a six-point plan to assist the beef industry. The plan deals with:

- Increased slaughter capacity
- The development of new products
- Two new set aside programs, one for calves and the other for fed cattle
- Increasing BSE surveillance by compensating producers, veterinarians, abattoirs, and renderers for sample animals
- The Canadian Agricultural Income Stabilization Program
- Research initiatives

The Alberta government will support the six-point plan with $230 million in new funding.

Since August 2004, the Alberta government has also:

- Begun construction of a new Level 3 containment laboratory dedicated to animal disease detection and research.
- Announced the new University of Calgary veterinary medicine program that will begin operations in 2006.

Persons with Developmental Disabilities Community Boards: contracting – page 106

In 2003-2004, the PDD Boards paid $342 million to provide services to adults with developmental disabilities. Although there are approximately 900 service providers, 100 service providers receive 90% of the funding from the Boards.

At the request of management, we performed a forensic audit on the contracting practices of two service providers that led to the recommendation that the PDD Boards audit those service providers with a high risk of breaching their contracts. One Board is currently trying to recover $3.38 million from a service provider.

Following our forensic audit work on specific contracts, we audited the Boards' contracting policies and monitoring processes. We have recommended that the Boards strengthen their contract management by improving the accountability reporting of service providers, instituting risk-based internal audits, and evaluating service performance (Recommendation No. 9, page 111).

Failure to properly control contractual obligations can result in a reduced standard of care for clients and excessive costs.

Energy: Oil sands projects approvals – page 125
Alberta's oil sands resource is 100 times larger than Alberta's remaining established conventional oil reserves. The objectives of the Oil Sands Royalty Regulation are to: optimize the sustained contribution from Alberta's resources; establish a single, clear and stable royalty regime; and ensure that oil sands development in Alberta is generally competitive with other petroleum development investment opportunities around the world.

We examined the Department of Energy's systems and processes for the administration of oil sands royalties to determine if it had adequate systems to analyze and approve oil sands projects.

We found that risks are not considered in setting the discount rate used in present value tests, and we did not find formal assessments of whether time delays in the projects reaching the 25% royalty rate were considered for project expansions or amalgamations.

We recommend that the Department should improve systems by: setting expected ranges for analyzing the costs and forecasted resource prices submitted on oil sands project applications; and by incorporating risk into its present value test used to assess project applications (Recommendation No. 10, page 125).

These improvements will help the Department in approving only those projects that will achieve the objectives of the Regulation and in providing applicants with consistent treatment. Using risk-adjusted discount rates will ensure that all significant risks are factored into approval decisions.

Office of the Superintendent of Financial Institutions: pension plans – page 151
At the request of the Department of Finance, we examined in the Office of the Superintendent of Financial Institutions the systems for monitoring

private sector pension plans. The Superintendent has supervisory responsibility for approximately 1,100 private sector pension plans.

We have made four recommendations to the Department of Finance relating to the Office of the Superintendent needing to improve its monitoring of private sector pension plans. Specifically in Recommendation No. 14 on page 152, we said that the Superintendent should ensure that staff who monitor pension plans' compliance with legislation should promptly review and follow up on information from the private sector plans; and that those staff should receive appropriate training.

We found that no action had been taken until 2002 on a plan with continuing problems since 1999. Also, a significant number of compliance reports had not been reviewed promptly. In addition, there were problems with the submission of appropriate pension plan financial statements and no annual work plans had been prepared.

Without an adequate compliance monitoring process, the Office of the Superintendent of Financial Institutions may not promptly identify matters requiring its intervention to protect the interest of pension plan members.

Health care registration – page 190
Our recommendation repeats a similar recommendation made in 1999.

The Department of Health is unable to demonstrate that there is complete control over the health care registration process. The Department needs to improve its systems to ensure that it has the appropriate controls necessary to allow only eligible people to receive access to health care services at public expense (Recommendation No. 21, page 190).

Our audit work, which included analyzing over five million records provided by the Department and making enquiries, produced a number of indicators of an inadequate process.

Without adequate control over the registration process, ineligible people may access health services in Alberta with improperly obtained personal health numbers and/or cards. The consequence would be increased costs, lost revenues and decreased health care capacity for eligible people.

Accountability of the Health Regions to the Minister of Health and Wellness – page 197

Until 2003, business plans were the main accountability mechanism between the Health Regions and the Minister. For many years, we had recommended that these plans should be approved at the beginning of the period to which they related so that expectations and resources available were understood and accountability could work properly. The Department then introduced multi-year performance agreements, which summarized the obligations of both the Region and the Minister. For 2004–2005, the Department again changed the process, abandoning multi-year performance agreements. It now requires from each Health Region:

- A three-year health plan, which requires the Minister's approval
- An annual business plan, including a financial plan, which does not require the Minister's approval

There is room for improvement and, therefore, the risk that opportunities to improve health services and/or reduce costs could be missed. We have recommended (Recommendation No. 23, page 197) that the Department:

- ensure performance expectations for the Health Regions are explicit and accepted by the Health Regions
- review and provide feedback to the Health Regions on their progress towards meeting expectations
- take follow up actions, including rewards and sanctions, to improve the future performance of the Health Regions

It is significant that none of the nine Health Regions signed the 2003–2004 multi-year performance agreements. The announcement of the latest change in process was not made until April 2004, therefore, the Health Regions were not required to submit their plans until May 21, 2004. However, most were not submitted until early July 2004. The plans should have been submitted, reviewed and approved prior to the beginning of the fiscal year.

3. Overview of the annual report

3.1 Guidance to readers

What the report does

This annual report describes:

- what the Alberta government and its ministries and other entities should do to improve their systems,
- the results of our financial statements audits of the government and its ministries and other entities, and

- the results of performing specified auditing procedures (see Glossary) on ministry performance measures.

Structure of the report

The report has a chapter for each ministry. If we have recommendations for a ministry, its chapter has four parts:

- ***Summary*** highlights what a ministry must do to improve its systems.
- ***Overview*** briefly describes a ministry and its agencies, boards, and commissions.
- ***Scope*** explains the extent of our work in a ministry—auditing its financial statements and usually, examining some of its systems. We choose which systems to audit based on our assessment of how significant a system is and the risk that it may not meet certain criteria. The greater the significance and risk, the more likely it is that we'll audit a system—for more detail, see *Systems audit* in Glossary.
- ***Our audit findings and recommendations*** describes problems we found and solutions we recommend. We number what we consider our most important recommendations and require a response to them from the government.

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

The report also includes:

- a Cross-Ministry chapter applying to several ministries or the whole government—page 25
- a list of this year's recommendations—page 17
- a table of unimplemented recommendations over three years old—page 319
- a chapter on the Government of Alberta annual report—page 43
- an index—page 371
- a **Glossary** explaining specialized words and phrases we use in the report—page 365

Report subsections

In each chapter, the part called *Our audit findings and recommendations* has a subsection for each topic (we sometimes combine shorter subsections). If we have a recommendation on a topic, the subsection normally has the following five subheadings:

Recommendation
Background
Criteria: the standards we used for our audit
Our audit findings
Implications and risks if recommendation not implemented

To understand how these subsections fit together, it helps to know how we do a systems audit—for more detail, see *Systems audit* in Glossary.

3.2 Compliance with the law

We are satisfied that the transactions and activities we examined in financial statement audits complied with relevant legislative requirements, apart from the instances of non-compliance described in this report. As auditors, we only test some transactions and activities, so we caution readers that it would be inappropriate to conclude that our testing would identify all transactions and activities that do not comply with the law.

3.3 Recommendation statistics and analysis

This *Annual Report* contains 52 (2003 – 77) recommendations. Of these, we have numbered the 31 (2003 – 41) recommendations that we consider need a formal response from the government. Of the 31 numbered recommendations, 24 are new. The other 7 (2003 – 13) repeat previous recommendations with unsatisfactory progress. By repeating these recommendations, we expect the government to formally recommit to their implementation.

Issues more than three years old are reported at page 319. Since the benefit of any audit work is not in the recommendation, but in its effective implementation, we always follow up until the issue that gave rise to the recommendation is satisfactorily dealt with. We now have 21 issues reported before 2001 that have not been fully resolved; however, progress is satisfactory for 18 of the issues. Progress is not satisfactory for three issues so we have repeated those recommendations. They are Recommendation Nos. 18, 21 and 23.

4. Acknowledgements

The members of the Standing Committee on Public Accounts have continued to encourage my Office to provide them coaching on current issues so that they can maintain their effectiveness. We are pleased to assist the Committee in its crucial role. We welcome the advice we receive from the members of the Provincial Audit Committee. This Committee has senior business executives with financial, business and governance skills. The division of oversight responsibility between the Provincial Audit Committee (business and financial expertise) and the Public Accounts Committee (public sector expertise) is a good model for meeting today's governance requirements.

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

I am pleased with the professionalism of my staff. They—and the agent firms we work with—are dedicated to independent, objective and cost-effective auditing for the Legislative Assembly and the people of Alberta. I thank them for their commitment, talent, and hard work.

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

September 10, 2004

Audits and recommendations

Indicates a key recommendation

Green print – other numbered recommendations

Black print – unnumbered recommendations

Cross-Ministry

Page 28

Corporate succession management systems
We recommend that the Personnel Administration Office and deputy ministers develop performance measures and targets to assess the effectiveness of strategies used to attract, develop and retain employees for all cross-ministry vulnerable and critical roles.

Page 28

Developmental opportunities
We recommend that the Personnel Administration Office, working with deputy ministers, provide further assistance to departments to facilitate developmental opportunities for employees between departments.

Page 32

Succession management guidance—Recommendation No. 1
We recommend that the Personnel Administration Office, working with deputy ministers, provide additional guidance and support to help all departments implement succession management systems.

Public Private Partnerships (P3s)

Page 63

Identifying opportunities to use a P3—Recommendation No. 2
We recommend that the Ministries of Infrastructure and Transportation, as co-chairs of the Deputy Minister Capital Planning Committee, work with the Ministry of Finance and other ministries to:

1. improve the definition of a P3
2. determine key prerequisites to identify projects most suitable for P3s
3. define when differences in key processes are appropriate
4. improve the timeliness of information and the overall analysis of alternatives to decision makers
5. define what constitutes a significant change in project scope
6. evaluate transparency and accountability of P3s

Agriculture, Food and Rural Development

Page 80

Risk assessment for the agriculture and agri-food industry in Alberta—Recommendation No. 3
We recommend that the Department of Agriculture, Food and Rural Development complete a risk assessment that analyzes the probability and impact of major risks to the agriculture and agri-food industry in Alberta. Based on the results of the risk assessment, the Department should also develop risk mitigation and response strategies.

Page 81

Measurable targets—Recommendation No. 4
We recommend that the Department of Agriculture, Food and Rural Development establish measurable targets for its emergency financial assistance programs.

Page 81

External accountability reporting
We recommend that the Department of Agriculture, Food and Rural Development improve its external accountability reporting.

Page 81

Contingency planning—Recommendation No. 5
We recommend that the Department of Agriculture, Food and Rural Development, working with other governments and industry, immediately develop and implement a contingency planning process.

Page 82

BSE testing quota—Recommendation No. 6
We recommend that the Department of Agriculture, Food and Rural Development, working with the federal Canadian Food Inspection Agency (CFIA) and the beef and related industries, ensure that Alberta meets its contribution to Canada's BSE testing quota.

Page 83

Alberta Disaster Assistance Loan Program
We recommend the Agriculture Financial Services Corporation strengthen its internal controls and program evaluation for the Alberta Disaster Assistance Loan Program.

Children's Services

Page 92

Reporting to senior management on the Delegated First Nation Agencies—Recommendation No. 7
We recommend that the Ministry of Children's Services improve the quality of its reporting to Ministry senior management on program delivery at the Agencies.

Page 96

Internal audit services
We recommend that the Ministry of Children's Services complete its risk assessment, and use this assessment to plan internal audit activities.

Page 98

Data for performance measurement
We again recommend that the Ministry consider the availability of data for performance measurement and reporting when deciding which measures to include in its business plans (2002—page 61).

Community Development

Page 107

Service provider risk assessment—Recommendation No. 8
We recommend that the Persons with Developmental Disabilities Provincial Board, in conjunction with the six Community Boards, reduce the risk of service providers breaching contracts by:
- performing a risk assessment to identify service providers with a high risk of breaching contracts; and
- auditing high-risk service providers to ensure that they spend funding according to their contracts and that they meet the other terms of their contracts.

Page 109

Contracting policies
We recommend that the Persons with Developmental Disabilities Provincial Board work with the six Community Boards to update and improve their contracting policies and procedures.

Page 111

Contract monitoring and evaluation—Recommendation No. 9
We recommend that the Persons with Developmental Disabilities Provincial Board work with the six Community Boards to strengthen the monitoring and evaluation of the performance of service providers by:
- requiring individual funding service providers to provide adequate financial reporting;
- obtaining annual financial statements to evaluate the financial sustainability of critical service providers;
- implementing a sustainable, risk-based internal audit plan;
- developing and implementing standard procedures to be followed when Community Board staff are in contact with service providers; and
- implementing a method to evaluate service provider performance.

Energy

Page 125

Oil sands projects approvals—Recommendation No. 10
We recommend that the Department of Energy:
- set expected ranges for analyzing the costs and forecasted resource prices submitted on oil sands project applications.
- incorporate risk into its present value test used to assess project applications.

Page 127

Evaluation of industry reporting—Recommendation No. 11
We recommend that the Department of Energy improve its documentation of its verification procedures for oil sands royalty information and its audit results.

Page 129

Alberta Royalty Tax Credit program—Recommendation No. 12
We again recommend that the Department of Energy document and communicate the objectives of the Alberta Royalty Tax Credit program and use measures to assess whether the program is meeting its objectives (2003—No. 11).

Environment

Page 138

Business plan and planning processes
We recommend that the Ministry further improve its business plan by:
- clarifying its contributions to achieving the government business plan goals.
- enhancing the description of the significant environmental factors and risks, and their relationship to the strategic priorities in the plan.
- showing the corporate services areas as supporting all of the Ministry's core businesses.

Page 138

Relevancy and sufficiency of performance measures—Recommendation No. 13
We recommend that the Ministry improve the process for developing new performance measures and ensure the measures in its business plan assess the results each goal aims to achieve.

Page 141

Human resource management
We recommend that the Ministry clarify the goals, performance measures and targets in its human resource plan, and improve the quality of employee performance assessments and the method of feedback.

Finance

Page 152

Private sector pension plans: compliance information—Recommendation No. 14
We recommend that the Office of the Superintendent of Financial Institutions ensure that compliance staff:
- promptly review and follow-up on compliance information obtained from private sector pension plans
- receive appropriate training to effectively discharge their responsibilities

Page 152

Private sector pension plans: monitoring—Recommendation No. 15
We recommend that the Office of the Superintendent of Financial Institutions improve its processes for monitoring private sector pension plans by:
- preparing a risk-based annual plan for its compliance monitoring program that identifies resources required to effectively carry out the plan
- reporting the results of regulatory activities by compliance staff to senior management
- updating its policies and procedures manual

Page 156

Private sector pension plans: audited plan financial statements
We recommend that the Office of the Superintendent of Financial Institutions obtain audited plan financial statements from all employer pension plans.

Page 156

Private sector pension plans: high-risk plans—Recommendation No. 16
We recommend that, for high-risk employer pension plans, the Office of the Superintendent of Financial Institutions obtain:
- assurance from pension plans' auditors on the plans' compliance with the Employment Pension Plans Act, Regulation and plan document
- information on pension plans' governance structure and practices

Page 159

ATB: Lending policy compliance—Recommendation No. 17
We again recommend that Alberta Treasury Branches ensure its lending officers comply with corporate lending policies (2003—No. 15).

Page 161

ATB: Key internal controls at Branches—Recommendation No. 18
We again recommend that Alberta Treasury Branches ensure branch processes comply with corporate policies and procedures (2002—No. 17).

Page 162

ATB: Investment services regulatory compliance—Recommendation 19
We recommend that ATB Investment Services Inc., ATB Investment Management Inc, and ATB Securities Inc. enhance their control processes to ensure they meet regulatory requirements.

Gaming

Page 168

Gaming worker registration
We recommend that the Alberta Gaming and Liquor Commission (AGLC) improve the worker registration process, including controls to confirm the identity of gaming worker applicants.

Government Services

Page 177

Contracting policies and procedures—Recommendation No. 20
We recommend that the Alberta Corporate Service Centre:
- develop comprehensive contracting policies and procedures
- train staff on how to follow the policies and procedures
- monitor staff compliance with the policies and procedures

Page 180

Disclosure of conflict of interest
We recommend that the Alberta Corporate Service Centre require staff involved in contracting to disclose annually in writing:
- that they understand and agree to follow the Code of Conduct and Ethics, and
- any potential conflicts of interest they may have.

Page 181

Disaster recovery plan
We recommend that the Alberta Corporate Service Centre improve the disaster recovery plan for the government's data centres by:
- having appropriate recovery facilities and equipment available to resume ministries' critical business systems.
- developing a communication strategy and assigning responsibilities for staff.
- establishing detailed procedures for restoring systems based on ministry priorities.

Health and Wellness

Page 190

Health care registration—Recommendation No. 21
We recommend the Department of Health and Wellness improve control over the health care registration system (1999—No. 40).

Page 193

Contracting for consulting services
We recommend the Department of Health and Wellness follow its contract management policy and processes in awarding any contract for consulting services.

Page 195

Information technology control environment—Recommendation No. 22
We again recommend that the Department of Health and Wellness carry out a comprehensive risk assessment of its IT environment, and develop and implement an IT disaster recovery plan (2002—No. 24).

Page 197

Accountability of the Health Regions to the Minister—Recommendation No. 23
We again recommend that the Department of Health and Wellness improve accountability of the Health Regions to the Minister by:
- ensuring performance expectations for the Health Regions are explicit and accepted by the Health Regions,
- reviewing and providing feedback to the Health Regions on the Health Regions' progress towards meeting expectations, and
- taking follow up actions, including rewards and sanctions, to improve the future performance of the Health Regions (1998—No. 26).

Page 202

Calgary Health Region: business cases
We recommend that the Calgary Health Region analyze the benefits and the risks of all viable alternatives considered in their business cases for new and complex projects.

Infrastructure

Page 216

Swan Hills Treatment Plant—Recommendation No. 24
We recommend that the Ministry of Infrastructure establish a process to assess whether the Swan Hills Treatment Plant is achieving its objectives.

Innovation and Science

Page 231

Security awareness Program—No. 25
We recommend that the Corporate Chief Information Officer implement a security awareness program for government employees.

Learning

Page 252

University of Alberta—Research measures, targets and costs
We recommend that the University of Alberta improve the integration of research into its strategic business plan by ensuring that:
- key performance measures and targets are identified with each strategy indicated in the plan
- the costs of achieving these targets are considered when making budget allocation decisions
- the faculty and other research administrative unit plans set out in clear, consistent terms the extent to which faculties and units are planning to contribute to the achievement of these targets

Page 254

University of Calgary: Research measures, targets and costs
We recommend that the University of Calgary improve measures and targets for assessing research performance and systems for monitoring research results.

Page 255

University of Calgary: Planning for research capacity—Recommendation No. 26
We recommend that the University of Calgary improve human resource and space plans and develop a system to quantify and budget for the indirect costs of research.

Page 257

University of Calgary: Sponsored research and trust accounts
We recommend the University of Calgary improve the controls over sponsored research and trust accounts.

Municipal Affairs

Page 265

IT management controls
We recommend that the Ministry of Municipal Affairs approve its draft security policies and implement procedures so that only authorized users can access the ministry's systems and data. We also recommend that the Ministry strengthen controls over its information technology by:
- implementing a risk assessment framework to manage IT risks
- obtaining assurance on technical aspects of the general computer control environment

Revenue

Page 275

Reliance on Canada Revenue Agency's compliance auditing—
Recommendation No. 27
We recommend that the Tax and Revenue Administration division of the Ministry of Revenue justify its reliance on the compliance audit activities of the Canada Revenue Agency.

Seniors

Page 283

Excluded surpluses
We recommend that the Ministry of Seniors record in the Department and Ministry financial statements surpluses for social housing projects that management organizations retain.

Page 284

Program objectives
We recommend that the Alberta Social Housing Corporation ensure its program objectives are supported by the appropriate business arrangements. We further recommend that these arrangements be accounted for in accordance with Canadian Generally Accepted Accounting Principles.

Sustainable Resource Development

Page 294

Confined feeding operations—Recommendation No. 28
We recommend that the Natural Resources Conservation Board enhance its compliance and enforcement function by prioritizing tasks based on risk analysis and managing odour and nuisance complaints more efficiently.

Transportation

Page 301

Monitoring processes for inspection programs—Recommendation No. 29
We recommend that the Ministry of Transportation strengthen its monitoring processes for Commercial Vehicle Inspection Program and Motor Vehicle Inspection Program by:
- documenting policies, procedures and management's expectations of the Vehicle Safety Investigators to ensure that they perform their functions appropriately and consistently;
- developing a reporting process to allow senior management to enhance the assessment of the effectiveness of the programs.

Page 303

Licensing inspection stations and technicians—Recommendations No. 30
We recommend that the Ministry of Transportation improve the process to license inspection facilities and technicians.

Members of the Legislative Assembly (MLAs) expense reimbursements

Page 310

Timeliness of Report of payments to MLAs—Recommendation No. 31
We again recommend that the Minister of Finance improve the timeliness of the annual Report of payments to MLAs (2003—page 290).

Cross-Ministry

Summary: what we found in our audits

Systems
The Personnel Administration Office, working with deputy ministers, should provide additional guidance and support to help all departments implement a succession management system. The Personnel Administration Office and deputy ministers should develop further succession management performance measures and facilitate developmental opportunities for employees between the departments—see page 26.

Overview

Systems that affect all or several ministries

This section is unique because it focuses on the results of our examination of government systems and programs that affect the whole government or several ministries.

Central agencies develop policies that ministries implement

A number of ministries, such as Executive Council, Finance, and the Personnel Administration Office, are central agencies with broad government responsibilities. These central agencies develop corporate policies, strategies and guidance for ministries to operate within. Other ministries, such as Municipal Affairs, Innovation and Science, and Government Services, have responsibilities for programs that have a cross-ministry impact. Examples of these programs are disaster planning, information systems, and Alberta Corporate Services Centre.

Ministries are encouraged to work together

The government encourages ministries to work together to solve common problems. This is evidenced by the cross-ministry policy and administrative initiatives that are identified in the government business planning process. Ministries also work together on other matters that require several ministries to achieve results.

Scope: what we did in our audits

1. We examined succession management processes in the Alberta Government to determine whether systems are in place to anticipate and secure an adequate supply of human resources for future needs. We organized and focused our work on two areas: corporate framework, guidance and systems; and department systems.

2. We also examined the government's progress in:
   - improving audit committee performance
   - completing memorandums of understanding
   - improving internal control
   - ensuring compliance with ministry business plan standards

3. We examined the ministry business plans for 2004–2007 and the government's progress in ensuring its standards for ministry business plans are followed.

Our audit findings and recommendations

1. Succession management

Background

Significant issue for the Government of Alberta

Succession management is the process organizations use to anticipate and secure an adequate supply of talent for future needs. The process is gaining importance in light of demographic changes not only in Canada, but also throughout the world. Succession management is a significant issue for the Government of Alberta. A large number of senior government employees are eligible to retire over the next five years, and there is increased competition for scarce employee resources. Both of these factors increase the risk of a shortage of skilled staff in the future.

45% of management group eligible to retire by 2008

Each year, the Personnel Administration Office (PAO) completes a high level demographic analysis of management in the Alberta public service. According to the most recent 2003 PAO projections, 45% of the entire management group will be eligible for retirement by 2008. Since only 10% of the people eligible to retire have actually retired in each of the last five years, it is not clear when the peak will occur, if not by 2008. However, the people in the public service are undoubtedly aging. The average age of the management group increased from 47 in 1996 to 50 in 2003 and the percentage of managers over 55 has also steadily increased from 11% in 1996 to 23% in 2003.

Corporate Plan contains succession management goals and measures

The 2004–2007 Corporate Human Resource Plan (the Plan) includes goals, objectives and measures for succession management in the Government of Alberta. The 2004–2005 Corporate Human Resource Development Strategy (the Strategy) identifies annual cross-ministry human resource priorities that support the Plan goals. The Plan goals relevant to succession management are:

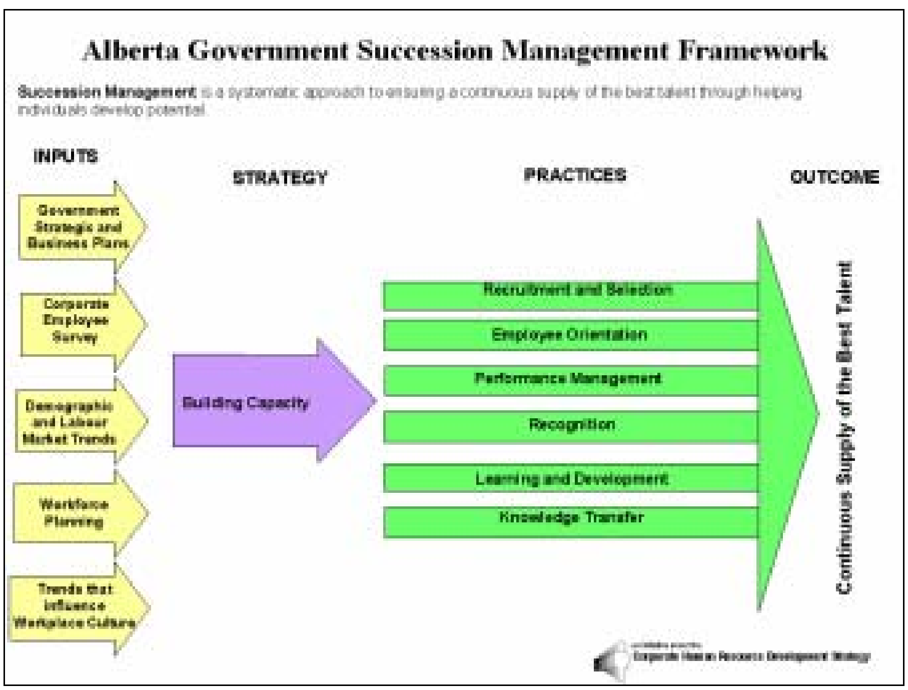
- *Competence:* to ensure the organization has the knowledge, skills and abilities to accomplish current and future business plan goals.
- *Versatility:* to ensure Alberta Public Service employees can adapt to meet changing needs.
- *Commitment:* to build employee commitment to government goals and values, and ensure the Alberta Public Service is an attractive employer for current and potential employees.

PAO and deputy ministers are responsible

PAO and deputy ministers collectively have the responsibility for the Plan and the Strategy. Deputy ministers are also responsible for implementing the Plan and Strategy in the departments of the Government of Alberta.

Corporate framework developed to help departments

PAO and deputy ministers set the corporate succession management framework (corporate framework) for the government. This corporate framework provides a model of how elements of human resource management systems come together to form a succession management system. The corporate framework is:



We focused on corporate and department systems

Objective and scope

Our objective was to determine whether the Government of Alberta has systems in place to anticipate and secure an adequate supply of human resources for their future needs. We organized and focused our work in two areas: corporate and department.

The work is being done in two phases, and during the first phase, we assessed:

- the corporate framework and supporting guidance provided to departments and the corporate succession management system.
- the design of departments' succession management systems and whether these systems are consistent with the corporate framework. We have not yet assessed whether the departments' succession management systems are working effectively. We looked at 24 departments and 3 other organizations, these entities are collectively referred to as departments throughout this section.

During the second phase of the audit, we will perform an in-depth review of a selected number of departments' succession management systems. This will result in a more detailed review and testing of the effectiveness of the succession management systems in place.

1.1 Corporate succession management systems

Recommendation

We recommend that the Personnel Administration Office and deputy ministers develop performance measures and targets to assess the effectiveness of strategies used to attract, develop and retain employees for all cross-ministry vulnerable and critical roles.

We recommend that the Personnel Administration Office, working with deputy ministers, provide further assistance to departments to facilitate developmental opportunities for employees between departments.

Criteria: the standards we used for our audit

PAO and deputy ministers should:

1. clearly define goals of succession management for the Government of Alberta that reflect future human resource needs and are consistent with the Plan.

2. have a process in place to ensure goals of succession management are met. This process should include strategies to meet goals and the assignment of responsibilities, timelines and resources to implement the strategies.

3. have corporate human resource systems to ensure there is a continuous supply of highly skilled, competent workers in the Government of Alberta. These systems should:
   - include all critical and vulnerable organizational roles
   - identify the requirements for the critical organizational roles and assess current staff against the requirements
   - include attraction, development and retention strategies to meet needs

4. establish measures and targets to evaluate the achievement of the succession management goals.

5. monitor and report the results of the succession management strategies to ensure they meet their goals. This should include comparing and evaluating performance measure results against targets.

Our audit findings

PAO and deputy ministers have a corporate succession management system that meets criteria 1, 2 and 5 above and partially meets criteria 3 and 4.

Corporate goals exist

Goals—PAO and deputy ministers have clearly defined the goals of succession management and have included these goals in the three Plan goals of *competence, versatility* and *commitment.* These goals are consistent with the government's business plan and align with the revised succession management framework. The objectives for these goals are clearly stated and include developing employees, responding to future human resource needs and moving people within government to promote continuous learning.

Strategies in place to support goals

Strategies—PAO and deputy ministers have a corporate human resource planning process to ensure the succession management goals and objectives are met. PAO and deputy ministers work with departments to develop strategies to meet the succession management goals. Corporately, responsibilities, timelines and resources are assigned to the cross-ministry initiatives in the Strategy and supporting action plans. The strategies flow from the corporate Plan down to the department human resource plans.

Corporate system focusing on critical leadership positions and development of all employees

Corporate human resource systems—the corporate succession management system focuses on continuity planning for critical leadership positions and the development of all other employees. PAO and deputy ministers have defined both levels of executive managers, approximately 390 employees as of September 2003, as critical leadership positions. To support continuity planning strategies for these positions, PAO has developed a profile defining requirements such as competencies, experience and education for one of the two executive manager positions and is currently developing the requirements for the other. Executive managers have access to an assessment service where they are assessed against the competencies outlined in the profiles. This assessment information is used for identifying development needs. In addition, PAO has identified other vulnerable and critical roles and worked with departments to develop strategies to address future needs.

Departments are to provide developmental opportunities to employees

The corporate framework focuses on development of all employees. To support this, PAO offers a number of assessment and development programs to all levels of managers. Since employees require both training and practical experience to develop their skills, one of the key succession management strategies includes providing employees with developmental opportunities within and between departments. These developmental experiences are intended to provide employees with practical experience in leadership roles. There is a corporate program to help departments participate in employee exchanges with other government and non-government organizations. However, some departments have indicated that they could benefit from further assistance to help facilitate developmental opportunities for their employees on a cross-ministry basis.

Some departments have difficulty in providing developmental opportunities to employees

Departments are responsible for arranging individual developmental experiences and reporting to PAO, under the *versatility* goal, the "percentage of executive and other managers having departmental moves" and the "percentage which are interdepartmental moves." Developmental moves are occurring. However, some departments have limited developmental opportunities within their current structures and can have difficulty giving individuals appropriate experiences. As a result, some departments are creating new roles or redefining existing roles to offer broader experiences and more leadership challenges to employees.

PAO supports attraction and retention strategies to help departments

PAO does support a number of attraction and retention strategies to help departments meet their succession management goals. PAO has worked with departments to develop strategies for meeting the needs for other critical roles in areas such as finance, information technology, and human services. The Strategy also includes initiatives for developing a marketing strategy to promote the public service and to identify and meet targeted workforce requirements.

Plan measure focused on leadership positions over short-term

Measures and targets—to evaluate the achievement of goals, the Plan includes measures and targets for each goal and objective that relate to succession management. However, the Plan measure that supports the objective most closely linked to succession management, "departments anticipate and respond to future human resource needs" does not capture information on all cross-ministry vulnerable and critical roles. The measure focuses on whether suitable candidates are available to fill all critical leadership positions within the next year and within three years. However, it does not provide information on the status of these positions over the long-term, such as in five years, when competition for human resources is expected to increase significantly.

Status of other cross-ministry vulnerable and critical roles not measured

Departments have also identified other cross-ministry vulnerable and critical roles, such as human service workers, policy writers, medical professionals, agriculture and forestry specialists, and finance and accounting professionals. There are no measures and targets to assess the effectiveness of strategies used to attract, develop and retain employees to fill these roles.

Corporate results are monitored by PAO and deputy ministers

Monitoring and reporting—PAO and deputy ministers regularly monitor and report the results of the succession management strategies, as part of the reporting on the Plan. The corporate results are reviewed annually by PAO and deputy ministers. A Corporate Employee Survey is also conducted annually and these results are reviewed by each department for their own employees and corporately by PAO and the deputy ministers.

Implications and risks if recommendation not implemented

Employee shortages may develop unexpectedly

Significant employee shortages may develop unexpectedly in the government if management has insufficient information to assess the effectiveness of strategies used to attract, develop and retain employees for all cross-ministry vulnerable and critical roles.

Employees may not be ready to advance into leadership roles

Without further assistance to help departments identify and coordinate developmental opportunities, employees may not have the opportunity to participate in developmental assignments to help them prepare for leadership roles.

1.2 Succession management guidance

Recommendation No. 1

We recommend that the Personnel Administration Office, working with deputy ministers, provide additional guidance and support to help all departments implement succession management systems.

Criteria: the standards we used for our audit

PAO and deputy ministers should:

1. establish a corporate framework that is aligned with corporate succession management goals and integrated with human resource planning, recruiting, developing and evaluation systems.

2. establish comprehensive guidance that helps all departments implement succession management systems. The guidance should define the key components of the succession management process and provide sufficient information on how to implement the process.

3. regularly review the effectiveness of the corporate framework and guidance for departments.

Departments should:

4. adopt and implement a department framework that is consistent with the corporate framework and guidance, and communicate the department framework to all staff. They should also review the effectiveness of their department framework regularly.

5. clearly define their succession management goals and have a process to ensure the goals of succession management are met. This process should include the development of strategies to meet goals and the assignment of responsibilities, timelines and resources.

6. have human resource systems to ensure that there is a continuous supply of highly skilled, competent workers. These systems should:
   - include all critical and vulnerable organizational roles
   - identify the requirements for organizational roles and assess current staff against the requirements
   - include attraction, development and retention strategies to meet needs

7. establish measures and targets to evaluate the achievement of succession management goals.

8. monitor and report the results of their succession management strategies to ensure that they meet their goals.

Our audit findings

To assess the adequacy of the corporate guidance, we examined the corporate framework and guidance provided to departments and the succession management systems designed by departments. PAO and deputy ministers have a corporate framework and guidance that meets criteria 1 and 3, and partially meets criteria 2.

Revised corporate framework issued in April 2004 aligns with goals and integrates with other systems

PAO and deputy ministers developed a corporate framework and guidance in 1998–1999 to support the Plan goals for succession management. They revised the framework and guidance in April 2004 and communicated both to all departments. The revised corporate framework aligns with the corporate succession management goals. The framework's outcome to ensure "a continuous supply of the best talent through helping individuals develop potential" aligns with the Plan goals of *competence, versatility and commitment*. The framework also establishes the relationship of succession management with the government's human resource systems.

Corporate framework focuses on employee development

The corporate framework is based on the best practice approaches of simplicity, ease of use, and flexibility, and focuses on developing employees rather than filling positions as employees leave. It highlights key inputs, such as business planning, employee surveys, and trend analyses, that support the development of succession management strategies.

PAO gives guidance to departments to implement the framework

PAO also gives some guidance to departments to help them implement their framework and supporting systems. The guidance mainly includes links to reference documents describing human resource systems used to recruit, develop and retain employees. Also, PAO has arranged succession management presentations for senior management. PAO reviews the effectiveness of the corporate framework and guidance through their planning process.

Departments have succession management goals and systems but they could be improved

All departments have established succession management goals and have designed succession management systems to achieve the goals. The design of succession management systems varies from department to department. We concluded all systems, based on their design partially met criteria 4 through 8. Improvements are needed to fully meet these criteria.

Departments need more guidance

Our review of the departments' succession management systems indicates that departments need more guidance. Departments need guidance on:

- implementing the corporate framework,
- defining the competencies and skills required for critical and vulnerable roles, assessing their current staff against these requirements and developing targeted attraction, development or retention strategies to meet needs,
- designing measures and targets to measure the achievement of department succession management goals, and
- monitoring and reporting on the achievement of results.

Many departments also told us they need more guidance

Many departments also told us that they need more guidance to develop and implement their succession management systems. Specifically they want examples of methods to identify potential candidates and to analyze demographics, training on how to implement the framework, and a mechanism to share best practices.

Implications and risks if recommendation not implemented

Significant employee shortages may emerge unexpectedly

Without sufficient guidance, departments may not efficiently implement succession management systems and significant shortages of qualified employees may emerge unexpectedly in the government.

2. Governance

2.1 Audit Committee performance—satisfactory progress

Introduction

Previously, we recommended that the Deputy Minister of Executive Council, working through other deputy ministers, take steps to improve audit committee practices in the Alberta Public Sector (2003—No. 1). We also issued a report to the government and audit committees on the results of our examination of audit committee practices for organizations in the broad Alberta public sector. The report is on our website at www.oag.ab.ca. In it, we make a number of specific recommendations that the government and individual boards or audit committees should consider.

The government relies on agencies, boards and commissions (ABCs) to deliver significant services and therefore to achieve government and ministry goals. An audit committee is a key committee supporting a board in its overall governance of these organizations. Audit committees typically are responsible for oversight of the relationship with the external and internal auditor, internal control, reporting of financial and other information, and risk management practices. These are all important matters that an audit committee carries out for its board.

Criteria: the standards we used for our audit

Audit committees should:

1. comprise independent members with sufficient financial knowledge and experience
2. operate under a written mandate that the board approves annually
3. articulate to management its information needs
4. meet regularly throughout the year with a pre-established and appropriate agenda
5. review the principal financial and regulatory risks and controls of the ABC
6. assess the effectiveness of the ABC's systems of internal controls and for legislative compliance and receive related compliance reports from management
7. oversee the ABC's processes for appropriate financial reporting and internal audit
8. maintain open and direct communication with the external auditor
9. have ready access to necessary information to enable it to accomplish its objectives

Our audit findings

Satisfactory progress

Executive Council made satisfactory progress in implementing the recommendation. Many individual audit committees also made satisfactory progress in improving their practices.

Committee established

Executive Council and deputy ministers agreed to establish a committee to develop a broad framework of audit committee practices. The Committee is composed of seven members and the Chair of the Committee is the Chief Internal Auditor for the Province. The objectives of the Committee are to determine the ABCs affected and in need of audit committees, to develop a common framework and broad direction for audit committee practices, to communicate good practices to audit committees, and to provide guidance to governance bodies in overseeing and supporting audit committees.

ABC audit committees are taking action

ABC audit committees examined in the prior audit have done well by starting to address the areas we recommended for improvement. We also observed that other audit committees, who were not specifically examined in the prior year's audit, have taken the initiative to improve their audit committee practices. For example, one audit committee requested its internal audit to assess its practices against those set out in our report.

Audit committees largely had meetings prescheduled with agenda packages distributed at least a week in advance to allow adequate time to review the material. The committees' decisions were documented sufficiently in meeting minutes. Audit committees' discussed issues with management and information was made available, as necessary. Some ABCs without internal audit functions discussed the need for one and a few were in the process of implementing an internal audit department. Our staff have experienced positive and open relations and communication with audit committees. Audit committees largely completed annual self-assessments against their mandates.

Audit committees are looking for financial skill sets

However, in some cases, the nature of the ABC and its geographic location continued to be perceived as barriers to accessing financial expertise and recruiting members who are financially literate. As the financial skills of audit committee members improve, members will be able to deal better with tough financial issues and ask management challenging questions related to financial performance and reporting.

In last year's Annual Report, we stated that we were the external auditor for most of the organizations. As such, we will support the improvement of audit committee performance through ongoing discussions with audit committees. We also worked with the Institute of Corporate Directors as it established Alberta based chapters and helped develop training opportunities for public sector board members.

Risk management developing

Although audit committees have taken strides to oversee risk management, many ABCs are at the initial stages and further development is needed. Most audit committees continue to rely on the external auditor as its main source to assess the ABCs systems of internal controls and for legislative compliance.

Implications and risks if recommendation not implemented

Without appropriate practices, audit committees could be ineffective

Audit committees play a key role in helping ABCs manage risk and meet their goals and objectives. If the quality of audit committee practices is not appropriate, the audit committee may not be effective in fulfilling its governance responsibilities over financial reporting, risk management, and regulatory compliance.

3. Business planning

3.1 Review of the 2004–2007 business plans—implemented

Background

In our *2001–2002 Annual Report,* we recommended that the Ministry of Finance develop comprehensive standards for preparing ministry businesses plans, and that Finance and deputy ministers ensure the standards are followed.

In July 2003, Finance provided instructions to ministries for preparing their 2004–2007 business plans. The instructions included the *Government of Alberta Ministry Business Plan Standards*, which established the mandatory components and format for business plans while allowing ministries to determine the content. Finance also provided ministries with the *Government of Alberta Business Plan Reference Guide* to help them implement the *Standards.*

In our *2002–2003 Annual Report*, we concluded that together, the *Standards* and the *Reference Guide* demonstrate that the government has implemented our recommendation to develop comprehensive standards for preparing ministry business plans. However, we noted that the recommendation to ensure that the *Standards* are followed could not be assessed until this year.

Criteria: the standards we used for our audit

Finance and the deputy ministers have established a system to ensure that ministries complied with the *Standards*.

Our audit findings

Ministry business plans continue to improve and Finance systems promote adherence to *Standards*

The recommendation to ensure that the *Standards* are followed is implemented. The many improvements ministries have made in their plans, over previous year plans, demonstrate a commitment to continuous improvement in the preparation and communication of their business plans. Use of a common set of components has made the business plans easier to read and understand. Finance staff told us that Members of the Legislative Assembly provided positive feedback and reported that the new format helped them carry out their accountability functions.

Finance has established a system which, in our opinion, promotes adherence to the *Standards* and identifies instances of non-compliance. This system includes:

- working with people responsible for developing the business plan in each ministry to foster common understanding of the *Standards*.
- providing advice during development of plans.

After the 2004–2007 ministry business plans were published, Finance reviewed each plan against the *Standards* and reported results to each ministry.

More work needed to fully comply with the *Standards*

In most cases, Ministry business plans substantially met the *Standards*. Examples of *Standards* that were not fully adhered to in all ministry

business plans are:
- integration of ministry entities into a consolidated plan
- consistency in naming of core businesses in the plan and in the financial statements
- description of how the ministry supports government business plan goals

Many ministries have developed innovative approaches for their business plans that constitute good practices

We also found variation in interpretation or application of the *Standards* that resulted in some innovative approaches that other ministries could learn from to improve their plans. Examples of the innovations in business plans that we consider to be good practices are:
- referencing and briefly describing all entities in the description of the ministry
- describing how opportunities and challenges could affect the ministry's ability to achieve its goals and how the strategic priorities respond to these opportunities and challenges
- providing a brief description of each core business
- defining goals in terms of the outcomes to be achieved and ensuring strategies are comprehensive
- providing a brief description of performance measures, particularly those of a complex or technical nature that may not be clearly understood
- ensuring performance measures are sufficiently developed before including them in the plan as measures
- referencing ministry support services and their role in supporting all core businesses

We made suggestions to Finance concerning incorporating these good practices into their revisions to the *Standards*. Finance also found inconsistencies in application of the *Standards* that they plan to resolve by revising the *Standards*, and clarifying when ministries can add to the business plan template embedded in the *Standards*.

While we found room for further improvement in the application of the *Standards*, this is the first year that ministries developed their plans under the *Standards*. We believe the process in place to improve the *Standards* and enforce them is appropriate and will result in substantial compliance by ministries in future years. Consequently, we conclude that the recommendation is implemented.

4. Internal control

4.1 Internal control systems—satisfactory progress

Background

Weaknesses in control systems existed

In 2001–2002, we identified weaknesses in the controls systems of the Alberta Corporate Service Centre (the Centre) and departments for the processing of payroll and payments—primarily through three systems: procurement cards, the Electronic Payment System (EPS) and the Expense Claim System (ExClaim). We also identified deficiencies in the IMAGIS general control environment for access and security. Therefore, we recommended in our *2001–2002 Annual Report* (No. 1—page 23) that the Department of Finance, working with the other departments and the Centre, improve internal controls, in particular, controls for:

- the use of procurement cards
- compliance with sections 37 and 38 of the *Financial Administration Act* (the Act) that require both an expenditure officer and accounting officer to approve disbursements before paying them
- access to the IMAGIS system (the primary accounting system for government)

Our audit findings

Adequate controls now exist for:

The government implemented the following two parts of our recommendation:

use of procurement cards

- **the use of procurement cards**—adequate controls now exist in departments to review and approve procurement card expenses. Departments also regularly report the results of reviews to their executive committees.

complying with legislation

- **compliance with sections 37 and 38 of the Act**—adequate controls now ensure both an expenditure officer and an accounting officer approve disbursements before paying them.

The government is making satisfactory progress on the third part of the recommendation:

Access controls improved but further work is required

- **improving access controls to the IMAGIS system**—departments have reviewed user access to the IMAGIS system and terminated excessive user IDs. They also implemented sufficient compensating controls to mitigate the risk of unauthorized access to data. Departments plan to modify the security administration profiles in IMAGIS when the re-engineering initiatives for human resources and procurement are completed.

IMAGIS profiles and user access rights still need to be revised

To fully implement this recommendation, Departments need to revise the security administration profiles in IMAGIS to ensure that individual profiles do not have authorization to complete incompatible functions. Departments also have to assign access rights to staff that are consistent with their job descriptions and results in an appropriate segregation of duties. We will review implementation of this part of the recommendation in 2004–2005.

4.2 Expense reimbursements to senior personnel

Background

Senior personnel are reimbursed for costs incurred in carrying out their duties. The responsibility for expense reimbursements is the ministry or other office, agency, board or commission to which the senior personnel are associated. Ministries use guidance provided by the Alberta Personnel Administration Office, Treasury Board and the Senior Financial Officer Council to approve expense reimbursements. Some legislative offices, agencies, boards and commissions have developed their own polices and procedures.

Criteria: the standards we used for our audit

Reimbursement of expenses should conform to the following key principles in order to reduce the risk of undetected errors to an acceptable level:

1. Senior personnel should be entitled to recover all reasonable costs that meet the rules.
2. Rules should be clear.
3. Practices should be consistent.

Our audit findings

We concluded that all criteria were met. As part of our examination of the government’s central system, we examined expense reimbursement claims for 101 staff, including deputy ministers, executive assistants, assistant deputy ministers and other senior personnel. We also reviewed reports prepared by the Office of the Chief Internal Auditor that conducted its own examination of expense reimbursements for senior personnel.

In our sample, all expense reimbursement transactions were:

- reasonable
- approved, recorded and reported in compliance with adequately detailed policies
- processed in a consistent manner

In the Executive Council section—see page 145 and in the section entitled "Members of the Legislative Assembly Expense Reimbursement"—see page 309, we have also commented on additional examinations of expense reimbursements.

We concluded on this project and the other two projects that expenses examined were properly supported, documented and approved, and reasonable in the circumstances.

Government of Alberta Annual Report

Summary: what we found in our audits

Financial statements

Reporting entity issue needs to be resolved

The government has made satisfactory progress improving corporate accounting policies but it still needs to deal with the most significant issue—the reporting entity. Recent changes in accounting principles for defining the reporting entity become effective April 1, 2005. The government plans to implement these new principles April 1, 2006. This change will be significant for the financial statements of the government and 3 ministries—page 47. Our auditor's reports on these ministry financial statements include information to highlight the reporting entity issue and the recent changes in accounting principles for defining the reporting entity.

Unqualified opinion for government and 22 ministries; 2 reports qualified

Our auditor's reports on the Government of Alberta's consolidated financial statements and 22 ministry financial statements are unqualified. The reports on 2 ministry financial statements include reservations of opinion. These ministries need to change their accounting policies to remove these reservations—see page 48.

Other performance information

One exception—Measuring Up; Exceptions in 3 ministries

We found one exception when we applied specified auditing procedures to the performance measures in the *Measuring Up* section of the Government of Alberta Annual Report. We found exceptions in 3 ministries when we applied specified auditing procedures to ministry performance information in the 2003–2004 ministry annual reports—see page 48.

Overview

This section highlights the results of our examination of the Government of Alberta Annual Report.

Minister of Finance's responsibility

The Minister of Finance is responsible for preparing the government fiscal and business plans and the consolidated annual report under the *Government Accountability Act*.

Government business plan, fiscal plan and annual report

The government's business plan identifies its core businesses and goals, key strategies, and measures and targets for each core business. The government's fiscal plan outlines the consolidated budget to achieve the desired results in the business plan. The Government of Alberta Annual Report shows the results achieved against the targets set in the business and fiscal plans.

24 ministries contribute to government results

There are 24 ministries. Ministers and deputy ministers are responsible for managing their ministries and contributing to the achievement of government goals. Ministry business plans and annual reports provide information on the ministry's contribution to government results.

2003–2004 financial results

In 2003–2004, the Government of Alberta received approximately $26 billion in revenue and spent approximately $22 billion. The following summarizes the significant revenues and expenses:

Government received $26 billion and spent $22 billion

	(millions of dollars)
Revenue	
Income and other taxes	$ 9,325
Non-renewable resource revenue	7,676
Transfers from Government of Canada	2,926
Other	5,960
	25,887
Expenses	
Health	7,634
Education	5,850
Other	8,399
	21,883
Excess of revenues over expenses for the year	$ 4,004

Government website

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

Scope: what we did in our audits

1. We audited the government's consolidated financial statements and all ministry financial statements for the year ended March 31, 2004. We also followed up our previous recommendation to improve corporate government accounting policies.

2. We applied specified auditing procedures to the government's performance

measures reported in the *Measuring Up* section of the government's annual report and in all ministry annual reports.

Our audit findings and recommendations

1. Financial statements

1.1 Auditor's report

Unqualified opinion on consolidated financial statements

We issued an unqualified auditor's report on the government's consolidated financial statements for the year ended March 31, 2004. These financial statements consolidate the following entities of the government:

- departments—24
- regulated funds—13
- provincial agencies—54
- commercial enterprises—5
- commercial Crown-controlled corporation—1
- non-commercial Crown-controlled corporation—1
- Offices of the Legislative Assembly—6

The above list does not include the subsidiaries of provincial agencies, commercial enterprises, and Crown-controlled corporations.

2 of 24 ministry auditor's reports include reservations of opinion

Our auditor's reports on the financial statements of 22 (2003—7) ministries are unqualified. Our auditor's reports on the financial statements of two (2003—17) ministries (Community Development and Seniors) contain reservations of opinion. Our auditor's reports on 3 ministry financial statements (Learning, Health and Wellness and Municipal Affairs) also include information explaining recent changes in accounting principles for defining the reporting entity. Further detail on these issues is in section 1.2.

1.2 Corporate government accounting policies—satisfactory progress

Background

The Department of Finance establishes corporate government accounting policies and reporting practices that ministries must follow. Last year, we again recommended (2003—No. 2) that the Department of Finance change corporate government accounting policies to improve accountability. The government accepted this recommendation in principle and indicated that it would continue to review the accounting policies in conjunction with our Office and the work of the Public Sector Accounting Board (PSAB).

Our audit findings

Seven accounting issues resolved

The Department of Finance has made satisfactory progress implementing this recommendation. The Department of Finance resolved the following accounting policy issues that had caused us to reserve our opinion in our auditor's reports on several ministry financial statements in 2002–2003 and prior years:

- The Department of Finance revised its threshold for recording capital assets from $15,000 to $5,000 effective April 1, 2004.
- The Ministry of Justice now records the liability for personal injury claim costs under the *Motor Vehicle Accident Claims Act.*
- The Ministries of Community Development, Health and Wellness and Learning now disclose all related party transactions in their financial statements.
- The Ministries of Environment, Infrastructure and Transportation now disclose future site remediation obligations as contingent liabilities.
- Last year, the Ministry of Learning overstated the estimated liability for student loan remissions. This year, the Ministry properly estimated this liability.
- Last year, we reported the Ministry of Solicitor General had incorrectly not accrued the liability for the recurring payments from the *Victims of Crime Fund.* This year, we received additional information from the Ministry and concluded that the Ministry should not accrue liabilities for these payments because under the *Victims of Crime Act,* it has to review the victims' circumstances to confirm, amend or rescind the payments. Accordingly, these liabilities should appropriately continue to be reported as contingent liabilities.
- Last year, our auditor's reports on the financial statements of the Ministry of Environment and the Ministry of Sustainable Resource Development included an information paragraph. The financial statements of both ministries included certain provisions and expenses for reclamation activities at the Swan Hills Treatment Plant site. This year, the land and reclamation provisions were appropriately transferred to the Ministry of Infrastructure—the operator of the treatment plant.

Two issues to resolve—reporting entity and excluded operations

Two matters remain unresolved. One is the corporate accounting issue relating to the reporting entity. This issue is significant for the Government of Alberta's consolidated financial statements and three ministries. The other issue relates to certain operations that are excluded in the financial statements of two ministries (Community Development and Seniors). These matters are summarized below.

Certain entities inappropriately excluded from the financial statements of government

1. **Reporting entity**—since 1997, we have reported that universities, public colleges, technical institutes, regional health authorities, school boards and certain other organizations have been inappropriately excluded from the consolidated reporting entity. The government's financial statements should include all assets, liabilities, revenues and expenses of entities that it controls. The exclusion of these entities has a significant impact on the government's consolidated financial statements and on the consolidated financial statements of the Ministries of Learning, Health and Wellness, and Municipal Affairs.

PSAB issued new guidance effective April 1, 2005

PSAB has provided new guidance on this matter, which is effective for fiscal years beginning on or after April 1, 2005. This new guidance outlines the criteria to determine whether an entity is controlled by the government and therefore, should be included in the government reporting entity.

2003–2004 financial statements refer to reporting entity changes

In the 2003–2004 consolidated financial statements, the government added a note (1(a)) about the impact of the new PSAB guidance on the reporting entity. The note also states that the government will include the financial statements of certain entities in the Government of Alberta's consolidated financial statements starting in the fiscal year beginning April 1, 2006 if the government determines that it has control over these entities. The Ministries of Learning, Health and Wellness, and Municipal Affairs have included similar disclosures in their financial statements.

Auditor's reports on 3 ministries include information about the reporting entity

Because of the new note disclosure, and the fact that PSAB's new guidance on this matter is not effective until April 1, 2005, we have removed our reservations on the financial statements of the three ministries. However, our auditor's reports included information explaining the changes in accounting principles for defining the entity effective April 1, 2005.

Plan to implement standards April 1, 2006

Management has also informed us that they are developing an action plan to implement PSAB's recommendations. As disclosed in the financial statements, the government plans to implement these recommendations effective April 1, 2006.

Revenues and expenses excluded from ministry financial statements

2. **Excluded operations**—there is a reservation of opinion in our auditor's report on the financial statements of the Ministry of Community Development because the Ministry's revenue and expenses from operations of certain cultural facilities are not included in the financial statements. The Ministry plans to include these operations in its 2005–2006 financial statements. (See the ministry section of this report on page 105 for further details).

Surplus funds excluded from ministry financial statements

Also, there is a reservation of opinion in our auditor's report on the financial statements of the Ministry of Seniors because the surplus funds retained by management bodies are not recorded in the Ministry's financial statements. We previously qualified the Ministry of Seniors' financial statements because they did not consolidate the management bodies. This year, we re-examined our conclusion on this matter given PSAB's new reporting entity guidance. We have concluded that management bodies should not be consolidated; however, the operations of the government-owned properties managed by management bodies should be included in the ministry financial statements. The Ministry's financial statements currently include the net revenues of these properties but not the funds that are retained by the management bodies. (See the ministry section of this report on page 283 for further details).

2. Other performance information

2.1 Specified auditing procedures

An exception in our report on the Government's annual report

We found an exception relating to the measure *Local Authorities' Satisfaction with ACFA (Alberta Capital Finance Authority)* when we applied specified auditing procedures to the performance measures in the *Measuring Up* section of the Government of Alberta's Annual Report. The biennial survey, which historically has been the source for this measure, was last conducted in 2001. As the survey was not done in 2003, no data was available to report in *Measuring Up 2004* and we were unable to complete any procedures for this measure.

Exceptions in our reports for 3 ministries

We found no exceptions when we completed specified auditing procedures on the performance information in the 2003–2004 ministry annual reports for twenty-one ministries. However, our reports for three ministries (Children's Services, Government Services, and Finance) noted exceptions. These exceptions are described in the sections for those ministries in this *Annual Report.*

Public Private Partnerships (P3s)

Overview of this chapter

P3s an option for buying assets and delivering services

Public Private Partnerships (P3s) are an option for capital asset acquisition and service delivery in the province. The purpose of this chapter is to examine what a P3 is, and review why governments, including Alberta's government, are using P3s to construct buildings and other infrastructure, and to provide services. We also discuss improvements that the Deputy Minister Capital Planning Committee can make to the systems currently in place in Alberta.

Capital Planning Initiative led by 2 ministries

Examples where P3s are an option include construction, operation, and maintenance of buildings, such as court houses or long-term care facilities and roads. To understand why the province now considers P3s a service delivery alternative, it is useful to understand the Capital Planning Initiative (the Initiative), which prioritizes the province's major public capital asset acquisitions, and involves the possible use of P3s. The two Ministries that lead the Initiative are Infrastructure and Transportation. These two Ministries are responsible for the majority of the province's public capital investment. Each is negotiating P3 arrangements. The Ministry of Finance is responsible for helping to assess the costs and risks of alternative financing vehicles, including P3s, and making recommendations to mitigate provincial financial risk and achieve optimal value for money.

There is a large amount written about P3s. We have reviewed information from a wide variety of Canadian and international sources, including the information and guidelines of the Ministries of Infrastructure and Transportation. We have also reviewed criteria and information of other public sector audit offices.

Chapter has 3 sections

This chapter is divided into three sections.

1. **General review of Public Private Partnerships (P3s)**—this section provides the reader with general background information on P3s.

2. **Overall observations specific to Alberta**—this section gives the reader detailed information on how capital planning has evolved in Alberta to the current state where P3s are a service delivery option.

3. **Findings based on our audits of the Calgary Court Centre (the Centre) and the Southeast Edmonton Ring Road (the Ring Road)**—this section details our findings for the Centre and Ring Road P3s that are being finalized by the Ministries of Infrastructure and Transportation respectively.

1. General review of Public Private Partnerships (P3s)

1.1 What is a P3?

Government-private sector agreement

There is no generally accepted definition of a P3. However, in general, the following characteristics are associated with P3s. The government body and the private sector have:

- a long-term contractual arrangement
- a sharing of risks and rewards
- a joint investment
- clearly assigned responsibilities
- a model of delegated authority and control

In a P3, the government body transfers to a private sector entity some or all of the components of a capital project, such as designing, building, financing, operating, or owning the project.

A desired outcome for any P3 is value for money, and to achieve it, a government must use sound procurement processes.

1.2 Experience of different governments using P3s

UK, Australia, Ontario, P.E.I. and New Brunswick experiences

P3s are still relatively new in Canada. Other countries, such as the United Kingdom and Australia, have many years of experience with P3s. For example, the United Kingdom has been using P3 arrangements since the early 1980s. Canadian provinces have different levels of experience with P3s. Examples of some of the more high profile Canadian P3 projects are the 407 Highway in Ontario and the Confederation Bridge that links Prince Edward Island to New Brunswick.

No common standards

There currently are no common accepted government standards across Canada. However, there is a Canadian Council of Public-Private Partnerships, comprising various interested parties, that promotes the belief that Canada would benefit from using the global P3 market.

1.3 Common perceptions of P3s

Perceptions compared to reality

People often have a bias either in favour of or against P3s. Differing perceptions can affect a person's initial view of P3s. We highlight some of these perceptions and note why each P3 must be judged on its own merits.

Common perceptions of people who favour P3s.	**Why the perceptions do not always apply.**
The private sector is more efficient than government.	Who is more efficient depends on the product or service and the competencies of the private parties and the government in question. An important factor is whether there is a competitive environment in the private sector.
A P3 agreement provides government with better mitigation of risks on major projects.	This can be a major factor as to why a P3 is able to provide benefits to a government. But the government must do adequate analysis to determine the appropriate risks to transfer to the private sector; otherwise, the premium paid for the risk transfer may exceed the benefit.
A P3 agreement provides a guaranteed product or service for a long period that would be difficult to achieve if the government were to provide it directly.	There are two reasons why this perception may not be the case. First, the government needs to assess why it cannot provide the product or service. For example, if preventing maintenance from being deferred is the objective, the government needs to assess if it could have accomplished this directly. Second, having assurance that the private party will provide a guaranteed product or service over a long period depends on the government having sound contract management practices.

Common perceptions of people who disfavour P3s.	**Why the perceptions do not always apply.**
The main reason governments enter into P3s is to avoid debt through off-balance-sheet financing, thereby increasing the debt of the government without disclosing it as debt.	P3 assets and liabilities being recorded on the public sector balance sheet depend on whether the transaction meets the proper recognition criteria, not the government's intention. There are many other reasons for entering into P3 arrangements based on providing value for money, such as increased innovation.
Governments can always finance the cost of a project or service at a lower interest rate.	Depending on the nature of the deal and the transfer of risks, the interest rates in a P3 could be competitive with government rates.
The private sector will forsake standards for profit.	Governments can control the risk of private parties forsaking standards for profit by instituting proper controls in contracts and by dealing only with reputable organizations.
By entering into a P3 arrangement, government loses control over provision of services.	The risk of losing control of service delivery is not unique to P3s. It applies to numerous contracting situations and can be mitigated by good contracts and monitoring.

Common perceptions of people who disfavour P3s.	Why the perceptions do not always apply.
Cost of service always increases to pay for private sector profit.	Since the government contracts out many construction and maintenance activities under traditional service delivery, a profit component already exists in non P3 arrangements. In a P3 arrangement, the private parties may derive a portion of any extra required profit (due to expanded role) by achieving cost efficiencies or generating new revenues, rather than through the costs paid by the government. A government can protect against the risk of an uneconomical partnership by doing a comprehensive analysis of the cost of the service in the P3 versus the cost of the government providing services by traditional means.

1.4 Key risks for governments to manage before using a P3

How P3s can increase risks that already exist

There are many different risks that need to be considered and managed when governments enter into P3 agreements. The risks noted below are not unique to P3s and exist in the traditional government model of building a project and providing a service directly. The use of the P3, however, can have unique or incremental risk implications that must be managed. These risks vary depending on the type of P3 agreement and on what the government is trying to achieve. Each risk below is an example of an increased risk that may occur in a P3.

- **Long-term nature of the transactions**—the government may sign a long-term contract that reduces its ability to reallocate expenditures for many years.
- **Complexity of transactions**—the government may enter into an agreement with a consortium of multiple private parties, which could increase the risk of not providing accountability for services.
- **Proper risk allocation**—the government may use several assumptions, which are inherently subjective, in calculating the value of risks, which could increase the risk of paying too much to transfer risk to the private sector.
- **Proper monitoring of service quality**—the government is not delivering the services directly, which could increase the risk of the government not monitoring service quality.
- **Clearly understood roles and responsibilities**—due to a greater number of parties involved, and the fact that private and public sector objectives can be different, the risk of a lack of understanding of roles may be increased.
- **Transparency of transactions**—due to private parties not wanting proprietary information in their bids being publicly shared, there may be an increased risk that the transparency of the procurement process will be reduced.

1.5 Why governments choose P3s

Governments tend to defer buying and maintaining capital assets

For various reasons, including the desire to balance budgets, governments have often deferred new capital asset investments or the maintenance of existing capital assets. Deferring capital asset investment often has less of an immediate impact on services to the public than deferring operating expenditures, such as health care expenditures. However, the total cost of maintenance of capital assets is often increased if they are not properly maintained or replaced when they should have been.

Infrastructure deficit

The term "infrastructure deficit" refers to capital assets, such as buildings, highways and bridges that have been deteriorating over the years because governments have deferred maintenance and new development and construction. Governments have recognized this problem and are looking for solutions. If a government doesn't have the current cash to pay for capital assets immediately, it can choose to borrow and pay off the cost of the capital asset over a portion of the life of the asset, much like a mortgage on a house. Another option is to enter into a P3 arrangement and pay for the services over the life of the agreement. In both cases, the number of capital projects that the government can undertake increases in exchange for its commitment to pay future amounts. Therefore, from a funding perspective, a P3 with a financing component is similar to government borrowing.

Need for right balance

However, the risk of either direct borrowing or P3s is that a government overextends its future commitments to pay for borrowing or P3 obligations. If a government chooses to borrow or use P3s to reduce the backlog of capital projects, it should decide on the appropriate level of borrowing and P3 obligations. As noted on page 61, Alberta has taken steps to avoid overextending its future commitments by having a separate budget for alternative capital financing projects that is approved by Treasury Board.

2. Overall observations on capital planning and P3s in Alberta

2.1 Trend information on the province's spending on capital assets

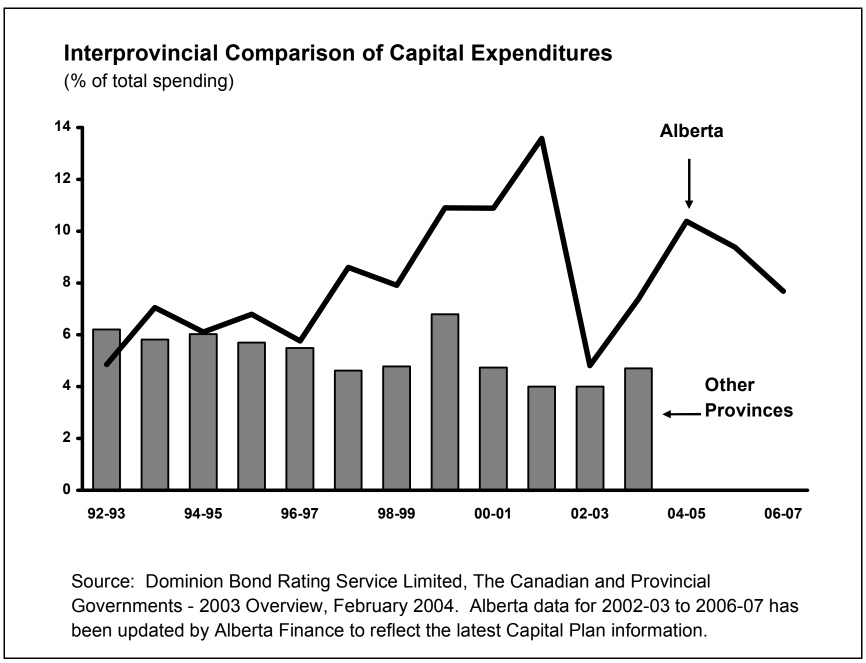
Fluctuating capital asset funding

Deferring maintenance and new capital improvements is as much an issue in Alberta as it is elsewhere in Canada. The province has more recently paid for capital projects on a pay-as-you-go basis. The province's revenues can fluctuate substantially from year to year, due to fluctuating resource revenue. Fluctuating revenue and the pay-as-you-go basis have led to large expenditures on capital assets in some years and deferring of projects in others, resulting in difficulty in properly planning to provide capital assets in the most cost effective manner.

Page 65 of the *Alberta 2003 Budget—Fiscal Plan* describes the challenges that Alberta faces in its Capital Plan, including the problems caused by fluctuating revenues.

> "As part of the spending reductions in the 1990s to restore fiscal balance in Alberta, funding of capital projects was reduced to around $1 billion per year. This level of funding has proved to be inadequate to meet Alberta's growing infrastructure needs…In the three years from 1999–2000 to 2001–02, high resource revenue allowed the government to more than double its planned infrastructure spending…When revenue fell unexpectedly in the fall of 2001, many planned projects had to be deferred until they were affordable. Stop-and-go funding makes it very difficult for the government and local authorities to plan effectively and get the best value for their dollars"

Page 65 of the *Alberta 2004 Budget—Fiscal Plan* has the following chart. The key feature of the graph is the line that shows that Alberta's provincial government's capital expenditures, as a percentage of total expenditures, has fluctuated significantly.



Unaudited

This has led to the development of the new fiscal framework that is described in greater detail in section 2.2.

2.2 Timeline of capital asset planning in Alberta

The province has recognized the need to provide more stable capital asset funding. The following is a timeline of some of the key actions that the province has taken to improve the planning for capital asset funding:

Alberta's efforts to improve capital asset planning

- 1997—Capital Planning Committee of MLAs and private sector representatives is set up to recommend a provincial capital planning strategy to address aging infrastructure, growth pressures, and affordability over time with fluctuations in fiscal revenue and constraints in budget policies and practices.

- 1999—Cross-government Capital Planning Initiative is established and led by the Ministry of Infrastructure. Its goal is to improve the efficiency and effectiveness of capital planning. A Deputy Minister Capital Planning Committee is established to set direction and oversee work.

- 2002—Financial Management Commission (the Commission) is appointed to review the government's fiscal planning policies and strategies including capital expenditure accounting and financing (including the use of P3s). The Commission submitted its final report on July 8, 2002. The Government accepted the majority of the recommendations of the Commission in October 2002. Some of the Commission's key recommendations on the topic of capital planning were:

  1. To provide stable and predictable funding, all non-renewable resource revenue and year-end surpluses should go into the renewed Alberta Heritage Fund. A fixed and sustainable amount should be drawn out each year to support the government's operating and capital budget.

  2. Government and government-funded entities should be allowed to enter into alternative funding arrangements for capital projects under specific conditions and with appropriate guidelines in place. Government should have the option of funding the approved capital projects over a longer term or paying the full cost of the project in a given year.

  3. The province should develop a plan for addressing deferred maintenance in a systematic way over the next five years.

- 2003—the government announces its new fiscal framework, which is intended to implement many of the recommendations of the Commission, and also approves its first three-year capital plan. The Ministries involved in the Capital Planning Initiative produce the first draft P3 guidelines.

- February 2003—the Agenda and Priorities Committee agrees to a process for approving capital projects. Ministries' capital submissions are to identify whether its capital projects have alternative capital financing potential. The Deputy Minister Capital Planning Committee is to provide Treasury Board with a cross-government prioritized list of capital projects, including those with alternative capital financing potential. An advisory committee is to be established to review all alternative capital financing projects and provide recommendations to Treasury Board.

- March 10, 2003—*Fiscal Responsibility Act* is amended. Debt incurred for capital investment after April 1, 2003 is excluded from the "accumulated debt" that is statutorily required to be eliminated by 2025. Sustainability Fund and Capital Account created by province to provide more stability to capital asset funding.

- May 2003—the Ministry of Finance appoints an Advisory Committee on Alternative Capital Financing. The eight member committee is to make recommendations to Treasury Board on guidelines for alternative capital projects.

- December 2003—the first draft Alternative Capital Financing Guidelines are presented to the Advisory Committee on Alternative Capital Financing and accepted with amendments. These Guidelines replace the P3 guidelines and now refer to government direct borrowing, in addition to P3s, as a method of financing new capital projects.

- February 2004—the structure of the Capital Planning Initiative is altered. The Deputy Minister Capital Planning Committee is expanded to include 10 additional departments. In addition, a Ministerial Capital Planning Committee, including the same 10 ministries, was formed to, among other things, recommend to Treasury Board what projects should be included in the Provincial Capital Plan.

- May 2004—current version (draft 5.1) of the Alternative Capital Financing guidelines is produced.

2.3 Alberta's use of the private sector in capital projects

Private sector already involved in capital projects

The province already uses private contractors for a variety of purposes, such as building and road construction and maintenance. The difference from P3 projects is generally the increased scope and complexity of the private sector involvement in a project, the long-term nature of the involvement, and potential involvement of the private parties in financing, operating, and owning the asset.

Chapter focuses on 2 P3s: Calgary Court Centre and Southeast Edmonton Ring Road

The form of the two P3s that are the focus of this chapter, the Calgary Court Centre (the Centre) and the Southeast Edmonton Ring Road (the Ring Road), is described in greater detail in section 3. However, in summary, the Centre originally was going to involve the private sector to design, build, finance, operate and own the project, and then transfer the Centre to the province after year 30. The project then changed to involving the private sector in the design, building, and operating of the project for 30 years. The Ring Road current status is that the private sector is to design, build, finance, and operate the project, and then transfer the operations of the Ring Road back to the province at the end of year 30.

Other P3 examples exist

P3s with the scope of the Centre and Ring Road are new to the province, although exceptions exist. For example, two Regional Health Authorities (the Authorities) have used P3 arrangements to construct and operate long-term care facilities. In addition to the difference in size of the projects, the Centre and Ring Road projects are directly undertaken by the province. In the case of the Authorities, the government grants money to the Authorities, who then enter into the P3. Also, the Swan Hills Waste Treatment Centre may be considered a P3 project, as the province has used the private sector to own and operate this facility in various forms over the years.

2.4 New types of financing arrangements available in Alberta

The draft Alternative Capital Financing Guidelines now state that capital projects can be financed by the following:

- Government direct borrowing, either through general borrowing or issuing capital bonds for a specific project.
- Use of a P3 to provide the financing for the project.

2.5 Benefits of P3s noted by the Advisory Committee on Alternative Capital Financing

The Advisory Committee on Alternative Capital Financing noted the following benefits as reasons for considering P3 alternatives for certain capital projects:

- Maximize value for money through private sector expertise.

- Introduce private sector management disciplines and competencies, and encourage innovation through market competition in the delivery of infrastructure and ancillary services.
- Improve value for money through faster procurement, technical innovation, external revenue sources identified by the private party, and transfer of risk to the private party.

3. Findings based on our audits of the Calgary Court Centre (the Centre) and the Southeast Edmonton Ring Road (the Ring Road)

Background

Before discussing the background of the Centre and Ring Road, we describe the roles of the Deputy Minister Capital Planning Committee and the Ministry of Finance, since both have a role in making changes to processes used to approve capital projects.

Committee responsible for strategies, guidelines and consistency

Deputy Minister Capital Planning Committee (the Committee)—under its terms of reference, the Committee is responsible for, among other things, "developing and implementing innovative strategies and guidelines for management and delivery of infrastructure, ensuring consistent application across ministries and providing ministries guidance on alternative delivery mechanisms."

Ministry assesses costs and risks of financing options-ensures value for money

The Ministry of Finance—the strategic priorities of the Ministry include maintaining Alberta's fiscal framework and providing financial expertise on P3s. The *2004-07 Business Plan* notes that the Ministry will implement the accepted recommendations of the Financial Management Commission. The business plan also notes that the Ministry will assess the costs and risks of alternative financing vehicles, including P3s, and make recommendations to mitigate provincial financial risk and achieve optimal value for money.

Scope of our Calgary Court Centre and Southeast Edmonton Ring Road audits—we examined the processes used by the Ministries of Infrastructure and Transportation to prepare the business cases for the Centre and the Ring Road respectively. We also reviewed other support information, such as the risk assessments and public sector comparators, used to support the decision to proceed with a P3. In addition, we reviewed information prepared by the Ministries for senior decision makers, such as Treasury Board and the Advisory Committee on Alternative Capital Financing, to assess whether the information was consistent with the business case and supporting documents.

Replacement first planned in 1981

Calgary Court Centre history and timeline—the Ministry of Infrastructure management told us that replacement or upgrading of Calgary's court facilities has been on the government's capital projects list since 1981 because of a desire to consolidate facilities spread among six different buildings. Additionally, the Ministry of Infrastructure estimated that over the next 30 years, it would have to invest about the same amount of money maintaining the existing court buildings as it would pay to build and operate a new one.

P3 considered in 2002

Changed in 2004

In April 2002, Agenda and Priorities Committee asked the Ministry to determine if a new court centre could be designed, built, financed, operated, and owned by the private sector. Infrastructure prepared a business case, obtained expressions of interest, issued requests for qualifications, and issued requests for proposals to implement this private sector solution. In April 2004, the proposed transaction was restructured by removing the private sector financing and ownership.

One facility to replace 5

30 year timeframe

The Centre will consolidate operations of the Provincial Court and the Court of Queen's Bench into one facility and is expected to be ready for occupancy by the summer of 2007. The private partner is to design, build, and operate the Centre over a 30-year period; then, the government will operate it. The Ministry concluded that a P3 would result in a project with greater cost certainty and an earlier completion date.

Key events in approval process

The following is a timeline of the key events in the process to approve the building of the Centre:

- April 30, 2002—Agenda and Priorities Committee asks the Ministry of Infrastructure to prepare an expression-of-interest document to determine private sector interest in a P3 project.
- May 28, 2002—Treasury Board approves proceeding with the expression-of-interest process as long as it does not impose a binding commitment on the province.
- October 2002—A business case is prepared for the Centre that considers three alternatives: status quo, government build-and-own, and P3 with a financing component. The business case is presented to the Agenda and Priorities Committee who approve proceeding with a request-for-qualifications to the private sector from a short list compiled from the expression of interest to complete the Centre as a P3.
- March 4, 2003—Treasury Board approves proceeding to request-for-proposal stage with three successful parties from the request-for-qualifications.
- August 15, 2003—the Ministry briefs the Advisory Committee on

Alternative Capital Financing on various information, including the business case and other financial analyses. The Committee agrees with the Ministry's recommendation of the top two P3 successful parties from the request-for-proposal.
- August 27, 2003—Treasury Board approves negotiating with the top two P3 successful private parties.
- October 15 & 20, 2003—Treasury Board and Cabinet approve proceeding to final negotiations with the successful private party, subject to Treasury Board review of the final contracts.
- March 31, 2004—Treasury Board is briefed on final contracts.
- April 27, 2004—Treasury Board decides to complete the Centre by paying for construction using either the pay-as-you-go method or direct debt, instead of borrowing via a P3.

Southeast Edmonton Ring Road history and timeline—the Ministry of Transportation expects the southeast segment of the Edmonton Ring Road to become the province's first P3 highway project. The federal government will contribute $75 million to the project through the Canada Strategic Infrastructure Fund. The private partner is to design, build, finance, and operate the Ring Road over 30 years. The Ministry expects the private sector to provide innovative ideas. At the end of 30 years, the operation of the Ring Road will be taken over by the Ministry of Transportation.

The following is a timeline of the key events in the process to approve the building of the Ring Road:

Key events in approval process

- July 8, 2003—the business case for delivering the Ring Road as a P3, including a financing component, was first presented to Treasury Board.
- August 15, 2003—the business case was submitted to the Advisory Committee on Alternative Capital Financing for review at the Treasury Board's request.
- August 22, 2003—the Committee recommended a P3 to Treasury Board.
- September 17, 2003—Treasury Board agreed to the Ministry's request to proceed with the public release of the request for qualifications.
- September 22, 2003—the Ministry issued the request for qualifications to solicit the interest of the private sector in the project.
- December 16, 2003—at the closing date, six respondents made up of design, construction, engineering and financial experts submitted their qualifications. The submissions were evaluated according to criteria that the Ministry established before the request for qualifications was issued.
- March 3, 2004—three private parties were short-listed.

- April 5, 2004—the request for proposal was issued to the three short-listed proponents requesting them to submit proposals.
- June 28, 2004—the draft contract was released to the three private parties for comments.
- July 5, 2004—the related schedules to the draft contract were released to the private parties.

Criteria: the standards we used for our audit

Six criteria P3 should meet

1. The business case and P3 procurement processes should be sound and objective.
2. The business case assumptions and analysis should be complete and reasonable.
3. The P3 should transfer risk effectively.
4. A suitable process should be in place to assess the private partner's qualifications and capabilities.
5. The business case, request for proposal and contract should be consistent. A process should be in place to ensure the business case is updated for significant changes in scope.
6. The P3 procurement process should be sufficiently transparent.

Our audit findings

The findings are in two sections.

1. Good practices we found in Alberta's implementation of P3s.
2. Findings and recommendation specifically on the Centre and Ring Road.

1. **Good practices in Alberta's implementation of P3s**—in general, the province has spent a great deal of time to improve capital asset planning processes, considering alternative capital financing initiatives such as P3s. The following list, while not exhaustive, includes some of the good practices we found.

Separate budget for each project

- Alberta sets a separate budget for alternative capital financing projects in the cross-ministry Capital Plan that is approved by Treasury Board, which should reduce the risk of committing to more projects than the province can afford. A significant risk for a government using P3s is overextending itself by encumbering future years' budgets with prior years' investments.

Value for money is major factor

- The draft Alternative Capital Financing Guidelines note that value for money is the basis to be used in determining if a project should be funded in the traditional pay-as-you-go method or through alternative capital financing. Other factors, such as off-balance-sheet financing, are not to be part of the decision.

Several mechanisms to ensure value for money

- Alberta has set up a number of review mechanisms specifically designed to ensure value for money. Some examples include: detailed reviews of the transactions by many different parties such as Treasury Board and the Advisory Committee on Alternative Capital Financing; use of experts to determine whether process is fair; and use of experts to determine whether bids are competitive.

Use of GAAP to ensure clear results

- Alberta has committed to use generally accepted accounting principles (GAAP) that recognize transactions based on their substance and the applicable accounting rules to ensure that results are not misleading to the public.

Several challenges meant steep learning curve

2. **Findings and recommendation specifically on the Centre and Ring Road**—we start this section by explaining the challenges that the ministries faced. Given the complexity of P3 arrangements, it is reasonable that there is a learning curve. Our recommendation focuses on how ministries can benefit on future projects from lessons from the Centre and Ring Road. The Ministry of Transportation had the advantage of being the second Ministry to go through the process. The Ministries were also challenged by having evolving processes, which affected when and how they would have provided certain information. Some of the changes that occurred in the processes during the two Ministries' projects are noted below.

   - The Alternative Capital Financing guidelines that set out the approval process have changed several times since the Centre project started. In fact, the guidelines are still in draft form. Some changes included an improved explanation of alternative capital financing and introduction of an opportunity paper template to analyse new projects.

   - There have been changes to the Capital Planning Initiative structure in government. For example, the Advisory Committee on Alternative Capital Financing was formed after the Ministry of Infrastructure had already gone to Treasury Board directly with the business case to support using a P3 to construct and operate the Centre.

   - The discussions of budget and accounting implications have progressed over time. At first, there appeared to be a lack of a common understanding over such issues as whether the capital assets and associated debt would be recognized in the government's financial statements.

Both Ministries generally met the criteria

Key risk that government may abandon P3, because of initial problems

Both Ministries generally met all six of our criteria. However, the approval processes and the documentation to support them can be improved for future P3 projects. Due to the significant challenges faced by the Ministries on the first two projects, (changing processes, level of scrutiny, extensive learning curve, late change in the structure of the Centre, etc.) a significant risk exists that the Ministries may revert back to the traditional service delivery methods even though P3 opportunities may provide improved value for money. Improving the processes will help ensure that value-for-money opportunities that may exist in future P3s are realized.

Recommendation No. 2

We recommend that the Ministries of Infrastructure and Transportation, as co-chairs of the Deputy Minister Capital Planning Committee, work with the Ministry of Finance and other ministries to:

1. **improve the definition of a P3**
2. **determine key prerequisites to identify projects most suitable for P3s**
3. **define when differences in key processes are appropriate**
4. **improve the timeliness of information and the overall analysis of alternatives to decision makers**
5. **define what constitutes a significant change in project scope**
6. **evaluate transparency and accountability of P3s**

1. **Improve the definition of a P3**—the latest draft of the Alternative Capital Financing Guidelines (the Guidelines) defines a P3 as "a cooperative venture based on contractual obligations between one or more public/private/not for profit partners that meets clearly defined public needs for the provision of goods or services through appropriate allocation of resources, risks and rewards". This definition is very broad and could be interpreted to apply to most contracts.

More precise definition of P3 needed

Many people use a narrower definition than above, usually based on the five characteristics that we discussed in section 1 of this chapter. This difference in interpretation creates confusion. Alberta could benefit by clearly stating what components (design, build, finance, operate, and own) of a project the private sector needs to be responsible for to have a P3. The Guidelines note that they "apply ONLY to P3 projects that involve private/voluntary sector investment and do not include outsourcing or design/build options". But the

Guidelines do not note the processes that should exist for P3 arrangements that do not have a private or voluntary sector investment by financing.

We have heard differences of opinions as to what components of a capital project must be transferred to the private sector for such a project to be a P3. Ministries need a common understanding of what a P3 is so they can properly define processes based on the risks of the components involved. However, the definition should not be the deciding factor in the way to structure a project, as the decision should be based on providing the best value for money for the province.

Key prerequisites for P3s need to be enhanced

2. **Determine key prerequisites to identify projects most suitable for P3s**—the Guidelines list Alternative Capital Financing assessment criteria. They contain seven criteria that ask key questions to determine if a project is a suitable candidate for a P3. For example, one of the criteria is "risk" and one of the key questions is "what are the risks that may relate to a project and how does the alternative capital financing approach mitigate them or lead to a more effective risk management?"

   The criteria and questions are a good first step, as they provide ministries with important factors that need to be considered when deciding if a P3 with alternative capital financing is appropriate. Considering the lessons learned, we believe that the Guidelines should now be improved to allow decision makers to quickly identify or dismiss the P3 alternative by:

   - providing more guidance as to what are the key prerequisites for a project to be a strong candidate for a P3 with a financing component. Instead of just providing key questions, guidance should identify what answers support the use of a P3. In the example noted above, instead of asking if effective risk transfers can occur, the Guidelines should provide a detailed list of key risks the private sector is generally better able to manage, and some discussion of the magnitude of each and its effect on the decision of how to proceed with the project.

   - developing a list of what types of capital projects and ministries would benefit the most from P3s. This would be an living document that would be improved over time as ministries gather better information on many factors, such as where the private sector has demonstrated effective risk transfers and provided innovative solutions, and where the market has shown good competition.

Process guidelines needed

3. **Define when differences in key processes are appropriate**—the draft Alternative Capital Financing Guidelines do not discuss the differences in the processes that can occur and the appropriateness of one process over another. The Ministry of Infrastructure used different processes for the Centre from the ones used by the Ministry of Transportation for the Ring Road. The principal differences are how the successful party is selected and how the contracts are finalized after the final selection.

   The Centre's successful party was selected by evaluating the proposals and determining which one offered the best complete package. There was still much negotiation to be completed after the private party was selected. Also, the scope of the project changed substantially after the selection. The final private party was selected in October 2003, but the final contracts remain unsigned at the end of August 2004.

   By contrast, the Ministry of Transportation negotiated the final details of the project when the three potential private parties were identified. The Ministry is satisfied that all three parties are fully capable of completing the project. Therefore, when the decision is made later this year, it will be based on the lowest cost.

   Both processes may be appropriate, based on the circumstances of each project. Conversely, one process may be more effective. The Committee should compare the differences in the Ministries' processes and then set guidelines for all major segments of the process, when appropriate.

4. **Improve the timeliness of information—**

   4.1 **Timeliness of information on alternatives**
   The draft Alternative Capital Financing Guidelines have flowcharts and analyses that provide ministries with good information as to the proper order of the processes. They also align the processes with the associated outputs, discuss who is to provide the outputs, and discuss what tools exist to produce the outputs.

Better description of timeline needed at each stage of the project

The Guidelines, however, could be improved by giving a better description of the preferred timeline of each stage of the project, as illustrated by the following sections.
4.1.1 General discussion of timelines
4.1.2 Timelines in other jurisdictions

4.1.3 Review of Guidelines
4.1.4 Results from the audit of the Centre
4.1.5 Results from the audit of the Ring Road

4.1.1 **General discussion of timelines**—information to either support or refute the use of a P3 improves over time as a ministry receives expressions of interest and proposals, and negotiates contracts. But it is important to define the level of information that should be present at each stage of the project, (for example, the preliminary assessment stage and the first business case presented to Treasury Board) to allow an informed decision, while avoiding excessive costs in reviewing alternatives not selected.

Other places have two distinct early timelines

4.1.2 **Timelines in other jurisdictions**—we reviewed information on the procurement process timelines used in two countries with extensive P3 experience, the United Kingdom and Australia. In both cases, there are two distinct early timelines. The first is a preliminary assessment to determine whether a project is a P3 candidate. Based on predefined prerequisites, their processes help to quickly determine if choosing the P3 alternative is likely to produce value for money. The second is a business case that substantiates what the preliminary assessment assumed. In both countries, the government agencies complete the business case before formal discussions with the private sector (expressions of interest and proposals). The business case includes a detailed analysis of risks, costs, and benefits of different alternatives, based on past experience, and an informal review of the private sector market (for example, holding market forums, reviewing information from industry representative bodies). Both countries also then discuss how the business case is revisited after the proposals have been received to ensure the original business case is accurate, and the initial recommendation still holds.

4.1.3 **Review of Guidelines**—the two distinct early timelines noted in 4.1.2 coincide with the steps noted in the draft Alternative Capital Financing Guidelines. First, the preliminary assessment noted above is very similar to the opportunity paper that ministries are expected to produce. Second, the business case is also very similar to the Detailed Alternative Capital Financing Analysis Template that the ministries are expected to produce. The difference is in the level of detail provided at this stage. The Template could be clearer by stating that the analysis should be sufficiently complete to show Treasury Board that the P3 is expected to produce value for money before going to the private sector market.

Ministries used market to produce business case

Other countries use market to confirm business case

Both ministries found it difficult to produce an accurate business case without formally going to the market through the request for qualification and proposal processes for information on costs, benefits, and risk transfers. The difference between what the ministries did and what the two other countries do is that the ministries used the market to produce the business case instead of using the market to confirm the business case. The difference is important, because ministries can incur significant costs in negotiating with the private sector market and then later conclude that the government can best build the asset or provide the service directly.

Risk assessment not comprehensive by date necessary

4.1.4 **Results from the audit of the Centre**—as noted in the Centre's timeline, the Ministry of Infrastructure prepared a business case in October 2002. The risk assessment contained in this business case could have been more complete by considering a broader range of risks and attempting to value them. A year later, in October 2003, the Ministry did complete a more comprehensive risk assessment that included an attempt to value the risks that would be transferred to the private sector. However, by October 2003, the request-for-proposal phase was complete and the Ministry was beginning final negotiations with the selected private partner.

Business case didn't include information from public sector comparator

4.1.5 **Results from the audit of the Ring Road**—as noted in the Ring Road's timeline, the Ministry of Transportation completed the Ring Road's business case in July 2003. The business case could have included the detailed analysis of the public sector comparator, which is an analysis of what it would cost the government to produce comparable outputs to the P3. The Ministry retained an accounting firm to help prepare the public sector comparator based on assumptions, cost estimates, and risk ranges that the Ministry provided. This analysis was completed in the spring of 2004.

4.2 **Overall analysis of alternatives**

The key document in the draft Alternative Capital Financing Guidelines that provides the business case for a P3 with a financing component is the Detailed Alternative Capital Financing Analysis

Template. It is very similar to the cross-ministry business case template, except that it is updated to reflect the uniqueness of projects with an alternative capital financing component. The Template provides a ministry with the beginning of a sound methodology to evaluate different alternatives for service delivery.

Guidelines and Template can be improved

The Guidelines and the Template, however, could be improved by giving a better description of how to analyse risks and improve the overall analysis of different alternatives, as illustrated in the following sections.

4.2.1 General discussion of risk transfer
4.2.2 Analysis of risk transfer in guidelines
4.2.3 Overall analysis of alternatives in guidelines
4.2.4 Results from the audit of the Centre
4.2.5 Results from the audit of the Ring Road

Transferring risk from the government to private sector for a price

4.2.1 **General discussion of risk transfer**—it is commonly understood that a key prerequisite of a P3 is an effective risk transfer. The government transfers risk when it pays the private sector to assume a risk under contract. For example, the government may transfer the construction risk of the project not being completed on time and within budget to the private sector. In essence, the government pays the private sector to assume some project risks that traditionally the government assumed.

The risk transfer is analogous to an extended warranty on a consumer product, as a premium is paid to ensure a level of service. In some projects, the risk-transfer premium may be offset by private sector efficiencies, making the cost of a P3 alternative the same or less than the cost of a traditional service delivery alternative. However, a P3 that costs more than a traditional service delivery alternative could still represent value for money if the government pays an acceptable amount to avoid risks.

Guidelines could require better risk discussion

4.2.2 **Analysis of risk transfer in guidelines**—the Guidelines could be improved by updating the Detailed Alternative Capital Financing Analysis Template to require a more complete qualitative and quantitative discussion of risks. The Template could also include good examples of documentation to support the analysis of risks. The Template currently shows the risk analysis as a technical exercise of using the impact of a risk (high, medium or low dollar value) and the probability of the risk (high, medium or low percentage) to calculate an expected value of the cost associated with the risk. Ministries should be encouraged to supplement the technical exercise with a well-rounded analysis.

The qualitative discussion of risks could demonstrate whether the private party or the government can best mitigate a risk. The quantitative analysis could also be improved by showing a range of possible costs associated with a risk, or at least a best and worst case scenario and the likelihood of each.

Template could give examples of better cost-benefit analysis of alternatives

4.2.3 **Overall analysis of alternatives in guidelines**—the Guidelines could also be improved by updating the Detailed Alternative Capital Financing Analysis Template to encourage a more complete qualitative, quantitative, and overall discussion of the overall costs and benefits of each alternative to support the final recommendation. Again, the Template could be improved by providing good examples of this overall analysis. Similar to the calculation of expected risks, the Template's calculation of overall expected costs of each alternative puts significant emphasis into a technical exercise of developing a single expected value. The Template does have a section called *Qualitative Analysis—Non-Financial Benefits and Costs.* But it is brief and only includes a few examples of non-financial benefits and costs. The Template could demonstrate to ministries how to use a good qualitative analysis in conjunction with the quantitative analysis to present a well-rounded analysis of the alternatives.

Guidelines could require better cost-benefit analysis of non-financial factors

The qualitative discussion of risks could be improved by expanding the discussion of the non-financial benefits and costs of the different alternatives. For example, ministries could use this analysis to justify why the benefits of one alternative could not be achieved by the other alternative. The quantitative analysis could be improved by showing a range of possible costs associated with each alternative, using computer assisted tools, or at least a best and worst case analysis and the likelihood of each. These improvements, combined with the enhanced discussions of risk transfer in section 4.2.3 above, would allow ministries to present a well-rounded overall analysis of the costs, benefits and risks of each alternative.

Analysis of risk transfer and alternatives could be better

4.2.4 **Results from the audit of the Centre**—the Ministry of Infrastructure could have improved both the analysis of the risk transfer and the overall analysis of the different alternatives. The quantitative analysis of the risk transfer and the overall analysis of costs of the alternatives could have used estimates of a range of costs rather than a single estimate.

$50 million difference could have been better explained

The Ministry could have better explained the difference between its initial calculation of the value of the risk transfer and total costs of the final P3 agreement that included financing. When the Ministry completed its risk assessment in October 2003, it estimated the value of the risk transfer to be approximately $34 million. Once costs were known with greater certainty, the P3 alternative with private financing had an additional cost of approximately $84 million as compared to the same alternative without private financing. The $84 million would be offset by the risk transfer and other benefits associated with private financing. The Ministry could have provided a better analysis by comparing the $34 million to the $84 million and clearly noting what other private financing benefits exist, to justify the $50 million difference.

Better explanation of private financing needed

The Ministry could have improved the explanation of the possible benefits of private financing, such as increased controls over contractors that the private financers would bring (for example, less risk of cost overruns, time delays, change in project scope). The Ministry could also have shown an offset to some of the interest expense. The reason for this is that there is an opportunity cost to the government using its own money in that if the government is not using it on the Centre, it can use the money on other projects or invest it.

Misperceptions of rising costs could have been avoided

The Ministry could have provided more detailed analysis of the various costs, risks, and benefits in the first business case. There appears to be a public perception that the capital costs of the project increased substantially over time, therefore making the P3 alternative with financing less attractive. However, we understand the estimated construction costs remained relatively stable over time, except when parts of the project were scaled back.

Ring Road could benefit from similar improvements as suggested for Centre

4.2.5 **Results from the audit of the Ring Road**—the Ministry of Transportation could also have improved its analysis of the risk transfer and the expected costs of the different alternatives, and its overall analysis of the different alternatives. The Ministry could have improved the Ring Road's qualitative explanations of risks to clearly show why certain risks were transferred and others were retained. It also could have provided a quantitative analysis of the risks and presented a range of the total costs for each alternative in the business case, as described in greater detail above.

The overall analysis of the different alternatives could also have been improved. For example, the Ministry could have improved the analysis of the financing component of the project. The business case showed the interest rate implicit in the P3 arrangement and compared it to the government borrowing rate. The Ministry could have improved the analysis by showing the total dollar value of interest and the net amount of interest once the time value of money is considered, and then clearly explaining the expected benefits of the private financing, again, as described in greater detail above.

Guidelines could clarify what significant change in scope is and what to do about it

5. **Define what constitutes a significant change in project scope**—the draft Alternative Capital Financing Guidelines do not discuss what constitutes a significant change in the scope of a project and what steps are involved to ensure value for money. A key factor in most P3s is that the private sector can provide the product or service more cost effectively than government. Generally, competition must exist to ensure cost effectiveness. When changes in the scope of a project occur after the successful proponent is chosen, a government increases the risk that the changes in the scope of the project will be overpriced because the competition element is no longer present.

   It is not reasonable to expect every change in a project to occur before all contractors have had a chance to bid on a contract. Therefore, guidelines should describe a well-thought-out approach to deal with scope changes. The guidelines could define when the scope of a change is large enough to warrant re-tendering a project. They could also define what other steps can be used for smaller changes to ensure value for money. For example, having an expert update the shadow bid for the change would provide comfort that the contractor has appropriately adjusted the bid.

The Centre had significant changes in the scope and the form of the project after the Ministry had selected the successful proponent. The changes included scaling back the project (for example, reducing floor space, removing parkade) and removing the private financing of the contract. The public service comparator and shadow bids were updated, but there was no detailed analysis to state if this was a sufficient response to such large changes in scope.

Guidelines should cover transparency and accountability

6. **Evaluate transparency and accountability of P3s**—the draft Capital Financing Guidelines do not specifically discuss transparency and accountability processes for P3 projects. Each individual ministry follows its own internal guidelines on contracting processes to assess the transparency and accountability issues on its P3 projects.

   P3s, due to their complexity and high public profile, have unique transparency and accountability issues. For example, the private sector has confidentiality concerns over proprietary information in their proposals and contracts. At the same time, often the public expectation is for more information, due to the profile of P3 projects. Our expectation is that the province would have assessed the differences in transparency and accountability issues up front and developed guidelines to show that it has properly dealt with issues.

   Even though there were no guidelines available up front and the Ministries were adapting to issues as they occurred, the Ministries ensured good transparency and accountability throughout the process. For example, they used fairness auditors, set up web sites, and had press releases.

Aboriginal Affairs and Northern Development

Summary: what we found in our audits

Financial statements
Our auditor's report on the Ministry financial statements was unqualified.

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

Overview of the Ministry

Four core businesses

The Ministry's 2003–2006 business plan describes four core businesses:

- promote and facilitate initiatives to improve the participation of Aboriginal people in Alberta's social and economic opportunities
- implement strategies to promote self-reliant and self-regulating Metis Settlement governments
- manage the Province's legal and constitutional obligations with respect to First Nations, Metis and other Aboriginal people
- promote and facilitate initiatives to advance the development of Northern Alberta

Program expenses of the Department include costs relating to the Northern Alberta Development Council and the Metis Settlements Appeal Tribunal.

Ministry spent $35 million

In 2003–2004, the Ministry spent $35 million on the following programs:

	(millions of dollars)
Aboriginal relations	16
Metis Settlements governance	7
Statutory expenses for Metis Settlements	10
Northern development	2

No external revenue

The Ministry receives no revenue from sources external to government.

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

Scope: what we did in our audits

Two parts to our audit

1. We audited the financial statements of the Ministry for the year ended March 31, 2004.

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

Agriculture, Food and Rural Development

Summary: what we found in our audits

Systems
On August 3, 2004, we released the *Report of the Auditor General on the Alberta government's BSE-related assistance programs* (the BSE *Report*). In this *Annual Report*, we summarize the major financial assistance programs that began to evolve in May 2003, restate our conclusions on the effectiveness of these programs, and repeat the recommendations from our BSE *Report*—see pages 77 to 82.

Financial statements
We issued unqualified auditor's reports on the financial statements of the Ministry and the Department—see page 83.

Specified auditing procedures
We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures—see page 83.

Other entities that report to the Minister
The Agriculture Financial Services Corporation should strengthen the internal controls and program evaluation for its Alberta Disaster Assistance Loan Program—see page 83.

Overview of the Ministry

The Ministry's 2003–2006 business plan describes three core businesses:

Three core businesses

- facilitate industry growth
- enhance rural sustainability
- provide safety nets

Ministry structure

The Ministry consisted of the following entities during 2003–2004:

- Department of Agriculture, Food and Rural Development (AFRD)
- Agriculture Financial Services Corporation
- Agricultural Products Marketing Council
- Alberta Grain Commission
- Farmers' Advocate

- Irrigation Council
- Crop Reinsurance Fund of Alberta

Ministry spent $1.493 billion

In 2003–2004, the Ministry spent $1.493 billion. The largest programs in the Ministry are:

	(million of dollars)
BSE recovery program	489
Farm income support	400
Insurance	343
Industry development	86
Debt servicing costs	47
Planning and competitiveness	41
Sustainable agriculture	36

Ministry received $829 million

The Ministry received $829 million in revenue in 2003–2004. The following represent the largest revenue sources of the Ministry:

	(million of dollars)
Transfer from the Government of Canada	561
Premiums from insured persons	146
Interest and investment income	86
Internal government transfers	17
Reinsurance recoveries	9
Fees, permits, licenses, and other revenue	9

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

Scope: what we did in our audits

1. We prepared our separate *Report of the Auditor General on the Alberta government's BSE-related assistance programs*.

2. We audited the financial statements of the Ministry and the Department for the year ended March 31, 2004.

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

4. We audited the financial statements of the Agriculture Financial Services Corporation. The Agricultural Products Marketing Council, Alberta Grain

Commission, Farmers' Advocate, Irrigation Council, and Crop Reinsurance Fund of Alberta do not produce separate financial statements. At the request of the Corporation, we also completed claims compliance audits for the federal government. As part of the Corporation's financial statement audit, we examined the payments for the Alberta Disaster Assistance Loan Program. We also followed up our 2002–2003 recommendation that the Corporation award insurance benefits in accordance with its lack of moisture insurance contracts.

Our audit findings and recommendations

1. Systems findings

1.1 Report on the Alberta government's BSE-related assistance programs

On August 3, 2004, we released the *Report of the Auditor General on the Alberta government's BSE-related assistance programs*. The *BSE Report* is available on our website[1].

Packer profits

The "Profitability of Alberta-based meat packers" section of our *BSE Report* reports the profit per-head for Alberta's three largest packers. We compared the results from a normalized 12-month period prior to 2003 to the six months of operations to December 31, 2003. We found that, on average for the three packers, net earnings before corporate interest and taxes increased by 281%.

Our main purpose was to examine programs

The major purpose of our work was to examine the Alberta government's BSE-related assistance programs. In this part of our *Annual Report*, we summarize the major financial assistance programs that began to evolve in May 2003, restate our conclusions on the effectiveness of these programs, and repeat the recommendations from our *BSE Report*.

Bottleneck developed after May 20, 2003

Alberta's beef industry is geared to export. More than half of Alberta's finished cattle are exported, either live or as boxed beef. When the borders closed on May 20, 2003, Alberta's cattle became stranded in Canada, creating an enormous oversupply. In addition, there was considerable uncertainty about when the borders would re-open and how consumers would respond to the discovery of BSE in the Canadian herd. As a result, meat packers cut slaughter rates by more than half, the price

[1] http://www.oag.ab.ca.

of fed cattle began to fall, and feedlot operators were reluctant to sell their animals at reduced prices. A bottleneck in the production system developed between the feedlot and the meat packer.

CABSERP addressed the bottleneck

The first financial assistance program, the Canada-Alberta BSE Recovery Program (CABSERP), was designed to address this bottleneck. CABSERP encouraged the slaughter of animals on feed at May 20, 2003. It did so by topping up the price paid to the owner of the fed cattle. As these animals are usually finished at a feedlot, payments went to feedlot owners. Given the structure of Alberta's beef industry, a relatively few large feedlots received the majority of CABSERP funding. With production restarted, it was expected that feedlot owners would replenish their cattle inventory by buying feeder cattle from cow-calf operators and the industry would continue to function.

CABSERP was the only fed-prov program

CABSERP was also the only federal-provincial program[2]. This meant that agriculture ministers from across the country had to agree on the details of the program. Some of Alberta's concerns were not reflected in the final program design. We discuss these issues on pages 58 and 59 of our *BSE Report*.

Four programs dealt with fed cattle

Four programs were the core of the Alberta government's financial response to the BSE crisis. Between the CABSERP, BID[3], CMAP[4], and Steer and Heifer[5] programs, all animals on feed at May 20, 2003 qualified for compensation, subject to program restrictions such as minimum weight or packer ownership. Pushing these animals through the production chain was critical to freeing the bottleneck and eliminating fed animals that would rapidly lose value if they lived beyond 30 months.

MATP dealt with over-30-month cattle

Alberta's other major program was the Alberta Mature Market Animal Transition Program (MATP). Unlike the four programs discussed earlier, MATP was not aimed at fed cattle and feedlots. MATP was introduced to assist producers (who would generally be cow-calf or dairy operators) with over-30-month animals. MATP, combined with the federal Cull Animal Program, supported these smaller producers through the winter of 2003–2004.

In the "Summary of conclusions, recommendations and observations" section of our *BSE Report*, we concluded on the design and effectiveness

[2] See p. 53 of our *BSE Report* for a summary of programs.
[3] Alberta Fed Cattle Competitive Bid Program.
[4] Alberta Fed Cattle Competitive Market Adjustment Program.
[5] Alberta Steer and Heifer Market Transition Program.

of these financial assistance programs.

Program goals met

Generally, the goals of the BSE financial aid programs were to stabilize the markets and provide assistance to industry during transition and adjustment to a new market environment. We have concluded that the program goals were met.

Programs generally well designed

The programs, with the exception of certain aspects of the Canada Alberta BSE Recovery Program (CABSERP), were generally well-designed, especially given the uncertainties and time constraints faced by AFRD staff in designing and implementing them. The programs had clearly stated goals and contained an incentive for producers to obtain the highest possible cash price for their cattle from processors and packers. The programs also contained controls to prevent manipulation of prices to increase deficiency payments, or claims for cattle that did not qualify under the programs. Importantly, the programs maintained cash flows for participants by covering expenses such as feed costs in the period of uncertainty. And, without the programs, financial institutions may not have been as willing to work with the producers to ease the uncertainty that the discovery of BSE created.

CABSERP's design flaws

CABSERP was … the largest program in dollar terms. … CABSERP's design included flaws such as a predetermined end date, a publicly announced budget, and a short adjustment period at the end of the program. AFRD corrected these flaws in later programs. CABSERP achieved its objective of increasing slaughter volumes. However, the program put further downward pressure on cattle prices as producers rushed to sell their cattle for slaughter to take advantage of the program.

CABSERP and the fall in cattle prices

Cattle prices had already begun to fall prior to the introduction of CABSERP. This was a result of supply and demand forces at work in a distorted market in which total demand had fallen and supply was increasing. The reduced cattle prices resulted in allegations that the packers received program funds destined for the producers. These allegations are not true. Funding under CABSERP went to the owners of cattle eligible for compensation under the program. The program was designed, subject to a deductible, to compensate producers for the reduced prices they received from packers on the sale of their cattle. The more cattle prices dropped in relation to a reference price, the more producers were compensated for the loss in value of their cattle. The issue is not that the packers received program funds destined for producers, but rather, to the extent that CABSERP caused cattle prices to fall, the cost of the program increased. We do not know the extent to which costs increased because of the program.

Shift in value from producers to packers

There is no doubt, however, that there has been a shift in the value obtained from cattle between the producers and the packers since the discovery of BSE. Producers now receive less for their cattle than prior to the discovery of BSE and to that extent, the decrease in value represents a transfer of value from the producers to the packers.

BSE Report had five recommendations

In addition to our conclusions about the BSE financial assistance programs, we also examined Alberta's preparedness for BSE and the non-financial programs developed to respond to the crisis. Out of that work, we generated five recommendations. On the next few pages, we repeat the background information and recommendations from our *BSE Report*.

Alberta not prepared for impact on trade and economy

BSE is an animal health issue that can impact international trade and the economic viability of the integrated beef industry, and is linked to a human health concern. Considering other possibilities, the BSE animal health issue in Alberta was not a particularly serious one. A contagious animal health disease like foot and mouth would create a greater disaster. Overall, Alberta was reasonably prepared for this animal health incident and at the time of the discovery of BSE was working to address the existing deficiencies in its disease identification systems. Alberta, Canada, and their trading partners were at minimal risk in terms of risk to human health. However, Alberta was not well prepared for the impact of an animal health incident on its agricultural economy and international trade.

Recommendation No. 3
We recommend that the Department of Agriculture, Food and Rural Development complete a risk assessment that analyzes the probability and impact of major risks to the agriculture and agri-food industry in Alberta. Based on the results of the risk assessment, the Department should also develop risk mitigation and response strategies.

No measurable targets for BSE aid programs

Measurable targets help to establish the extent to which program objectives are achieved. Measures also help management determine the effectiveness of programs against plan. When actual experience diverges from anticipated results, management has a comparator against which to evaluate the program's progress. Quantifiable measures are tools that help management determine whether a program is on track or whether the design and delivery of the program should be adjusted to achieve the original objectives. AFRD did not establish measurable targets for its BSE financial aid programs.

Recommendation No. 4

We recommend that the Department of Agriculture, Food and Rural Development establish measurable targets for its emergency financial assistance programs.

Little external accountability

Excluding news releases, AFRD produced only two public documents to describe the impact of the BSE financial aid programs. One was the beef pricing report on March 11, 2004; the other was the list of cheque recipients on June 14, 2004. Both documents could have been timelier and the beef pricing report more complete.

Recommendation

We recommend that the Department of Agriculture, Food and Rural Development improve its external accountability reporting.

Surplus of over-30-month cattle

As a result of the borders remaining closed to live cattle, there is a huge surplus of over thirty month of age cattle that is becoming a market factor. This will be a major issue until either the border opens to live cattle or the slaughter capacity in Canada increases.

Immediate issues need to be addressed

AFRD released their strategic framework for Alberta's beef industry on April 30, 2004. AFRD needs to perform the actions described in the framework on a timely basis. However, important immediate issues such as what to do with the surplus in cattle and managing the size of the 2005 calf crop were not discussed in the framework.

Recommendation No. 5

We recommend that the Department of Agriculture, Food and Rural Development, working with other governments and industry, immediately develop and implement a contingency planning process.

Increased BSE testing quotas

One critical technical issue is Canada's requirement to meet increasing BSE testing quotas in 2004 and 2005. If Canada does not harvest and test enough higher risk samples to meet international BSE testing guidelines, the re-opening of the borders could be delayed. Also, Canada may be placed in a higher risk BSE category making it that much more difficult to market Canadian beef internationally.

Recommendation No. 6

We recommend that the Department of Agriculture, Food and Rural Development, working with the federal Canadian Food Inspection Agency (CFIA) and the beef and related industries, ensure that Alberta meets its contribution to Canada's BSE testing quota.

Developments since release of BSE report in August 2004

Since we released our BSE report in August 2004, the Alberta government has announced a six-point plan to assist the beef industry[6]. The plan deals with:

- Increased slaughter capacity
- The development of new products
- Two new set aside programs, one for calves and the other for fed cattle
- Increasing BSE surveillance by compensating producers, veterinarians, abattoirs, and renderers for sample animals
- The Canadian Agricultural Income Stabilization Program
- Research initiatives

The Alberta government will support the six-point plan with $230 million in new funding.

Since August 2004, the Alberta government has also:

- Begun construction of a new Level 3 containment laboratory dedicated to animal disease detection and research[7].
- Announced the new University of Calgary veterinary medicine program that will begin operations in 2006[8].

1.2 Follow-up of previous years' recommendations

Outstanding recommendations from 3 audit years

In 1999–2000, we made one numbered and five unnumbered recommendations from our *Managing for Results* audit project. In 2000–2001, we recommended that the Department evaluate the success of its grant programs in meeting Ministry goals. In 2002–2003, we recommended that the Ministry improve its performance measurement system.

Follow up next year

We had intended to report the status of these outstanding recommendations this year. However, from May 2003, many Department staff who would have addressed these recommendations had to focus on

[6] Announced September 10, 2004. For details, see the AFRD website, http://www.gov.ab.ca/acn/200409/170267D35F915-A638-4A18-B88A7A03408C4DBD.html
[7] Announced September 15, 2004. See AFRD website, http://www.gov.ab.ca/acn/200409/17044CA7AEB76-A0D6-4801-B673FCC02524373D.html
[8] Announced August 27, 2004. For details, see the Learning website, http://www.gov.ab.ca/acn/200408/16973A1188B98-E11D-4711-9006690BA4EE0712.html

the BSE crisis. In addition, from March 2004, our audit resources have been dedicated to completing our *BSE Report*. As a result, we were not able to complete our follow up this year. We will report on these outstanding recommendations next year.

2. Financial statement audits

We have no qualifications in our auditor's reports for the Ministry or Department of Agriculture, Food and Rural Development for the year ended March 31, 2004.

3. Specified auditing procedures

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

4. Other entities that report to the Minister

4.1 Systems at the Agriculture Financial Services Corporation

4.1.1 Alberta Disaster Assistance Loan Program

Recommendation

We recommend the Agriculture Financial Services Corporation strengthen its internal controls and program evaluation for the Alberta Disaster Assistance Loan Program.

Background

ADALP loans have preferential rates and terms

The Alberta Disaster Assistance Loan Program (ADALP) assists primary producers who have suffered an agricultural disaster to maintain or regain a reasonable level of viability. The Corporation defines disaster as "severe losses to [a producer's] agricultural commodity revenue"[9]. ADALP loans carry a five percent interest rate and repayment of the loan interest and principal may be deferred for two years. The Corporation approved $44.8 million in ADALP loans in 2003–2004 (2002–2003 $18.7 million).

Disaster lending programs offered for several years

The Minister of Agriculture, Food and Rural Development activated ADALP in June 2002; the program runs through October 2004. Before ADALP, the Corporation's Alberta Farm Income Disaster (AFID) loan program dealt with disasters in the Alberta farm economy. ADALP and its predecessor, AFID, were designed to be short-term disaster assistance lending programs providing liquidity to producers who suffer an agricultural disaster. However, disaster assistance lending programs have occurred regularly over the last few years.

[9] Agriculture Financial Services Corporation's brochure PI-24/MAY04, "Alberta Disaster Assistance Loan Program (ADALP)".

Criteria

For loans issued under ADALP, the Corporation should:
1. include sufficient documentation in the loan file to show that the applicant has met the program eligibility criteria;
2. apply loan approval limits on a cumulative basis when a customer has multiple farm loans outstanding.

The Corporation should also evaluate and report the results of ADALP against the intended program objectives.

Findings

Files do not show that program criteria were met

We examined four ADALP loans authorized in 2003–2004. The loan files' documentation did not contain sufficient detail to support the loan officer's conclusion that the producer met the program criteria. These eligibility criteria ensure the producer qualified for the five percent interest rate and deferred repayment terms of the program. The Corporation's management advised lending staff not to burden clients with paperwork where it was obvious from widespread conditions in the area that program criteria had been met.

Cumulative loan limits do not apply to ADALP

We also examined the loan approval process for ADALP loans. The Corporation applies cumulative approval limits to its other farm lending programs. That is, the Corporation not only analyzes whether an applicant qualifies for the loan being considered, but also checks whether he has other loans with the Corporation. If he has, the Corporation requires the new loan to be approved at the cumulative level. The cumulative approval often requires a higher level of authorization in the organization than for an individual loan. The higher level of authorization reflects the higher cumulative credit risk assumed by the Corporation for that applicant. However, the Corporation does not apply cumulative loan approval limits to ADALP loans. This decision was made to decrease the administrative and processing time for ADALP loan approval and disbursement.

Had cumulative limits applied, higher signing authorities would be required

We examined 20 farm loan approvals in our 2003–2004 audit. Three of these were ADALP loans where the customer already had loans from other Corporation farm lending programs. For these three loans, the Corporation applied its ADALP individual loan approval process. However, had cumulative approval limits been required for ADALP, then a higher level of authorization would have been required to approve these loans.

Success of ADALP has not been measured

The Corporation has not measured and evaluated the results of its disaster lending programs. The evaluation would reveal the extent to which program objectives were achieved and help in the design of any future disaster loan programs. To date, the Corporation has not developed measures to assess if the objectives of ADALP are being met. In February 2004, the Corporation surveyed its clients and found that 92% of ADALP recipients felt their loan “helped improve or stabilize … farm operations.” This information, combined with information on program performance, cost, and risk, would help stakeholders assess the success of the disaster loan programs.

Implications and risks if recommendation not implemented
The Corporation may award ADALP loans to producers who do not qualify. The Corporation may also take on credit risk with individual producers in excess of its cumulative tolerance levels. The objectives of the program may not be attained if management does not assess performance against measurable expectations.

4.1.2 Lack of moisture insurance contracts

Background

Corporation paid premium rebates for 2002 crop year

On page 52 of our *2002–2003 Annual Report*, we recommended that the Corporation award insurance benefits in accordance with its lack of moisture insurance contracts. For the 2002 crop year, the Corporation offered pasture insurance to producers under the lack of moisture (LOM) and satellite imagery (SI) insurance programs. These programs compensate producers for lower-than-normal rainfall or vegetation in their district. Some producers who purchased this insurance but did not qualify for payments approached the Corporation for compensation on the grounds of farming losses. The Corporation refunded the premium to all producers who had purchased the insurance but not received payments.

Our audit findings

Refunds again paid for 2003

Early in the 2003 crop year, the Corporation held meetings to address producer dissatisfaction with the LOM and SI programs. But again in 2003, those producers who purchased the insurance but did not qualify for payment felt that the programs did not compensate them for farming losses. In October 2003, the Corporation again approved a plan to award refunds to producers in the province who had purchased insurance under the LOM and SI programs for the 2003 crop year.

$10.7 million in refunds paid

The refund was calculated to be premiums paid for these two programs less any payments awarded for the 2003 crop year. The Corporation refunded $10.7 million to producers that did not qualify for payments under the contracts of insurance for the LOM and SI programs.

Programs now cancelled or suspended

Under these circumstances, we would normally repeat our recommendation. However, the Corporation also announced that it will not be offering pasture insurance for the 2004 crop year. The LOM program has been permanently cancelled and the SI program has been indefinitely suspended. As a result, our 2002–2003 recommendation is no longer relevant.

4.2 Financial statement audits of entities that report to the Minister

Unqualified audit opinion

The financial statements of the Agriculture Financial Services Corporation received an unqualified opinion.

4.3 Canadian Farm Income Program compliance auditing

Unqualified auditor's reports

At the request of the Agriculture Financial Services Corporation, we audited the following schedules related to the Canadian Farm Income Program. Our unqualified auditor's reports were addressed to Agriculture and Agri-Food Canada.

- Administrative costs incurred and charged by the Corporation for the period ended March 31, 2003
- Advances received under the program by the Corporation as at January 19, 2004
- Program payments made to producers and advances received from the Government of Canada by the Corporation for the 2001 claim year
- Farm Income Assistance Program credit amounts and advances received from the Government of Canada for the 2000 claim year.

Children's Services

Summary: what we found in our audits

Systems

The Ministry should improve systems and procedures in the following areas to help it deliver services:

- Delegated First Nation Agency accountability—the Ministry needs to improve its reporting to senior management on the children's services provided by Delegated First Nation Agencies—see page 90.
- Risk assessment—the Ministry needs to complete its risk assessment and then use it to plan audit activities—see page 96.
- Annual reports—the Ministry still needs to consider the availability of data for performance measurement and reporting when deciding which measures to include in its business plans—see page 98.

Financial statements

Our auditor's reports for the Ministry's financial statements are unqualified.

Specified auditing procedures

We found one exception when we completed specified auditing procedures on one of the Ministry's performance measures—see page 99.

Overview of the Ministry

The Ministry's 2003–2006 business plan describes three core businesses:

Three core businesses

- promoting the development and well-being of children, youth and families
- keeping children, youth and families safe and protected
- promoting healthy communities for children, youth and families

The Ministry consists of the Department and 10 Child and Family Services Authorities (Authorities). The Authorities encompass the different regions of the province and deliver most of the Ministry's services. The Department supports the Authorities, and co-ordinates provincial programs such as the prevention of family violence program.

Ministry spent $701 million

In 2003–2004, the Ministry spent $701 million, of which the Authorities spent $529 million. The following programs are the largest costs:

	(millions of dollars)
Child welfare	384
Family and community support	73
Services to children with disabilities	67
Child care	55
Early intervention	45
Program support services	37
Prevention of family violence	17

Ministry received $187 million

The Ministry had $187 million in revenue in 2003–2004; $146 million of this came in the form of the following transfers from the federal government:

	(millions of dollars)
Canada Health and Social Transfer	116
Child Welfare Special Allowance	18
Service to On-Reserve Status Indians	12

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

Scope: what we did in our audits

1. We examined the reports available to senior management for services delivered by Delegated First Nation Agencies (Agencies) and the Ministry's overall risk assessment. We also followed up our previous recommendations to improve information systems, monitoring of services delivered by Agencies, expense recoveries of First Nation costs, contract management systems, internal audit services, Authorities' risk assessments, timing of business plan approvals, and annual reports.

2. We audited the financial statements of the Ministry, Department, and Authorities for the year ended March 31, 2004.

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

Findings and recommendations

1. Systems findings

1.1 Department and Authority information systems

1.1.1 Strategic management information

On pages 59 to 63 of our *2002-2003 Annual Report* (2003—No. 5), we recommended that the Ministry of Children's Services improve the Authorities' strategic management information systems.

Audit deferred to future audit cycle

The Ministry plans to implement this recommendation over a three-year period as the Ministry's information systems are updated. Therefore, we will follow up this recommendation within two audit cycles.

1.1.2 Costs and results information

On pages 63 and 64 of our *2002–2003 Annual Report*, we followed-up on a previous recommendation that the Ministry should improve its information systems that report the costs and results of services.

Audit deferred to future audit cycle

These information systems are the same as those referred to above in section 1.1.1. Accordingly, we will assess this recommendation within two future audit cycles.

1.1.3 Funding allocation model—implemented

On pages 65 and 66 of our *2002–2003 Annual Report*, we reported on the progress of a funding recommendation from our *2001–2002 Annual Report.* We had recommended that the Ministry of Children's Services allocate funding to Authorities in a way that provides for appropriate incentives and therefore allows the Authorities to plan and manage their business. Last year, we concluded that the Ministry had made satisfactory progress.

Recommendation implemented- Fiscal Management Committee created

The Ministry implemented this recommendation by providing the Authorities with proper information on their funding levels throughout the year. The Ministry created the Fiscal Management Committee, effective April 2003. Members of the Committee include the CEOs of the Authorities and senior management in the Department. The Committee provides an opportunity for the Department and Authorities to work together on funding issues.

1.2 Delegated First Nation Agency accountability

Background

On pages 66 to 68 of our *2002–2003 Annual Report* (No. 6), we recommended that the Ministry of Children's Services improve monitoring of services provided by the Delegated First Nation Agencies (Agencies).

Expanded audit to include reporting systems

This year, we expanded our audit work to include an analysis of reports available to senior management to assess if children are at risk. We also followed up our recommendation from last year.

The Ministry of Children's Services is responsible for maintaining standards for the delivery of child welfare services to children and families in Alberta. These services are delivered through 10 Child and Family Service Authorities (Authorities) and 18 Agencies.

The Department does not have the same control over Agencies as it has over Authorities. Each First Nation is a separate entity that is funded by the federal government. Change is often difficult as multiple parties must reach a consensus on changes. We concentrated our audit on criteria over which the Department had control.

The Ministry has four Delegated First Nation Liaison Units that monitor and report on compliance with standards at each of the Agencies. These liaison units reside in the Service Quality Branch of the Ministry.

Each Agency uses the Child Welfare Information System (CWIS). CWIS, a province-wide system, includes information that is used for managing cases and producing summary reports on caseloads and case profiles for each Agency.

Criteria: the standards we used for our audit

The Ministry should:

1. define roles and responsibilities for itself and Agencies
2. help ensure that Agencies maintain standards for child welfare service delivery by regularly monitoring services that Agencies provide
3. assess the progress made by Agencies towards compliance with standards
4. have a performance measure information framework for the Agencies
5. have a risk-based approach to monitoring and reporting

Our audit findings

The Ministry has partially met the first four criteria, with improvements still needed for each one. The fifth criteria has not been met.

1.2.1 Monitoring of services—satisfactory progress

The Ministry has made satisfactory progress implementing the recommendation. It made the following changes that have helped improve the quality and consistency of its monitoring of services provided by Agencies.

Ministry drafted First Nation practice standards

- It completed a draft of a First Nations' practice standards. These standards define important elements of service quality for Agencies' services. When finalized, the Ministry plans to use these standards as the basis for providing consistent and complete monitoring of the Agencies' services.

It piloted a standards monitoring checklist

- It has piloted a standards monitoring checklist, which when implemented, will improve the consistency in monitoring the Agencies.
- It developed a training program for Agencies delegated child welfare directors. The program provides training on new legislation, administration processes, confidentiality and privacy issues, and delegation of responsibilities.

However, we noted the following areas where further improvements are still needed.

Defining of key intra-Ministry roles could be improved

1. The Ministry can improve the identification and documentation of key roles for Agencies within the Ministry. It has updated its accountability framework, effective December 2003. However, neither this framework, nor any other information that we saw, identified all the key roles within the Ministry for Agencies. Documenting all key functions necessary to support the Agencies would allow management to determine if these functions and responsibilities are assigned.

Standards monitoring checklist not yet complete

2. The Ministry needs to assess the proposed standards monitoring checklist for completeness against the First Nation practice standards and human resource standards.

Risk analysis not used to direct monitoring activities

3. The Ministry does not use an analysis of risks to direct monitoring activities. Currently, each Agency is subject to one formal annual review. Using a risk assessment will help the Ministry to determine the frequency of both formal and other reviews and to ensure maximum effectiveness of dollars spent on monitoring Agencies' service quality.

Training of delegated child welfare directors still needed

4. The Ministry has not yet developed a timeline for providing the training for the Agencies' delegated child welfare directors. The Ministry has been focusing its training efforts to ensure the directors are all fully trained on the *Child Youth and Family Enhancement Act* that is effective November 1, 2004.

Early intervention quarterly monitoring reports not consistently followed up

5. The Department funds some of the First Nation services, such as contracts for delivery of early intervention programs. Contracts generally require that the Agencies submit quarterly monitoring reports. The Ministry does not consistently follow-up on Agencies' quarterly monitoring reports. We also noted that the content of the report was not specified in the contract and, therefore, it is not clear if reports received met expectations.

1.2.2 Reporting to senior management

Recommendation No. 7

We recommend that the Ministry of Children's Services improve the quality of its reporting to Ministry senior management on program delivery at the Agencies.

To date, the Ministry has concentrated on improving its role and responsibilities, and its monitoring of Agencies' services. It is now starting to improve its reporting capabilities. For example, it is now using the information from Child Welfare Information System (CWIS) to provide some basic trend information on service delivery costs. However, we did not see evidence of detailed plans to improve reporting, and we noted the following areas for improvement.

Annual reports need greater consistency and reporting on progress

1. The annual reports produced by the liaison units do not have a similar structure or content. We examined six annual reports prepared by the Delegated First Nation Liaison Units and noted that there still were instances where the reports did not report on compliance with, for example, foster parent standards and staff qualifications and training requirements. Consistent reporting will aid management decision-making by providing comparable service delivery information. The annual reports are used to work with the Agency on an action plan.

The action plan outlines how identified areas of improvement will be fixed. However, the action plan was not consistently completed for each Agency.

Annual reports should be summarized to provide senior management with key information

2. The Ministry did not consistently summarize the Agency annual reports to provide information to the Ministry's senior management. Some useful information to support senior management decision making would be:
   - separate reporting for critical health and safety issues that need to be dealt with immediately and other less critical practice improvements
   - trend information on whether service issues identified are improving over time
   - information on the training initiatives and percentages of attendance at courses
   - risk assessments of service delivery by Agencies and how monitoring efforts are adjusted accordingly

CWIS data accuracy can be improved

3. The Ministry has not undertaken a complete review of all the critical uses of Agencies' CWIS information throughout the Ministry to ensure that the current file review processes are sufficient. Also, we noted instances where CWIS data accuracy needed to improve. For example, we found errors in the field used to determine financial responsibility for the child being provided services. The Ministry uses CWIS information entered by the Agencies for various reports and for performance measures included in its annual report. It reviews CWIS data accuracy through its review of standards at the Agencies. But it has not assessed whether this review is sufficient to ensure that all important information is accurate.

Implications and risks if recommendation not implemented

Without adequate monitoring and reporting the Ministry may not have sufficient information on the safety and development of children.

1.3 First Nation expense recoveries—satisfactory progress

Background

On pages 68 and 69 of our *2002-2003 Annual Report* (No. 7), we repeated a recommendation that the Ministry of Children's Services improve its systems to recover expenses of providing services to children and families ordinarily resident-on-reserve.

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

Criteria: the standards we used for our audit

To recover costs, Ministry systems should:

1. identify resident-on-reserve costs
2. ensure that adequate information exists to recover costs
3. ensure that all conditions for billing third parties are met
4. reconcile payments made for resident-on-reserve costs to recoveries for them
5. investigate and pursue amounts not recovered

Our audit findings

The Ministry has made satisfactory progress identifying and recovering costs. Criteria 1, 2, and 5 are substantially met.

Ministry improved processes to identify and recover First Nation costs

- The Ministry centralized the processes for paying invoices submitted by Authorities. This improved the processes for reviewing and approving invoices by providing consistent and appropriate approval, thereby ensuring that only appropriate Authority costs are reimbursed.
- It developed procedures to use the same data to reimburse Authorities as it uses to get reimbursed by the Agency or federal government.
- The Ministry improved the processes for collecting accounts receivable and reviewing credit notes.
- The Ministry developed a draft billing procedures and protocols document. This document outlines detailed billing procedures that are expected to be included in future agreements.

However, the Ministry still needs to improve in the following areas, related to criteria 3 and 4.

Reconciliation of costs can still be improved

- The Ministry should continue to improve the reconciliation of First Nation costs and recoveries. It completes an overall reconciliation of costs to recoveries that provides assurance that the majority of costs are being recovered. But it does not provide sufficient detail on what costs are not recovered and why. The Ministry is currently developing a database system that will assist in identification of reconciling items, and reporting on those items.
- The Ministry does not yet have a process to help ensure that amounts paid to Authorities are either recoverable or identified as not recoverable items that the Department intended to pay for out of its own budget.

Implications and risks if recommendation not implemented
Inadequate cost recovery processes could prevent the Department from recovering all eligible costs from the federal government and Agencies

1.4 Contract management systems—satisfactory progress

Background
On pages 69 to 71 of our *2002–2003 Annual Report*, we repeated a recommendation that the Ministry of Children's Services strengthen the processes used to award and manage contracts.

We followed up on the Edmonton and Area and Calgary and Area Child and Family Services Authorities, and the Department's contract management systems to determine the improvements to the Ministry's systems.

Criteria: the standards we used for our audit
An effective contract management system should include:
1. conflict-of-interest guidelines
2. an analysis to ensure contracting is the most cost-effective way to provide the services
3. an appropriate and fair contract selection method
4. effective procedures and controls for contract management

Our audit findings

Contract monitoring processes have improved with CMAS

The Ministry has made satisfactory progress. Criterion 2 is substantially met and the other 3 criteria are partially met. The Ministry has implemented the Contract Management and Administration System (CMAS). This system has templates for each type of contract issued by the Ministry. This increases the consistency of contracts issued throughout the Ministry.

Contract policy updated

The Ministry also has updated its contract policy. The contract policy includes several requirements, including:
- conflict-of-interest declaration
- assessments and documentation of service delivery alternatives
- performance reporting in contracts
- support documentation for amendments to contracts

Ministry started reporting performance in contracts

For one service, women shelter contracts, the Ministry has included performance reporting requirements in the contract. The contractor is required to have its clients complete a survey, which is then submitted to the Ministry. The results of the survey are reviewed by the Ministry, and summarized in its annual report. The Ministry is also reviewing other types of contracts to determine what performance reporting is appropriate.

Also, compared to last year, we found fewer instances where the contractor reporting requirements were not fulfilled.

Improvements still needed

The Ministry still needs to:

- develop formalized processes throughout the Ministry to help ensure that conflict-of-interest guidelines are followed
- for each contract type, improve analysis of contract renewal requirements
- improve variance analysis of contractor's proposed cost changes from one year to the next
- improve documentation and support for amendments to contracts
- improve monitoring procedures and enforcement on contractor reporting requirements
- use consistent processes for evaluation of contractor performance

Implication and risks if recommendation not implemented

The Ministry spends significant funds on contracts. When adequate controls are not in place, the Ministry may sign contracts that are not cost effective.

1.5 Internal audit services—unsatisfactory progress

Recommendation

We recommend that the Ministry of Children's Services complete its risk assessment, and use this assessment to plan internal audit activities.

Background

On pages 71 and 72 of our *2002–2003 Annual Report*, we reported on the progress of a recommendation made in the prior year that the Ministry improve its accountability for audit services provided by Alberta Corporate Service Centre. We found that the Ministry had made satisfactory progress.

Criteria: the standards we used for our audit

For the March 31, 2004 audit cycle, we limited our criteria to the following:

1. The Ministry should identify and document its risks and develop a strategy to mitigate them with a compliance or internal audit function.

2. The Ministry should discuss with Internal Audit its compliance audit needs.

Our audit findings

Detailed risk assessment should be completed to help prioritize internal audit projects

The Ministry held discussions with the Chief Internal Audit Office (Internal Audit) to develop a plan for the 2004–2005 audit projects. The Ministry has analyzed whether there are additional risks that it can mitigate through the use of Internal Audit, on an ad hoc basis similar to what it did previously. However, the Ministry still has not completed its detailed risk assessment, including an assessment of risks that may be mitigated by Internal Audit. The Ministry had a consultant prepare a risk management framework dated March 31, 2003 and planned to complete its risk assessment by March 31, 2004.

Completing the Ministry risk assessment is also a prerequisite to the Authorities completing their risk assessments–see section 1.6.

Implications and risks if recommendation not implemented

If the Ministry does not use a risk assessment to help direct internal audit activities, risks that could otherwise be mitigated through audit activities may not be.

1.6 Risk assessments at Authorities—satisfactory progress

Background

On page 74 of our *2002–2003 Annual Report*, we reported on the progress of a prior-year recommendation that each Authority ensure that an appropriate risk assessment is carried out and that it establish a risk management system.

Our audit findings

Ministry risk assessment is needed as an input to Authorities' risk assessments

The Authorities have not yet completed risk assessments or established risk management systems. We were advised by management that Authorities will complete these assessments following the development of the Ministry risk assessment—see section 1.5 for information on the Ministry risk assessment. We will follow up this matter next year.

Implications and risks if recommendation not implemented

Without complete risk assessments, Authorities may not develop appropriate strategies to mitigate risks.

1.7 Timing of approval of business plans—implemented

Background

On page 75 of our *2002-2003 Annual Report*, we recommended that the Minister approve Authorities' business plans before the start of the year. The Ministry implemented this recommendation by approving the business plans in April 2004.

1.8 Annual reports—unsatisfactory progress

Recommendation

We again recommend that the Ministry consider the availability of data for performance measurement and reporting when deciding which measures to include in its business plans (2002—page 61).

Background

We made this recommendation in our *2001–2002 Annual Report.* On pages 75 and 76 of our *2002–2003 Annual Report*, we found that the Ministry did not have time to implement this recommendation for the Authorities' March 31, 2002 annual reports due to the timing of the business planning cycle.

Criteria: the standards we used for our audit

In developing performance measures to be reported in the annual report, management should consider all aspects of the measure, including all factors that will impact their ability to report on the measure.

Our audit findings

We followed up this year by examining the Authorities' March 31, 2003 annual reports and comparing them to the Authorities' 2002–2005 business plans.

Authorities still not able to consistently report against business plan

The Ministry has developed eight measures that are to be reported by the Ministry and all the Authorities. The Authorities were not able to consistently report two of these measures.

1. For the measure "percentage of community-based child care centres that provide a developmentally appropriate environment for children", the sampling methodology needed to be altered. Data was available but the results were not representative of the population and therefore not reported on.

2. For the measure, "percentage of aboriginal children in care who are reunited with their families or placed in other stable, long-term living arrangements", the results could not be presented in relation to the

target. The target indicated a percentage increase, but historical data was not available.

In addition to the core measures, 14 out of the 18 Authorities reported regional measures. We examined these measures to determine if data was reported in accordance with the Authorities' business plans. We noted that 10 of the 14 Authorities had 25% or more of their performance measures lacking data.

Ministry had exception in reporting against business plan

We also performed specified procedures on the Ministry's March 31, 2004 performance measures and had one exception, as noted in section 3 below.

Implications and risks if recommendation not implemented
There is incomplete accountability when reporting of results is not consistent with plans.

2. Financial statement audits

We audited the financial statements of the Ministry, the Department, and the following 10 Authorities for the year ended March 31, 2004:

1. Southwest Alberta Child and Family Services Authority
2. Southeast Alberta Child and Family Services Authority
3. Calgary and Area Child and Family Services Authority
4. Central Alberta Child and Family Services Authority
5. East Central Alberta Child and Family Services Authority
6. Edmonton and Area Child and Family Services Authority
7. North Central Alberta Child and Family Services Authority
8. Northwest Alberta Child and Family Services Authority
9. Northeast Alberta Child and Family Services Authority
10. Metis Settlements Child and Family Services Authority

Our auditor's reports on the Ministry's financial statements for 2003–2004 were unqualified.

3. Specified auditing procedures

We found one exception when we completed specified auditing procedures on the performance measures included in the Ministry's annual report. The exception was that there was no data available for one measure, *percentage of children receiving child protection services who moved two or more times outside their communities in a year.*

Community Development

Summary: what we found in our audits

Financial statements

Two auditor's reports qualified; Seven unqualified

We issued qualified auditor's reports on the financial statements of both the Ministry and the Historic Resources Fund. Our auditor's reports for the Department and six provincial agencies were unqualified—see page 104.

Specified auditing procedures

No exceptions

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

Other entities that report to the Minister

Boards need to improve contracting systems

The Persons with Developmental Disabilities Provincial Board should work with the six Persons with Developmental Disabilities Community Boards to improve contract management systems by auditing high-risk service providers, updating contracting policies and strengthening monitoring processes—see page 106.

Boards received unqualified auditor's reports

The financial statements of all Persons with Developmental Disabilities Boards had unqualified auditor's reports—see page 114.

Overview of the Ministry

Three core businesses

The Ministry's 2003–2006 business plan describes three core businesses:

- support individuals and organizations through community development
- protect human rights, promote fairness and access, and support the protection, inclusion, and participation of all Albertans
- preserve, protect and present Alberta's history, culture, and provincial parks and protected areas

The Ministry consists of the Department, seven provincial agencies, the Persons with Developmental Disabilities Provincial Board and the six Persons with Developmental Disabilities Community Boards.

Ministry spent $632 million

In 2003–2004, the Ministry spent $632 million, primarily as follows:

	(millions of dollars)
Persons with Developmental Disabilities Boards	446
Community development	93
History and culture	38
Provincial parks	40
Human rights	5

Ministry received $39 million

The Ministry received $39 million from sources external to government in 2003–2004, of which $18 million was from Canada Health and Social Transfers.

For more information on the Ministry, visit its website at www.cd.gov.ab.ca.

Scope: what we did in our audits

Four parts to our audit

1. We followed up on the Ministry's progress implementing our previous recommendations on excluded operations and the systems for operating parks and protected areas, including the processes for selecting and monitoring private operators.

2. We audited the financial statements of the Ministry, Department, and the following seven provincial agencies for the year ended March 31, 2004:
   - Alberta Foundation for the Arts
   - Alberta Historical Resources Foundation
   - Alberta Sport, Recreation, Parks and Wildlife Foundation
   - Government House Foundation
   - Historic Resources Fund
   - Human Rights, Citizenship and Multiculturalism Education Fund
   - Wild Rose Foundation

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

4. We examined the contract management systems of the Persons with Developmental Disabilities Provincial Board and the six Community Boards.

   We also audited the financial statements of the:
   - Persons with Developmental Disabilities Provincial Board

- Persons with Developmental Disabilities Northwest Region Community Board
- Persons with Developmental Disabilities Northeast Region Community Board
- Persons with Development Disabilities Edmonton Region Community Board
- Persons with Developmental Disabilities Central Region Community Board
- Persons with Developmental Disabilities Calgary Region Community Board
- Persons with Developmental Disabilities South Region Community Board

Our audit findings and recommendations

1. Systems findings

1.1 Management of parks and protected areas

1.1.1 Service delivery alternatives – satisfactory progress

Background

Ministry needed to evaluate cost-effectiveness of operating parks

The Ministry of Community Development's Parks and Protected Areas Division contracts out the management of about half of the provincial parks and recreation areas to private operators through facility operating agreements. Last year, we recommended that the Ministry evaluate the cost-effectiveness of the service delivery alternatives for operating parks and protected areas (2003—No. 8).

Our audit findings

The Ministry is making satisfactory progress implementing this recommendation.

Cost-benefit analyses prepared for new contracts

The Ministry analysed the benefits and risks of the service delivery alternatives for operating parks and protected areas. Ministry staff visited its seven area offices and indicated to area office personnel the need to document cost-benefit analyses for all new contracts. Area offices are now preparing cost-benefit analyses for sites that are tendered. In 2005, the Ministry plans to further improve its guidance to area offices and develop new processes for obtaining performance information to evaluate whether the operations of parks and protected areas are cost-effective.

The Ministry is dealing with the growing deferred maintenance for its parks and protected areas program. The Ministry was awarded $37.6 million over three years to cover deferred maintenance needs on three priority projects. The Ministry also updated its business case that outlines the infrastructure requirements for parks and protected areas; this business case will be used to support future requests for funding of deferred maintenance.

To implement this recommendation, the Ministry needs to:
- prepare comprehensive cost-benefit analyses on a consistent basis to support the Ministry's selected service delivery method.
- obtain and analyze performance information to assess the effectiveness of parks and protected areas operations

1.1.2 Selecting and monitoring contractors-satisfactory progress

Background

Last year, we recommended that the Ministry improve its system for selecting private operators to run provincially-owned parks and for monitoring contract performance (2003—page 81).

Our audit findings

The Ministry is making satisfactory progress implementing this recommendation.

Reviewed files for policy compliance and improved monitoring checklists

The Ministry has guidelines for selecting and monitoring operators. In 2004, the Ministry staff performed 16 file reviews at the seven area offices and identified deficiencies in policy compliance and documentation. The Ministry recently improved and standardized contract monitoring checklists. The Ministry also has a plan to start auditing the files at the area offices in December 2004.

To implement this recommendation, the Ministry must ensure that staff comply with the guidelines.

2. Financial statement audits

2.1 Reservations of opinion

Qualified auditor's reports on the Ministry and Historic Resources Fund

Our auditor's reports on the Department and six provincial agencies were unqualified. Our auditor's reports on the financial statements of the Ministry and the Historic Resources Fund contain a reservation of opinion because the financial statements depart from Canadian generally accepted accounting principles.

Some operations not recorded in Ministry financial statements

The Ministry has not included the net revenues and surpluses for the cultural facilities that are operated with the assistance of volunteer societies in its financial statements. For the year ended March 31, 2004, the Ministry's net revenues and net assets are understated by $0.9 and $10.0 million respectively—see section 2.2.

Some operations not recorded in the Fund financial statements

The Historic Resources Fund has not properly recorded the revenues, expenses and surpluses generated by the operation of government-owned facilities in its financial statements. As a result, we estimate that for 2004, the Fund's liabilities are overstated by $216,000, assets are understated by $109,000 and fund balance is understated by $325,000.

Information paragraph on legislation

Our auditor's report on the Ministry financial statements also contains an information paragraph reporting that expenses include payments made by the six Persons with Developmental Disabilities Community Boards for services to individuals whose disability did not meet the definition of a developmental disability, as defined in the legislation—see page 114.

2.2 Excluded operations-satisfactory progress

Background

Ministry did not include revenues, expenses and surpluses of auditoriums

In 2002—No. 11 and 2003—No. 9, we recommended that the Ministry record in its financial statements all revenues, expenses, and surpluses generated through the operation of provincially-owned facilities. At present, the Ministry does not include revenues, expenses, and surpluses for the operation of the Northern Alberta Jubilee Auditorium and the Southern Alberta Jubilee Auditorium in its financial statements.

Our audit findings

Action plan to record in 2005–2006

The Ministry is making satisfactory progress implementing this recommendation. The Ministry has developed an action plan to start recording the revenues, expenses and surpluses of the operations of the auditoriums on a prospective basis starting in the 2005–2006 fiscal year. We agree with the proposed plan and if the Ministry implements it, we would be able to remove our audit report qualification.

3. Specified auditing procedures

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

4. Other entities that report to the Minister

4.1 Systems findings—Persons with Development Disability Boards contract management systems

Background

Provincial Board establishes policies and oversees activities of Community Boards

Under the *Persons with Developmental Disabilities Community Governance Act (the Act)*, the Persons with Developmental Disabilities Provincial Board (the Provincial Board) has a legislative mandate to establish policies for the provision of services to adults with developmental disabilities and to coordinate, monitor and assess the activities of the six Persons with Developmental Disabilities Community Boards (the Community Boards).

Community Boards provide services to adults with developmental disabilities

The Community Boards provide services to adults with developmental disabilities. The Act describes a developmental disability as a state of functioning that began in childhood and is characterized by a significant limitation, in both intellectual capacity and adaptive skills. One of the goals of the Provincial and Community Boards is to ensure that this vulnerable population are living quality lives as full citizens in their communities.

Two funding programs – contract and individual

The Community Boards fulfill their mandate to promote the inclusion of adults with developmental disabilities in community life primarily by providing funding to service providers which in turn provide services directly to the individuals. This occurs through two programs—contract funding and individual funding. Under the contract funding program, the Community Board contracts directly with a service provider to provide services to individuals. Under the individual funding program, the individual is empowered to choose their own service provider, and the primary agreement is between the individual and service provider. The Community Boards provide funding and approve and monitor these service providers but the service provider does not directly contract with the Community Board.

$342 million spent per year on contract and individual funding

In 2003–2004, Community Boards paid $342 million to service providers for the provision of services to individuals. The total payments for each funding program are:

- contract funding—$210.3 million
- individual funding—$131.7 million

900 service providers—100 receive the majority of the funding

There are approximately 900 service providers of which approximately 100 service providers receive 90% of the funding from the Community Boards.

Prior-year management letter recommendation

Last year, we recommended management of the Provincial Board and several of the Community Boards strengthen processes around monitoring service providers, particularly for those receiving individual funding. The Provincial Board responded that they were starting a project to review and revise the procedures around contract monitoring. This project is still in a preliminary stage, and no significant changes were made to monitoring processes this year.

Two phases to the audit—special request to look at certain service providers

We completed our examination of the Boards' contract management systems in two phases. The first phase dealt with a request from the Provincial Board and two Community Boards to examine issues at certain service providers. This lead to a recommendation described in 4.1.1.

Examined contract management systems

As a result of deficiencies identified in our prior year audit and the examination conducted at the request of the Provincial Board and Community Boards, we extended our examination of the contract management systems. This examination resulted in recommendations described in sections 4.1.2 and 4.1.3.

4.1.1 Service provider contract issues

Recommendation No. 8

We recommend that the Persons with Developmental Disabilities Provincial Board, in conjunction with the six Community Boards, reduce the risk of service providers breaching contracts by:

- **performing a risk assessment to identify service providers with a high risk of breaching contracts; and**
- **auditing high-risk service providers to ensure that they spend funding according to their contracts and that they meet the other terms of their contracts.**

Background

Two cases investigated

During the year, at the request of the Provincial Board and two Community Boards, our forensic audit team examined contract practices between:

- the Edmonton Region Community Board and a service provider (the first service provider) receiving \$2.8 million a year in funding.
- the Northwest Region Community Board and a second service provider, receiving \$840,000 a year in funding.

The Office of the Chief Internal Auditor provided resources which were supervised by our team for this work.

Criteria: the standards we used for our audit

The Provincial Board and Community Boards should regularly monitor service providers' performance and contractual compliance from both program and financial perspectives by inspecting service provider reports and getting independent examinations of the reports.

Our audit findings

Individual funding service providers are contractually required to spend a certain percentage of their funding on payroll for employees providing direct client care. Following are highlights of what we found during our two examinations:

Community Board seeking to recover approximately $3.38 million

- The first service provider consistently spent less than 60% of funding on direct client care payroll between January 2000 and December 2003, although they were required by contract to spend 80% of funding on direct care. This service provider never reconciled the direct care payroll expenses and never repaid any excess funding to the Edmonton Region Community Board. Further, the Community Board did not regularly monitor, reconcile, or recover excess funding. Nor did the Community Board verify that the service provider had met contractual requirements before it released funds. Now the Community Board is seeking to recover through legal means approximately $3.4 million.

Excess payments totalling approximately $191,000 made to second service provider

- The second service provider also spent less than 80% of funding on direct care payroll between January 2001 and December 2003 as required by the contract. The service provider did not reconcile the direct care expenses and never repaid any excess funding to its Northwest Region Community Board. Similar to the above circumstances, the Community Board did not regularly monitor, reconcile or recover excess funding, or verify contractual requirements before it released funds. In this case, excess payments made by the Community Board to the second service provider total approximately $191,000. The Community Board no longer contracts with the service provider.

Further, we are also aware that the Provincial Board and the Community Boards are responding to the following allegations relating to two Community Board service providers:

Receiver reports alleged inadequate care

- Edmonton Region Community Board appointed a receiver to manage the operations of one service provider. The receiver subsequently reported to the Court that the level and quality of supervision (of clients) appeared inadequate and in many cases less than contracted for, the quality of care in some instances was sub-standard and approximately $48,000 per month was being diverted by the service provider for an undetermined purpose.

Alleged improper financial transactions

- Former employees of another current service provider alleged improper financial transactions relating to Northwest Region Community Board funding, labour law infractions and nepotism by their former employer.

Contracts terminated

In addition, we are also aware that Community Boards have terminated contracts with service providers in the current and prior years for contractual breaches similar to the cases we examined.

Implications and risks if recommendation not implemented

Risk of reduced care and excessive costs

Service providers may continue to breach contracts if monitoring processes are inadequate or Community Boards do not follow them. This may cause a reduced standard of care to clients and excessive costs for care services.

Current status

Chief Internal Auditor requested to review 60 service providers

In response to this recommendation, the Provincial Board has arranged for the Office of the Chief Internal Auditor to perform an extensive series of examinations of the Community Boards' service providers. The audit activity began in June 2004 and the plan calls for the review of 60 service providers by August 31, 2004. An additional 60 reviews are tentatively planned for the following year. These 120 service providers represent approximately 90% of the Community Boards' funding.

At Sept. 7, 2004 — 36 finalized

As at September 7, 2004, the reviews of the service providers are at an advanced stage, but only 36 have been finalized. The Provincial Board has also further investigated the allegations of improper conduct of the two service providers noted above. We will continue to monitor the Provincial Board's progress in completing these audits.

4.1.2 Contracting framework and policies

Recommendation

We recommend that the Persons with Developmental Disabilities Provincial Board work with the six Community Boards to update and improve their contracting policies and procedures.

Background

Assessment of Provincial Board policies

We completed an examination of the contract management systems for the Persons with Developmental Disabilities Calgary Region Community Board. Our objective was to assess whether the Calgary Board has adequate contract management systems. Part of this examination included an assessment of the Provincial Board's contracting and tendering policies.

Criteria: the standards we used for our audit

1. Provincial and Community Board staff should understand and comply with contracting polices and procedures.

2. The Provincial Board should have comprehensive contracting policies and procedures that include:
   - conflict-of-interest guidelines
   - standards for preparing business case analyses for contracts
   - contractor selection processes

3. The Provincial Board and Community Boards should use a standard contract template that contains a sound framework for contract management and accountability, including the setting of performance measures and targets. Performance measures should provide information on the quality of program delivery and financial performance.

Our audit findings

Contract manuals need updating

The Provincial Board has a contracting manual (November 1999) and a tendering manual (1989) that provide contracting practice guidelines to the Community Boards. In addition, the Provincial Board has developed the Community Inclusion Supports Framework. This framework governs contract and individualized funding, as well as Community Board direct operations. Our review did not reveal any instances of non-compliance with the Provincial Board's manuals or framework. However, the manuals are outdated as they do not reflect current practices and terminology used by the Community Boards.

No process for periodic disclosure of conflict-of-interest

Provincial and Community Board staff are required to follow the public service code of conduct and most Community Boards have established conflict-of-interest guidelines for their staff. However, there is no process for the Provincial and the Community Boards to obtain periodic disclosure from their staff on any existing or potential conflicts-of-interest.

No standards for business cases

The Provincial Board's contracting policies do not include the requirements and standards for preparing business case analyses to support contracting decisions. Community Boards may prepare an analysis to support a contracting decision, but the nature and extent of the analysis varies and does not always include all the critical aspects of a business case.

Guidance needs improvement

The contracting manual contains guidance on the service provider selection process. However, there is no guidance on the types of contracts that should, periodically, be competitively bid and when it is appropriate to sole source a contract.

Critical elements missing in contracts

The standard contract template contains many elements of a good contract; however, it does not include a dispute resolution clause that sets out the steps to resolve disputes between the service provider and the Community Boards before terminating a contract. There are also no standard performance measures set by the Provincial Board to evaluate the performance of service providers. Establishing standard measures to evaluate service providers would enable the Community Boards and the Provincial Board to compare performance across service providers and provide a consistent basis for evaluating performance.

Implications and risks if recommendation not implemented

Staff may not follow appropriate procedures

Inadequate contracting policies and procedures increase the risk that Provincial and Community Board staff may not follow appropriate contracting procedures. Further, inconsistencies and deficiencies may exist between the contracting practices at the Community Boards.

4.1.3 Contract monitoring and evaluation processes

Recommendation No. 9

We recommend that the Persons with Developmental Disabilities Provincial Board work with the six Community Boards to strengthen the monitoring and evaluation of the performance of service providers by:

- **requiring individual funding service providers to provide adequate financial reporting;**
- **obtaining annual financial statements to evaluate the financial sustainability of critical service providers;**
- **implementing a sustainable, risk-based internal audit plan;**
- **developing and implementing standard procedures to be followed when Community Board staff are in contact with service providers; and**
- **implementing a method to evaluate service provider performance.**

Criteria: the standards we used for our audit

The Provincial and Community Boards should monitor and evaluate the performance of service providers by:

- requiring all service providers to provide adequate financial reporting to give the Community Boards assurance that they are spending funds appropriately;
- developing and implementing a risk-based audit plan to evaluate the financial reporting of service providers, including guidelines for the use of internal audit by the Community Boards;
- using standard procedures for service provider contacts. Appropriate documentation should be kept on file to evidence that the quality of services being provided has been appropriately assessed. This information should be used to prepare the audit plan and evaluate service provider performance; and
- implementing an evaluation system to support continuous improvement of a service provider's performance. This formal evaluation system should encompass both cost and quality of services and provide a mechanism to benchmark service providers.

Our audit findings

Services providers monitored in various ways

Service providers are monitored through a variety of methods, including contacts by contract managers and client service staff and the review by Community Board staff of individual service plans, nominal rolls (utilization reports and service logs) and financial information from contract funding service providers. The service providers are also required to obtain Creating Excellence Together certification from the Alberta Association of Rehabilitation Centres every three years.

During our audits, we noted the following significant weaknesses in the monitoring and evaluation processes at all Community Boards:

No financial reporting required of service providers that receive individual funding

Service provider financial reporting requirements—there is no requirement for financial reporting by service providers receiving funds under the individual funding program. In many instances, services are provided to numerous individuals by a single provider. Although the service provider is responsible for numerous individual funding agreements, there is no requirement to provide audited financial information, regardless of the total amount received. For example, a service provider receiving $100,000 through the contract funding program is required to provide audited financial information annually, while a similar provider receiving $1,000,000 through the individual funding program is not required to provide similar financial reporting.

Complete financial statements not required from service providers

In addition, Community Board contracts with contract funding service providers do not require them to provide the Community Boards with complete financial statements. The financial information required from contract funding service providers includes only a summary of the current year revenue and expense information for the funding received from the Community Board. Analyzing the complete financial statements of critical service providers from both the contract and individual funding streams could reveal areas of concern, such as unusual transactions, and would also allow an evaluation of the overall financial health of these service providers.

No criteria for service provider audits

Risk-based service provider audits—the Provincial Board and the Community Boards have not established clear criteria to select service providers for an audit and the audit procedures to be performed. The ability of the Community Boards to conduct audits of a service provider's financial information is an important aspect of their monitoring procedures. In the past, this function was performed by the Alberta Corporate Service Centre (the Centre) under the direction of the Community Boards. The newly created Office of the Chief Internal Auditor assumed this responsibility on April 1, 2004.

Varied scope of audits

The quantity and type of work done by the auditors has varied greatly between the Community Boards and in many cases would not have been adequate to provide significant assurance that funds provided by the Community Boards were spent appropriately. For example, one Community Board has been having two service provider audits done a year, while another managed to have thirteen service providers audited last year. A third Community Board focused all of their audit resources on internal processes, and did not have any service provider audits performed. In total, 30 service providers were examined by the Centre last year.

Clarity lacking in policies and procedures for service provider contacts

Service provider contacts—policies and procedures for conducting service provider contacts, which includes site visits and meetings by both contract managers and client service staff, are not clearly defined. The Community Boards' staff interacts with their service providers under a variety of circumstances, and these contacts are an important component in assessing the quality of services delivered. While service provider contacts are occurring, there is a lack of clear policies indicating what procedures Community Board staff should perform and document. Our audit testing revealed that contacts by contract managers were not consistently documented in service provider files. In addition, contacts by client service staff are not consistently documented in individual files or referred to in service provider files. In addition, information that is obtained from these contacts is not necessarily compiled and used to evaluate overall service provider performance.

No standard evaluation of service providers

Evaluation of service providers—Community Boards use various methods to evaluate service provider performance on an informal basis; however, there are no standard evaluation processes used to assess their performance.

Examples of monitoring weaknesses

Other areas where existing monitoring processes could be enhanced by Community Boards include:

- The follow up and review of financial information provided by contract funding service providers did not always happen promptly (three Community Boards).
- Up-to-date evidence of adequate insurance coverage was not on file for all service providers examined (two Community Boards).
- Procedures around the receipt, review and approval of nominal rolls (utilization reports and service logs) could be strengthened (two Community Boards).
- Individual service agreements (between individual funding clients and service providers) are not kept on file at three of the six Community Boards. At one Community Board, approximately one-third of these agreements could not be located in our examination. In addition, agreements with approved service providers (between the Community Board and the service provider) could not be located for 3 of 10 individual funding service providers sampled at a Community Board.

Implications and risks if recommendation not implemented

Individuals are at risk

Individuals served by the six Community Boards may not receive adequate levels of support due to weaknesses in the processes used to monitor and evaluate service providers.

4.2 Financial statement audits

Auditor's report unqualified; Information paragraph on non-compliance with legislation

The financial statements for the Persons with Development Disabilities Provincial Board and the six Community Boards received unqualified auditor's reports. However, the auditor's reports of the six Community Boards contain an information paragraph reporting that expenses include payments made by the Persons with Developmental Disabilities Boards for services to individuals whose disability did not meet the definition of a developmental disability, as defined in the legislation. The Community Boards provided services to individuals and funding to organizations that fall outside of the legislative authority set by the *Persons with Developmental Disabilities Community Governance Act*.

Economic Development

Summary: what we found in our audits

Financial statements
Our auditor's report for the Ministry's financial statements is unqualified.

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

Overview of the Ministry

Three core businesses

The Ministry's 2003–2006 business plan describes three core businesses:

- provide strategic policy and planning input for Alberta's economic development
- facilitate industry growth, trade, and investment
- market experiences and develop opportunities

The Ministry works closely with the Alberta Economic Development Authority, the Strategic Tourism Marketing Council and the Travel Alberta Secretariat to coordinate private sector input.

Ministry spent $58 million

In 2003–2004, the Ministry spent $58 million. The following programs are the largest costs of the Ministry:

	(million of dollars)
Positioning and promoting	23
Strategic intelligence	28

Ministry received $14 million

The Ministry had revenue of $14.2 million, of which $14.1 million came from an internal government transfer from the Lottery Fund.

For more detail on the Ministry, visit its website at www.alberta-canada.com.

Scope: what we did in our audits

1. We followed up on our prior year's recommendations that the Ministry improve its *Managing for Results* systems.

2. We audited the financial statements of the Ministry for year ended March 31, 2004.

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

Our audit findings and recommendations

1. Systems findings—*Managing for Results*

Background

In our *2002—2003 Annual Repor*t, we made five recommendations to help the Ministry improve its systems to "manage for results." Our *Managing for Results* audit covered:

- the Ministry business plan and the processes to develop the plan.
- internal business planning and reporting processes.
- processes for development and review of performance information.
- human resource management systems.

This year, we assessed the extent to which the Ministry has responded to three of our five *2002—2003 Annual Report* recommendations on *Managing for Results* (see the following sections 1 to 3). We will follow up on the remaining two recommendations next year (see sections 4 and 5).

Criteria: the standards we used for our audit

The business plan, performance report and underlying systems should help management achieve desired results and legislators make informed funding decisions.

Our audit findings

1. **Defining results in the business plan and assessing Ministry contribution to results**—on page 89 of our *2002—2003 Annual Report*, we recommended that the Ministry of Economic Development revise its business plan to clearly demonstrate the desired results each core business is to achieve, and ensure its performance measures demonstrate the Ministry's contribution to results.

Business plan core businesses and goals clearly define desired outcomes

The Ministry has implemented the first part of this recommendation. The Ministry's business plan for 2004–2007 meets the *Government of Alberta Ministry Business Plan Standards*. The Ministry made significant improvements to its business plan for 2004–2007 by revising its core businesses to present a framework for allocating resources and achieving results. The core businesses, goals, strategies and performance measures are aligned in the business plan. The Ministry increased the number of goals in its business plan from three to eight to more clearly define the outcomes to be achieved in each core business. It provided comprehensive strategies to manage risks and achieve goals. The Ministry's business plan provides a strong basis for operational planning and assessment of performance, thus improving the likelihood that it will achieve its outcomes.

Satisfactory progress to improve performance measures

The Ministry has made satisfactory progress implementing the second part of this recommendation in the 2004—2007 business plan. During the realignment of core businesses, goals and measures described above, five new performance measures were added to five of the eight goals, and five measures were dropped. The new measures better demonstrate the Ministry's contribution to results.

We anticipate that development of the performance measurement frameworks noted in section 3 will assist the Ministry in developing new measures or confirming the suitability of measures for its goals. As the Ministry anticipates that these frameworks will be completed by March 2005, we will follow up on the progress of this recommendation when we assess the performance measures developed for the 2006–2009 business plan.

2. **Discussion of environmental factors and risks in the business plan**—on page 89 of our *2002–2003 Annual Report*, we recommended that the Ministry of Economic Development expand its business plan discussion of significant environmental factors and risks, including setting out their relationship to the strategic priorities in the plan.

Comprehensive strategic planning process identifies environmental trends and internal capacity

The Ministry has implemented this recommendation. The Ministry has developed comprehensive environmental and strategic planning processes. The Ministry's business plan for 2004–2007 provides a good overview of the key environmental opportunities and challenges for the Ministry. The Ministry also benchmarks Alberta's performance in the global marketplace.

Business plan strategic priorities flow from environmental opportunities and risks

The Ministry has clearly presented its strategic priorities for responding to the environmental opportunities and challenges, such as those presented in *Securing Tomorrow's Prosperity* and *Alberta's International Marketing Strategy*, the government's cross-ministry Economic Development Strategy and key tourism strategies. The Ministry is continuing to refine its discussion of environmental trends and the risks that may affect its ability to achieve its longer term outcomes.

3. **Development and review of performance information**—on page 91 of our *2002–2003 Annual Report*, we recommended that the Ministry of Economic Development accelerate the implementation of its internal performance measurement framework for each division and branch, including developing logic models or similar tools, and improve its internal reporting process.

Satisfactory progress developing performance measurement frameworks

The Ministry has made satisfactory progress implementing this recommendation. The Ministry has developed an action plan with milestone dates to monitor its progress in completing frameworks and logic models for all areas of the Ministry. As of July 2004, the Ministry had completed frameworks for four of twelve functional areas, and developed draft frameworks and logic models for five other areas. The Ministry has found this process helpful in developing or confirming measures for the 2004–2007 business plan. For example, the measure *percent of clients satisfied with Visitor Information Centres overall* was identified during the update of the Tourism Services framework and added to the Ministry business plan.

Ministry staff anticipate that implementation of the performance measurement frameworks will lead to further improvements to business plans. The frameworks will generally include a profile, logic model, and measurement and reporting plans, and will be aligned with the strategies and performance measures in the business plan. We will follow up on the progress on this recommendation when we assess the performance measures in the Ministry business plan for 2006–2009.

4. **Internal planning**—on page 90 of our *2002–2003 Annual Report*, we recommended that the Ministry of Economic Development streamline its operational planning process and improve guidance on operational plans provided to divisions and branches.

Ministry staff informed us that considerable work has been done in response to this recommendation. We will assess the Ministry's progress in implementing this recommendation and will report on this in our *2004–2005 Annual Report*.

5. **Human resource management processes**—on page 91 of our *2002–2003 Annual Report*, we recommended that the Ministry of Economic Development evaluate the implementation of its performance management system to improve adherence to program guidelines.

   We will assess the Ministry's progress implementing this recommendation as part of our work in 2005.

2. Financial statements

Our auditor's report for the Ministry's financial statements has an unqualified opinion.

3. Specified auditing procedures

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

Energy

Summary: what we found in our audits

Systems audits
To help it effectively administer the oil sands royalty regime, the Department should improve systems by:
- setting expected ranges for analyzing the costs and forecasted resource prices submitted on oil sands project applications—see page 125.
- incorporate risk into its present value test used to assess project applications—see page 125.
- improving the documentation of its verification procedures for oil sands royalty information and its audit results—see page 127.

The Department needs to identify the objectives of the Alberta Royalty Tax Credit program and use performance measures to determine the effectiveness of this program—see page 129.

Financial statements
Our auditor's reports on the financial statements of the Ministry and the Department are unqualified.

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

Other entities that report to the Minister
Our auditor's reports on the financial statements of the Alberta Energy and Utilities Board (EUB) and the Alberta Petroleum and Marketing Commission (the Commission) are unqualified.

Overview of the Ministry

The Ministry's 2003–2006 business plan identifies six core businesses:

Six core businesses

- secure Albertans' share and benefits from energy and mineral resource development
- ensure Alberta's energy and mineral resources remain competitive, and attractive to investment and development

- inform Albertans about energy and mineral resource development and related policies, and the significance of these resources to Alberta's economy
- ensure Alberta consumers have a choice of reliable and competitively priced energy
- adjudicate and regulate on matters relating to the development, transportation and monitoring of energy resources and utility rates and services
- ensure the collection and accessibility of energy, mineral resources and utility information

Ministry entities

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

Ministry received $8.1 billion

The Ministry collected $8.1 billion in revenue in 2003–2004, from the following sources:

	(in millions)
Non-renewable resource revenue	7,676
Freehold mineral rights tax	288
Industry levies and licenses	80
Other revenue	21

Ministry spent $199 million

The Ministry spent $199 million in 2003–2004.

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

Scope: what we did in our audits

Systems

1. We examined the Department's systems and processes for the administration of oil sands royalties. Our primary objective was to determine if the Department had adequate systems to analyze and approve oil sands projects, validate the royalty information reported by project operators, and define the revenues and costs used to calculate royalties. We also followed up our previous recommendations—see pages 129 to 132.

Financial statement audits

2. We audited the financial statements of the Ministry and the Department for the year ended March 31, 2004.

Specified Procedures

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

Other entities that report to the Minister

4. We audited the financial statements of the Commission for the year ended December 31, 2003. We also audited the financial statements of the EUB for the year ended March 31, 2004.

Our audit findings and recommendations

1. Systems

1.1 Administration of the oil sands royalty regime

Alberta has the largest oil sands resource in the world. The Ministry's 2003 estimates indicate that about 174 billion barrels are recoverable with today's technology and economic conditions. This is 100 times larger than Alberta's remaining established conventional oil reserves.

The Oil Sands Royalty Regulation (OSR97) regime is based on the Crown receiving its fair share of oil sands projects' economic rent – the income remaining after costs are recovered. The objectives of the regime are to:

- Optimize the sustained contribution from Alberta's resources in the interests of Albertans.
- Establish a single, clear and stable royalty regime applicable to all new investments in oil sands and facilities development without the Province of Alberta having to provide grants, loan guarantees, or become directly involved in any capacity other than as resource owner.
- Ensure that oil sands development in Alberta is generally competitive with other petroleum development investment opportunities around the world.

1.1.1 Project approvals and amalgamations

Recommendation No. 10

We recommend that the Department of Energy:

- **set expected ranges for analyzing the costs and forecasted resource prices submitted on oil sands project applications.**
- **incorporate risk into its present value test used to assess project applications.**

Background

Oil sands project operators must apply to the Minister for royalty approval under the OSR97. If the projects are approved, they will be subject to a royalty rate equal to 1% of gross revenue until the project's allowed costs are recovered. Once cumulative revenues exceed cumulative allowed costs, the royalties often increase significantly since they are then the greater of 25% of net revenues or 1% of gross revenues.

Department must assess economic justification and royalty impact

When approving a project, the Minister must consider all of the requirements in sections 16 and 17 of the OSR97. Economic justification of each part of proposed projects is one of the factors the Minister must consider under the OSR97. The Department is responsible for analyzing applications and recommending to the Minister whether to approve or deny them. The Department uses key information on the applications, such as forecasted production volumes and costs, to determine project eligibility and to assess the economic justification of the projects and royalty impact to the Crown. The Department extrapolates data from the project applications over the life cycles of the projects, which can exceed 25 years.

Criteria: the standards we used for our audit

The Department should perform adequate analysis to justify approving or denying projects. The Department's analysis should:

- have a set framework
- determine and document if projects meet the Department's targets for economic justification
- assess risks to the Department and develop risk management strategies
- determine if legislation and policies have been met
- assess whether project expansions or amalgamations unduly reduce or defer royalties

Our audit findings

The Department partially met the criteria. The Department had a set framework based on the legislative requirements in sections 16 and 17 of the OSR97. We examined 10 project approvals of the 48 active oil sands projects and found certain deficiencies in the Department's processes to determine economic justification, assess risks, and document its evaluation of whether a Department policy for analyzing project expansions and amalgamations was being met.

Deficiencies in assessing cost projections

The Department used actual and projected costs submitted by project operators to determine if the projects were economically justified without always assessing the validity of the costs. We found that for only 2 out of 10 projects, the Department benchmarked costs against industry benchmarks. The Department did not have expected ranges (targets) for the costs and forecasted resource prices which were submitted on oil sands project applications and used to analyze economic justification of projects.

The Department did not retain key support for its assessment of the economic justification for three projects. This support included the Department's computer spreadsheets and documentation of its calculations and the results.

Risks were not considered in the discount rate

Before it recommends projects for approval, the Department assesses economic justification by ensuring that new projects have a present value of forecasted net revenues greater than zero. The Department's analysis for seven projects showed the present values of forecasted net revenues—discounted using the long-term bond rate—ranged from 10% to 27% of the expenditures. However, risks were not incorporated in the Department's present value tests through the use of a risk-adjusted discount rate.

Time delays were not fully considered

The business rules approved by the Department as policy indicate that amalgamation and expansion projects should be denied if there will be significant delays in reaching the 25% royalty rate. We did not find formal assessments by the Department of whether time delays in the projects reaching the 25% royalty rate were considered for project expansions or amalgamations. The Department relied instead on its assessment of the present value of royalties.

Implications and risks if recommendation not implemented

Royalties may be negatively impacted

Without expected ranges for analyzing the costs and forecasted resource prices submitted on oil sands project applications, the Department may recommend projects that will not achieve the intended objectives of the OSR97 regime in terms of royalty to the Crown and applicants may not receive consistent treatment. All significant risks may not be adequately incorporated into the Department's decisions to recommend projects for approval unless present value tests of proposed projects use a risk-adjusted discount rate.

1.1.2 Evaluation of industry reporting

Recommendation No. 11

We recommend that the Department of Energy improve its documentation of its verification procedures for oil sands royalty information and its audit results.

Background

The Department's internal audit group mandate is to ensure Crown resource revenues, allowed costs and various supporting submissions are complete, accurate and fairly valued. Verifying that costs are eligible is critical to ensuring the Crown receives its full share of royalties under the OSR97 revenue-minus-cost regime, with two royalty rates (1% and 25%). The revenues and costs subject to audit are significant. Capital and operating expenditures of oil sands projects are approximately $4 billion to $5 billion each year.

Department relies on audits

The Department relies extensively on its audits for ensuring the costs claimed by project operators are eligible under the OSR97.

Criteria: the standards we used for our audit

The Department should:

- have adequate procedures to verify reported royalty information
- document its verification procedures and audit results

Our audit findings

We reviewed 5 of the Department's audit files from 48 active projects and found the following:

- The documentation of risk assessment in five files was deficient because it did not deal with certain common risks to the Department. For example, the risk that a project operator may have a history of making aggressive deductions, the risk of royalties being reduced by non-arm's length sales or costs, the risk of duplicate costs being claimed in the project or in two projects owned by the same organization, or the risk that recovered costs are not being reported in full to the Department.

- For all five files, there was no indication of the nature of the work performed to ensure costs were eligible under the OSR97. The OSR97 requires that costs be directly attributable to the project, reasonable in the circumstances, incurred by or on behalf of the project owners, incurred on or after the effective date of the project, and incurred for one of ten purposes outlined in the OSR97.

- Also, all five files did not document that the costs were paid in the time period required by the OSR97.

Implications and risks if recommendation not implemented

Procedures should detect ineligible costs

If verification procedures are not comprehensive, audits may not be effective in ensuring that ineligible costs are identified and lost royalties recovered. Improved audit documentation will also help auditors train new employees and provide evidence to senior management of the work performed.

1.2 Alberta Royalty Tax Credit (ARTC) program

Recommendation No. 12

We again recommend that the Department of Energy document and communicate the objectives of the *Alberta Royalty Tax Credit* program and use measures to assess whether the program is meeting its objectives (2003—No. 11).

Background

The ARTC program refunds a portion of the royalties paid to the Crown. The refund is available to individuals and corporations to a maximum of $2 million of eligible royalties. The total credits in the 2004 fiscal year amounted to $82 million (2003—$83 million).

Government accepted recommendation

The Government's acceptance of our *2002—2003 Annual Report* recommendation indicated:

> The ARTC program was introduced as part of the response to the federal government making Crown royalties a non-deductible expense for federal tax purposes. In light of the recent federal tax change that reverses the original 1974 tax change that prompted the creation of the ARTC, the Department, in conjunction with the Finance and Revenue Departments, is reviewing the effect of the tax change on the value of the ARTC program. Any changes to the ARTC program as a result of this review will be introduced as the legislative schedule permits.

Alberta Energy, Alberta Revenue and Alberta Finance jointly administer the ARTC program. Alberta Energy has primary responsibility for budgeting, reporting and policy development for this program.

Criteria: the standards we used for our audit

- clear objectives
- relevant and verifiable measures to evaluate the results of the programs
- timely and reliable information on the results of the programs against their objectives

Our audit findings

Draft objective

During 2003–2004, staff of the Department developed a draft objective and draft performance measures for the ARTC program. This objective has not been recommended by senior management at the Department or agreed to by Alberta Revenue or Alberta Finance. Management indicates that it will seek approval and agreement on the draft objective in 2004–2005.

Implications and risks if recommendation not implemented
Management cannot make effective decisions when program objectives are not clearly defined and performance measures are not used to assess the results of the program.

1.3 Assurance—well and production data

Background
In our *2002–2003 Annual Report* (Page 97), we recommended that the Department of Energy:
- improve the communication of its needs for assurance on well and production data to the EUB
- evaluate the extent of audit work done on well and production data by the EUB in relation to its needs.

The Department obtains assurance on well and production data from:
- the audits performed by the Production Audit Group of the EUB, and
- the edit and validation controls in the Petroleum Registry System (the Registry).

Criteria: the standards we used for our audit
The Department should have adequate assurance that well and production information reported by industry is complete and accurate.

Our audit findings

Satisfactory progress in defining needs

The Department made satisfactory progress implementing the recommendation. The Department's business units are in the process of assessing the risks with respect to well and production data to determine the Department's needs for assurance. The Department communicated the needs it had previously identified to the EUB.

Started evaluating audit results

In July 2004, the Department received the EUB Audit Group's 2003–2004 annual report on the results of its audits. The Department is assessing the details of this report.

Responsibility for Registry controls defined

The Department indicated that it is primarily responsible to ensure that Registry controls (computer edits) are operating effectively. The Department involves the EUB to help ensure information system controls are complete. The Registry has a steering committee comprised of the Department, the EUB, and industry representatives. The EUB's audits involved ensuring the production data in the Registry was complete and accurate.

Implications and risks if recommendation not implemented
The Department cannot be sure of the completeness and accuracy of well and production data that it uses to calculate Crown royalty revenues. Royalties may be foregone if the data used in royalty calculations is inaccurate.

1.4 Royalty reduction programs

Background
On page 95 of our *2002–2003 Annual Report*, we recommended that the Department of Energy assess whether the royalty reduction programs are achieving their intended objectives.

The Department provides five oil and four gas royalty reduction programs that reduce Crown royalties to encourage industry to produce from wells that otherwise would not be economically productive or to achieve environmental results. For the year ended March 31, 2004, these programs exempted, reduced or waived Crown royalties in the amount of $517 million (2003—$427 million) in order to achieve their objectives.

Criteria: the standards we used for our audit
To make effective decisions, management needs:
1. relevant and verifiable measures to evaluate the results of royalty reduction programs
2. timely and reliable information on the results of the programs against their objectives

The objectives should be re-examined periodically to determine if there is a need for the revenue reduction program.

Our audit findings
The Department made satisfactory progress in implementing the recommendation. The Department completed preliminary reviews of the results of the following programs against their initial objectives: the low productivity, the reactivated well, the horizontal re-entry and the deep gas holiday programs. The reviews were based on information the Department had readily available including the number of wells, the production from those wells, the capital expenditures, the operating expenditures, and the royalties for the programs.

The Department concluded that the programs were meeting their initial objectives. However, the Department’s initial objectives were broad and did not have targets for the performance indicators. The Department plans on re-examining the program objectives and developing formal performance measures with targets starting in the fall of 2004.

Subsequent to the development of the programs, the Department has not examined if there is still a need for the programs. The Department indicated that the next phase of reviews will look at whether the objectives are still applicable under the current economic environment.

Implications and risks if recommendation not implemented
Without targets for performance measures and timely reviews, the Department cannot adequately assess whether program objectives are being met, if the programs need to be changed, or if there is still a need for the programs.

2. Financial statement audits

2.1 Financial statements

We issued unqualified auditor's reports on the financial statements of the Ministry and the Department.

3. Specified auditing procedures

3.1 Specified auditing procedures

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

3.2 Performance measures

In our *2001–2002 Annual Report* (2002—No. 13), we recommended that the Ministry of Energy use performance measures that permit consistent evaluation of its performance year to year.

The Department and the EUB implemented this recommendation. The Ministry has had a high degree of consistency in its performance measures since 2002.

4. Other entities that report to the Minister

4.1 Financial statements

We issued unqualified auditor's reports on the financial statements of the EUB and the Commission.

Environment

Summary: what we found in our audits

Systems

Managing for Results—The Ministry needs to improve its:

- business plan by clarifying the Ministry contribution to achievement of government plan goals, enhancing the linkage of environmental factors and risks to strategic priorities, and describing corporate services as supporting all core businesses—see page 135.
- process for developing new performance measures and ensure that the measures assess results—see page 136.
- human resource plan and the quality of employee performance assessments—see page 141.

Financial statements

Our auditor's report on the Ministry's financial statements is unqualified—see page 142.

Specified auditing procedures

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

Overview of the Ministry

Four core businesses

The Ministry's 2003–2006 business plan describes four core businesses:

- Environmental Leadership
- Environmental Assurance
- Environmental Stewardship
- Hazard and Risk Management

Department, Environmental Appeal Board, and 3 DAOs

The Ministry of Environment consists of the Department of Environment and the Environmental Appeal Board. In addition, the Ministry has assigned some of its responsibilities to three delegated administrative organizations: the Beverage Container Management Board, the Alberta Used Oil Management Association, and the Tire Recycling Management Association of Alberta.

Ministry spent $122 million

In 2003–2004, the Ministry spent $122 million, primarily in the following core businesses:

	(millions of dollars)
Environmental Leadership	17
Environmental Assurance	74
Environmental Stewardship	14
Hazard and Risk Management	17

Ministry received $3 million

The Ministry received $3 million in 2003–2004 from sources external to the government:

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

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

Scope: what we did in our audits

1. We reviewed the *Managing for Results* systems of the Ministry (business planning, performance information and human resource management) to determine if cross-government recommendations were implemented and identify examples of good practices.

2. We audited the financial statements of the Ministry for the year ended March 31, 2004.

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

Our audit findings and recommendations

1. Systems

1.1 Managing for Results

Background

The government's business systems require management to state desired results in plans, manage businesses to achieve the results, and report actual results against the plans. These systems affect business planning, performance measurement and reporting, and human resource management. We call these systems, *Managing for Results*.

Since 1999, we have examined the design and implementation of the government's *Managing for Results* processes, on a ministry-by-ministry basis, and made recommendations to help government gain full value from these systems. This year, we looked at *Managing for Results* in the Ministry of Environment.

The Ministry's *Managing for Results* partially met our criteria, which are outlined below. We made three recommendations to help the Ministry obtain more value from these systems. As part of our audit of *Managing for Results*, we report good practices that can help other government managers meet similar challenges.

Criteria: the standards we used for our audit

We used an extensive set of criteria that we developed by consulting with government management. In summary:

1. business plans should effectively communicate the expected results that the ministry will achieve with the resources allocated to each core business, and explain how the ministry will achieve these results.
2. performance measures in business plans should help the Legislative Assembly assess whether the ministry achieved the desired results.
3. annual reports should provide sufficient appropriate information so that the Legislative Assembly can assess performance against the business plan.
4. internal planning and reporting systems should support development and implementation of the business plan.

Business plans, performance reports and underlying systems should help management achieve desired results and legislators make informed funding decisions.

Ministry's business plan and planning process exhibit many good practices

Our audit findings

Business plan and planning processes—the *Environment 2004–2007 Business Plan* contains many features of a good business plan. Also, the Ministry uses the following good practices in its planning processes:

- In its consolidated business plan, the Ministry identifies all the entities it employs to deliver services. A "strategic priorities" section of the plan defines the Ministry's five priorities. The plan briefly describes each priority and links it to a goal. The plan also lists comprehensive strategies under each goal; these strategies cover, at a high level, all the services the Ministry delivers.

- The Ministry redefined its core businesses and goals and aligned them with the organizational and budget structures. Operational plans and individual performance agreements now flow directly from the Ministry business plan, thus increasing potential for success in achieving goals. These changes, introduced in the 2004–2007 business plan, have made the plan more relevant to staff.

- The Ministry's 2004–2007 business plan describes performance measures and aligns them under the goals for each core business; the plan also includes targets for each year. Clear links between goals and performance measures let readers better assess Ministry performance.

- The Ministry effectively communicates the business plan to staff. Useful tools include graphics with the steps in the planning and reporting processes, and the relationship between each step; a one-page "placemat" summary of the plan, posted on the Internet; and development of an intranet-based process to facilitate reporting on the plan. An annual Executive Committee "tour" to Ministry offices helped staff learn about the plan and its implications for them, and allowed them to provide suggestions on planning and human resource issues.

- The Ministry has effectively merged business plan goals and strategies with the resources required for their successful implementation. It did this by redefining the core businesses so that they align with the organizational and budget program structures. It also matched the budget to the business plan and to the operational plans.

- The Ministry integrates the processes to develop the business plan and the budget. Business plan strategic priorities and strategies formed the basis for budget decisions. This focus on the business plan as the "driver" of budget decisions continued through the processes to develop the budget details. The Ministry aligned the core business with the budget structure and developed a template to show budget allocations against each strategy in the business plan.

Comprehensive strategic planning process identified new business approaches for achieving long-term goals

The Ministry's planning process is comprehensive. It includes strategic planning, environmental scanning, business and financial planning, operational planning, and development of individual performance and learning plans. Some details of the planning process are as follows:

- The planning process integrates the results of the government and Ministry environmental scan. Ministry management held two planning workshops to examine environmental trends and their implications for the Ministry and to develop strategic priorities to guide the Ministry's strategic, business, and operational plans.

- The planning process clarifies the challenges the Ministry faces in adapting its internal process to achieve its longer-term goals.

- The Ministry's executive management played an active role in developing the business plan by providing overall direction and participating in planning workshops. Staff participated through focus group sessions held across the province, a planning committee of representatives from each division, and monthly division and branch management meetings.

- The planning process incorporates feedback from stakeholders. An Environmental Protection Advisory Committee provided advice on emerging trends and issues, such as climate change, emissions trading, coal bed methane, integrated resource management, and a water strategy. The planning process also included input from the public, other ministries and levels of government, irrigation districts, local authorities, universities, water user associations, aboriginal and other communities, and industry representatives and associations.

Recommendation
We recommend that the Ministry further improve its business plan by:
- **clarifying its contributions to achieving the government business plan goals.**
- **enhancing the description of the significant environmental factors and risks, and their relationship to the strategic priorities in the plan.**
- **showing the corporate services areas as supporting all of the Ministry's core businesses.**

The business plan needs to clearly describe how government goals are supported, and how strategic priorities respond to environmental factors and risks

In assessing the *Environment 2004–2007 Business Plan,* we found that the Ministry can improve the overall effectiveness of its business plan by:

- describing the actions it is taking to support government business plan goals. Clear and specific links between government and ministry plans will ensure accountability for results. Environment's plan identifies the government business plan goals it supports and notes a link to the government's strategic plan, but the actions the Ministry is taking to support the identified government business plan goals should be more specific and detailed.

- enhancing the "significant opportunities and challenges" section to help readers understand how the factors and risks can influence the Ministry's success in achieving its goals, and how the strategic priorities and strategies in the plan respond to these challenges.

- describing how corporate services support all core businesses of the Ministry. One option is to highlight these strategies in a separate section. The plan should allocate corporate support costs to each core business. Currently, corporate services strategies and associated costs appear under one core business only.

Relevancy and sufficiency of performance measures—the *Environment 2004–*2007 *Business Plan* has nine performance measures, including four new ones. The plan now links each measure to one goal—previous plans had measures linked to multiple goals. This realignment shows a clearer relationship between goals and performance measures. It lets readers better understand how Ministry performance is evaluated.

Recommendation No. 13
We recommend that the Ministry improve the process for developing new performance measures and ensure the measures in its business plan assess the results each goal aims to achieve.

While performance measures are aligned to goals, the process to develop measures needs to improve

We assessed the relevance and sufficiency of the performance measures in relation to the goals in the plan.

We found that performance measures for Goal 1 were relevant, but not sufficient to measure performance. The description of the goal refers to quantity, quality and sustainability, while the performance measures focus on quality, but not on quantity or sustainability.

We could not assess the relevance and sufficiency of three measures for Goals 2 and 3, described very briefly in the plan as "under development," because the Ministry could not give us sufficient information on them.

The Ministry is working to improve the performance measures in its business plan, including dedicating more resources to its performance measurement functions and developing output measures to be reported internally more frequently. We encourage the Ministry to continue this work, and to consider logic models, which illustrate to the relationship between outputs and outcomes, for its major programs and initiatives—they can help identify appropriate measures.

Operational planning—the Ministry has developed a consistent operational planning process and applied it ministry-wide. For 2003–2004, the Ministry developed operational plans based on a standard template for all divisions and the majority of branches. At the time of our audit, staff had started working on the 2004–2007 plans and expected them to be in place by the start of the new fiscal year.

We found strong staff support for using operational plans to implement the Ministry business plan and to show them how their work contributes to that plan. Staff stressed the importance of a logical flow between the Ministry business plan and the operational and individual performance plans. The changes to the 2004–2007 Ministry business plan will allow a closer alignment with the internal plans, thus making them more relevant and useful.

Operational plans should be comprehensive and align with the Ministry business plan

To ensure effective implementation of the Ministry plan, operational plans should be comprehensive and collectively cover all of the Ministry's business processes. The majority of the 2003–2004 operational plans did not include performance measures, or align actions, outputs and outcomes to strategies in the Ministry plan. A new framework for the 2004–2005 operational plans, however, requires identification of the Ministry goal that each activity contributes to, as well as the performance measure target for each activity. At the time of our audit, this framework had not been implemented; however, the changes appear positive. As a result, we did not provide a recommendation.

The operational planning system is supplemented by project-specific plans for key initiatives, such as climate change, water strategy and emissions trading, as well as plans for each Delegated Administrative Organization. These plans show links to the operational plans for all the divisions and branches involved, as well as to the Ministry business plan.

Quarterly reporting system effectively monitors implementation of the business plan

Performance monitoring and reporting—to monitor implementation of the business plan, the Ministry has developed a formal quarterly reporting system that we consider to be good practice. The system, which informs Ministry senior management of unexpected issues, as well as strategies that may not be proceeding as planned, includes:

- "exception reports" on variances from the operational plans, including initiatives that are not proceeding as planned, or new emerging priorities or unexpected activities.
- financial reports comparing budgeted versus actual expenditures.
- quarterly meetings at the division and branch levels to review progress on operational plans and identify variances and other information that needs to be brought to the Executive Committee.
- quarterly meetings of the Executive Committee to review strategic intelligence on new trends, performance measures information and exception reports, and to make necessary adjustments to priorities and budgets.
- a "registry of quarterly reports" on the Ministry intranet available to all staff.

The focus for each quarterly meeting of the Executive Committee varies to reflect the decisions that need to be made as the year progresses. For example, in the first quarter, the Committee examines the alignment of the operational plans to the Ministry and government business plans. The second quarter meeting focuses on ensuring plans are on track and signed commitments are in place for major projects, while the third quarter meeting covers reallocating resources to meet short term needs.

The Executive Committee monitors performance through regular meetings. Senior management in each division assess performance through ongoing communication with stakeholders, tracking of complaints, records of client and stakeholder contacts and meetings, and other data tracking systems. In some cases, detailed information is reported frequently, and issues requiring immediate action are quickly resolved.

Human resource management systems are well designed and integrated with Ministry business and operational planning processes

Human resource management—the Ministry human resource plan and planning process are aligned with the Corporate Human Resource Strategy and the Ministry business plan. For example, "staff capacity" is a strategic priority in the 2004–2007 Ministry business plan and a related strategy under one goal. The initiatives in the human resource plan, particularly a Healthy Workplace Strategy, were developed through a detailed consultation process with staff. The human resource plan was effectively integrated with the Ministry's operational planning and quarterly reporting processes. Most operational plans included actions to implement the human resource plan.

The Ministry employee performance management processes substantially met our criteria. The Ministry has:

- aligned its performance management system with the government's corporate framework and included in this system a performance agreement, learning plan, and performance assessment process.
- periodically reviewed the system to ensure it is operating effectively.
- implemented policies for learning and development, and a learning account, to support ongoing employee development.
- partnered with the Ministry of Human Resources and Employment in a leadership development program, with active support from the members of the Executive as mentors.

Recommendation

We recommend that the Ministry clarify the goals, performance measures and targets in its human resource plan, and improve the quality of employee performance assessments and the method of feedback.

The Ministry human resource plan does not clearly define goals and corresponding performance measures and targets. If performance measure results are not appropriately analyzed against targets, and strategies are not developed to resolve problems, the Ministry may not optimize its human resource.

The employee performance management system establishes clear expectations, and it documents individual goals and expectations. But although there was evidence of annual appraisals, documented assessment of performance results was limited. An effective performance management system helps employees understand how well they are doing in their jobs; it also rewards performance. This involves not only providing ongoing feedback and coaching, but also ensuring that the quality of the employee performance assessment provides sufficient and useful information for employees.

Implications and risks if recommendations not implemented

The Ministry can build on the sound processes it currently has in place to establish comprehensive *Managing for Results* systems that effectively implement the business plan, while allowing sufficient flexibility to encourage ongoing improvement.

Unless ministry plans clearly link to and implement the goals in the government plan, there is risk that the government plan will not be achieved. Readers will be unable to assess the action the Ministry is taking to respond to the opportunities and challenges it faces unless the Ministry business plan links these factors to its stated priorities and strategies. Unless the business plan includes performance measures that assess the full range of desired results, and clearly state the targets to be achieved, there is a risk that readers will be unable to adequately assess performance.

Without clear goals and performance measures and targets, there is a risk the Ministry may miss opportunities to optimize its human resource management systems. Unless employees receive appropriate information on what they need to do to improve their performance, Ministry goals and supporting human resources strategies will not be successfully met.

2. Financial statement audits

Our auditor’s report on the Ministry’s financial statements for 2003–2004 was unqualified.

3. Specified auditing procedures

We found no exceptions when we completed specified auditing procedures on the Ministry’s performance measures, so we do not report any findings here.

Executive Council

Summary: what we found in our audits

Financial statements
Our auditor's report on the Ministry's financial statements was unqualified.

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

Overview of the Ministry

Office of the Premier and Public Affairs Bureau

The Ministry coordinates the implementation and communication of the government's priorities. The Ministry consists of the Office of the Premier and Executive Council, the Public Affairs Bureau and the Office of the Chief Internal Auditor.

In 2003–2004, the Ministry spent $17.9 million. Revenues of the Ministry, mainly from the Queen's Printer Bookstores, were $2.3 million.

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

Scope: what we did in our audits

1. We continued to monitor the government's progress in improving the governance and accountability of Academic Health Centres.

2. We audited the financial statements of the Ministry for the year ended March 31, 2004.

3. We increased our sample of travel and hosting expenses.

4. We applied specified auditing procedures to the performance measures in the Ministry's 2003–2004 annual report.

Our audit findings and recommendations

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

Background

Academic health is a partnership

Academic health centres are partnerships of medical faculties, health regions, and academic physicians. They educate health professionals, conduct health sciences research, and provide specialized clinical services. Academic health is extremely complex. Responsibility is shared among the universities of Alberta and Calgary, their faculties of medicine, the Calgary and Capital Health Region and the Alberta Cancer Board. The Council of Academic Health Centres of Alberta (the Council) consists of representatives of these stakeholders. Funding is provided through multiple sources including government departments and agencies, other governments and the private sector.

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

- those who manage and fund academic health activities acknowledge the full scope and magnitude of those activities and the consequences for the accountability of academic health centres
- the entity or entities responsible for academic health, and their mandates, roles, and accountabilities be clearly defined and, on this basis, the appropriate organization and governance structure be established

The Ministries of Health and Wellness, Learning and Innovation and Science continued to make satisfactory progress implementing our recommendation.

A financial working group, consisting of representatives from the stakeholder groups, developed information on overall funding to the Academic Health Centres. The working group is now refining the financial information, including identifying the funding flows between the parties. The Department of Health and Wellness is currently engaged in an evaluation of the alternative funding plans in place with the universities of Alberta and Calgary.

Report in 2006

As we reported last year, we will continue to monitor the process and report more fully in 2006.

2. Travel and Hosting expenses

Background

We examined the travel and hosting costs charged to the Ministry of Executive Council to March 31, 2004. These included those of the Premier and senior Officials, as well as other staff of Executive Council. In addition, we examined the supporting documentation for the Premier's travel to Nova Scotia in July 2002.

Criteria: the standards we used for our audit

1. Travel and hosting expenses should be documented and supported.
2. Expenses should be reasonable in the circumstance, with due regard to economy and efficiency.
3. Expenses should be properly reviewed and approved.

Our audit finding

Audit procedures were conducted by both staff of the Office of the Chief Internal Auditor and our staff. We have reviewed the work of the Internal Auditor and concluded that we could rely on their work.

We found travel and hosting expenses were properly documented, supported, reviewed, and approved. In addition, we found these expenses to be reasonable in the circumstances.

Finance

Summary: what we found in our audits

Systems
The Department needs to improve its monitoring of private sector pension plans—see page 151

Financial statements
Our auditor's report on the financial statements of the Ministry and Department of Finance are unqualified—see page 158.

Specified auditing procedures
We found four exceptions when we applied specified auditing procedures to the Ministry performance measures—see page 158.

Other entities that report to the Minister

Three recommendations

1. Systems—Alberta Treasury Branches (ATB)
   ATB should ensure lending practices comply with corporate lending policies (see page 159), branches comply with corporate policies and procedures (see page 161), and investment services subsidiaries comply with regulatory requirements (see page 162).

Unqualified opinions for ATB and its subsidiaries' financial statements

Exceptions for compliance audits

2. Financial Statements
   ATB—we issued unqualified auditor's opinions for all of the financial statement audits we completed during the year for ATB and its subsidiaries listed in section 4.2.1 of Scope. A public accounting firm issued auditors' reports with exceptions for the compliance audits for ATB'S subsidiaries listed in section 4.2.1 of Scope. The significant exceptions are summarized in our recommendation in section 4.1.3.

Unqualified opinions for other entities

   Other entities—we issued unqualified auditor's opinions for all of the financial statement audits we completed during the year for the entities listed in section 4.2.2 of Scope.

Overview of the Ministry

Four core businesses

The Ministry's 2003–2006 business plan describes four core businesses:

- Fiscal planning and financial management
- Regulation of provincial financial institutions
- Pensions policy, regulation and administration
- Financial services

Department and entities

The Ministry consists of the Department and the entities listed in section 4 of Scope, including Alberta Treasury Branches (ATB).

ATB

ATB, operating as ATB Financial, is a provincial agency that is accountable through its Board of Directors to the Minister of Finance. ATB provides a range of financial services including accepting deposits and extending loans to Albertans and businesses. ATB has also established subsidiaries to distribute mutual funds and facilitate trading of securities on behalf of customers.

Ministry spent $703 million

In 2003–2004, the Ministry expenses, excluding ATB, were $703 million. The largest expense was $583 million for debt servicing costs.

Ministry received $928 million

The Ministry's revenues were $928 million. This includes $172 million net income from ATB, $541 million from investment income and $15 million from fees, permits and licences.

Websites for both Ministry and ATB

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

Scope: what we did in our audits

1. At the request of the Department, we examined the systems of the Office of the Superintendent of Financial Institutions for monitoring private sector pension plans. We also followed up on our previous recommendation to improve financial reporting and accountability for foregone revenue.

2. We audited the financial statements of the Ministry and the Department for the year ended March 31, 2004.

3. We applied specified auditing procedures to the performance measures in the Ministry's 2003–2004 annual report.

4. Other entities that report to the Minister

4.1 Systems—Alberta Treasury Branches (ATB)
We examined three areas: compliance with lending policies, internal controls at the branches and the investment services subsidiaries' compliance with regulations. We also followed-up on our prior years' recommendations on risk management, loan concentration limits and business resumption planning.

4.2 Financial statement audits

4.2.1 ATB
We audited the financial statements of ATB for the year ended March 31, 2004. We also completed review engagements for ATB's quarterly financial statements. In addition, we audited:

- ATB's Management Pension Plan for the year ended December 31, 2003.

- financial statements for the year ended March 31, 2004 for the three subsidiaries of ATB:
  - ATB Investment Services Inc.
  - ATB Investment Management Inc.
  - ATB Securities Inc.

In addition, PricewaterhouseCoopers performed compliance audits for the three subsidiaries and reported directly to the applicable regulatory bodies. We reviewed the results of these audits.

- Mutual Fund Dealers Association of Canada's Financial Questionnaire and Report as at March 31, 2004
- Investment Dealers Association of Canada's Joint Regulatory Financial Questionnaire and Report as at March 31, 2004
- Compliance with applicable sections of National Instrument 81–102 as required by the Alberta Securities Commission for the year ended March 31, 2004

4.2.2 Other entities

Other entities included in Ministry

We audited the following entities that are consolidated with the Ministry:
For the year ended March 31, 2004:

- N.A. Properties (1994) Ltd.

- Provincial Judges and Masters in Chambers Reserve Fund
- Supplementary Retirement Plan Reserve Fund

For the year ended December 31, 2003:
- Alberta Capital Finance Authority
- The Alberta Government Telephones Commission
- Credit Union Deposit Guarantee Corporation
- Alberta Pensions Administration Corporation. We also completed review engagements for each of the Corporation's quarterly financial statements.

In addition, we examined the financial statements, management letters, and audit files for two Crown-controlled corporations that are consolidated with the Ministry. A public accounting firm audits these entities. They are:
- Alberta Insurance Council for the year ended December 31, 2003
- Gainers Inc. for the year ended September 30, 2003

Entities not consolidated in the Ministry financial statements

We also audited the financial statements of the following entities that are not consolidated with the Ministry:
For the year ended March 31, 2004:
- Consolidated Cash Investment Trust Fund
- Provincial Judges and Masters in Chambers (Registered) Pension Plan

For the year ended December 31, 2003:
- Local Authorities Pension Plan
- Management Employees Pension Plan
- Public Service Management (Closed Membership) Pension Plan
- Public Service Pension Plan
- Special Forces Pension Plan
- Supplementary Retirement Plan for Public Service Managers

Our audit findings and recommendations

1. Systems findings

1.1 Monitoring private sector pension plans

Background

Alberta Superintendent of Financial Institutions supervises 1,100 pension plans

At March 31, 2004, the Office of the Superintendent of Financial Institutions (the Office) had supervisory responsibility for approximately 1,100 private sector pension plans. The types of plans include:

Multi-unit employer pension plan	14
Single-employer pension plan	584
Specified multi-employer pension plan	22
Plan for specified individuals	478

The *Employment Pension Plans Act* requires:

- all pension plans to submit annual information returns
- specified multi-employer pension plans to submit annual audited financial statements
- all defined benefit pension plans to submit triennial actuarial valuations (including cost certificates)

Section 14(3) of the Act also gives the Office the authority to obtain any information from any pension plan that is necessary to carry out its duties under the Act.

The Office has five compliance officers, the Deputy Superintendent and the Superintendent. The compliance officers are primarily responsible for monitoring pension plans' compliance with the Act.

1.1.1 Compliance monitoring framework

Recommendation No. 14

We recommend that the Office of the Superintendent of Financial Institutions ensure that compliance staff:

- **promptly review and follow-up on compliance information obtained from private sector pension plans**
- **receive appropriate training to effectively discharge their responsibilities**

Recommendation No. 15

We recommend that the Office of the Superintendent of Financial Institutions improve its processes for monitoring private sector pension plans by:

- **preparing a risk-based annual plan for its compliance monitoring program that identifies resources required to effectively carry out the plan**
- **reporting the results of regulatory activities by compliance staff to senior management**
- **updating its policies and procedures manual**

Criteria: the standards we used for our audit

The Office should have an effective framework for monitoring pension plans. The framework should consist of the following:

1. a written policies and procedures manual to guide compliance officers
2. appropriate training for compliance officers
3. a risk-based annual plan for performing desk reviews and on-site examinations that identifies the resources to effectively carry out the plan
4. prompt reviews of documents from pension plans and follow-up
5. regular communications with plan administrators on their statutory responsibilities
6. regular reporting on regulatory activities and the Office's performance to appropriate levels of management

Our audit findings

The Office's compliance monitoring framework for private sector pension plans met criteria 5 and either did not meet or partially met the remaining criteria. Our findings for each criteria are summarized below in order of importance.

Review of compliance information—between June 30 and September 30 each year, the Office generally receives compliance reports for about 1,100 pension plans. The Office reviews these reports to ensure the:

- completeness of information
- consistency of information between the annual information return and actuarial valuation reports, cost certificates, and the prior year's information
- annual information return is signed by the boards of trustees and actuarial reports by the actuaries

316 compliance reports not reviewed promptly

Compliance officers have to review these reports and follow up with the administrators of pension plans to obtain missing or incomplete information before November 15, according to the Office's guidelines. At February 11, 2004, there were 316 compliance reports received before September 30, 2003, that had either not been reviewed or were in process of being reviewed.

We examined 21 pension plan files and found that:

No action taken on one plan until 2002 with continued problems since 1999

1. For one pension plan, the Office was having continuing problems noted below but did not take appropriate or prompt action:

    - Between 1998 and 2001, the Office was experiencing difficulty obtaining compliance information by dates prescribed in the Act and Regulation. The plan did not submit financial statements for years ended December 31, 2000, 2001, and 2002 until August 29, 2003. This plan was also late in submitting actuarial reports—its 1999 report, which was due in September 2000, but was not received until March 2001. These reports showed the plan had significant unfunded liabilities and was likely insolvent. The Office did not follow up with the plan administrator to obtain outstanding compliance information or additional information on the solvency of the plan.

    - In May 2001, management was concerned about certain investments this plan made, and requested a copy of the statement of investment policies and procedures, which the Office never received.

    - In January 1999, the Office registered an amendment to the plan document without requesting the pension plan to provide evidence that the plan did not have a solvency deficiency and that the amendment would not result in reduced benefits for plan members. The most recent actuarial valuation report in the file, at the time of registration, showed that the plan had significant unfunded liabilities. Management informed us that the office did not obtain this information because they did not have the authority to decline the registration of the plan amendment.

- Because of the problems the Office was having with this plan, it was put on a watch list (considered high-risk) since at least January 2000. Nevertheless, the Office waited until March 2002 to conduct an on-site examination of the plan's administrative practices and records.

Financial statements not received

2. Another pension plan did not submit its 2002 financial statements due June 30, 2003 until September 2003. There was no evidence that the Office asked for the plan to submit the financial statements.

Incorrect information not followed up

3. Two pension plans' actuarial information in the annual information return contained errors, which the Office did not follow up.

4. For four plans' annual information returns, there was no evidence of review by compliance officers.

No evidence of work done

We also examined four on-site examination files and found:
- inadequate documentation—except for the scope of the work and on-site examination reports issued to boards of trustees there is no evidence of the nature and extent of work completed or conclusions.
- lack of evidence of supervisory review—none of the files contained evidence of the review of examiners' work.

Compliance staff need training

Training—compliance staff do not understand the differences between plan financial statements and fund financial statements. The Office asked multi-employer defined benefit pension plans to submit audited financial statements using the templates posted on the website of the federal Office of the Superintendent of Financial Institutions. This template is for financial statements of a pension fund. However, the Act requires these plans to submit plan financial statements. The federal superintendent also makes a separate request for pension plans to submit notes that should be included in plan financial statements. But the Office did not ask for this additional information.

Plan financial statements are different from fund financial statements in that notes to the plan financial statements include information on the description of the plan, the plan's actuarial obligation and surplus/deficiency and changes in surplus/deficiency from the prior fiscal year. Fund financial statements do not provide this valuable information, which is necessary in understanding the financial position of a defined benefit pension plan.

In addition, compliance officers are not formally trained in investment management practices. However, management informed us that two compliance officers are currently undergoing training in investment management.

Annual work plans not prepared

Risk-based annual plan—the Office does not prepare annual plans for compliance work. Since 1998, the Office has conducted four on-site examinations a year based on manpower resources and assessments made during compliance officers' meetings. The Office does not have any written record of the basis on which the compliance officers selected plans for the examination.

The Office is preparing a risk assessment framework, which it expects to be completed and in use by the fall of 2004. In addition to reviewing annual information returns, the Office is also considering conducting desk reviews and random on-site examinations. Desk reviews will consist of steps such as obtaining documentation from pension plans to verify information reported in the annual information return and reviewing the plans' statement of investment policy and procedures.

Superintendent has good external communication strategy

Communications and reporting—the Office regularly communicates with pension plans and their actuaries. The Office's business plans and performance information are included in the Ministry of Finance's business plan and annual report. The Office also prepares an annual statistics report to inform stakeholders of relevant performance trends and statistics affecting private pension plans in Alberta.

Summary reports for senior management needed

There is good informal verbal communication within the Office on issues of the day, actions taken and key initiatives. However, senior management does not receive summary written reports on the results of regulatory activities, including backlogs and action plans to deal with them.

Policies and procedures need updating

Policies and procedures—the Office has two policy and procedures manuals that provide guidance on reviewing compliance reports from pension plans and conducting on-site examinations. However, these manuals are not sufficiently comprehensive enough for the Office's current business operations. They have no guidance on:

- identifying risk factors and unsafe and unsound administrative and investment practices
- the need for written documentation of the nature and extent of compliance work and supervisory reviews

Management informed us that they are revising the manuals in conjunction with the development of the risk assessment framework.

Plan members could suffer financial loss

Implications and risks if recommendations not implemented

Without an adequate compliance monitoring process, the Office may not promptly identify situations that require its intervention. This could result in loss of benefits for plan members.

1.1.2 Compliance information

Recommendation

We recommend that the Office of the Superintendent of Financial Institutions obtain audited plan financial statements from all employer pension plans.

Recommendation No. 16

We recommend that, for high-risk employer pension plans, the Office of the Superintendent of Financial Institutions obtain:

- **assurance from pension plans' auditors on the plans' compliance with the *Employment Pension Plans Act*, Regulation and plan document**
- **information on pension plans' governance structure and practices**

Criteria: the standards we used for our audit

1. The Office should obtain sufficient and appropriate compliance reporting to fulfill its responsibilities under the Act. This should include obtaining the following documents:
   - actuarial valuations that provide information for both funding and solvency, once every three years
   - annual audited plan financial statements from employer plans
   - annual information returns that contain information on assets, liabilities and plan membership

2. For high-risk pension plans, the Office should also obtain:
   - auditors' report on pension plans' compliance with the Act, Regulations and the plan document including investment policies and procedures
   - information on governance structure and practices, including the composition of the board, processes for the review and approval

of plan document, investment policies and procedures, and financial statements

Our audit findings

We examined 21 pension plan files and found the Office received annual information returns and actuarial valuations from pension plans as required by the Act.

Plans submit wrong financial statement

The Office is required to obtain audited plan financial statements from specified multi-employer pension plans. However, fund financial statements, rather than plan statements, were received from three of the six plans we examined. In addition, for two of the six plans, no audited financial statements were received. There was no evidence of follow up to get audited plan financial statements.

600 pension plans not asked to submit financial statements

The Office does not obtain audited plan financial statements from the approximately 600 other employer pension plans because it does not have the specific legislative authority to do so. Although the Office does not have this explicit authority, Section 14(3) of the Act allows the Office to obtain any information from any plan.

The Office did not request assurance from any pension plans' auditors on the pension plans' compliance with the Act and Regulations, and the plan documents. In addition, none of the files we examined included information on the pension plans' governance structure and practices. Management obtains information on governance only from those plans that are the subject of an on-site examination.

Implications and risks if recommendations not implemented

Plan members' interest may not be protected

The Office may not identify matters that may require its intervention to protect the interest of pension plan members if it does not obtain:

- audited plan financial statements
- report from pension plans' auditors on the plans' compliance with the Act, the Regulation, and plan documents
- information on governance practices

1.2 Accountability for foregone revenue—Implemented

Background

In our previous annual reports, we recommended that the Department identify for the Legislative Assembly the expected and actual results from the social and economic development programs within the tax collection systems (2001—No. 48).

Our audit findings
The Department has implemented this recommendation by including the costs and objectives of significant tax credit programs in Budget 2004.

Costs and objectives of significant tax credit programs disclosed in Budget 2004

In Budget 2004, the Department continued to disclose the non-refundable personal income tax credits, incorporated in the personal income tax system and reported the objectives and expected cost of the refundable Alberta Family Employment Tax Credit program. The Department also included additional disclosure on the objectives and costs of reducing the corporate income tax rates, eliminating aviation fuel taxes, and Political Contributions Tax Credit program. In addition, the Ministry of Energy discloses the cost of Alberta Royalty Tax Credits in its consolidated financial statements.

Management has also indicated that it will continue to review the need for accountability information for any new refundable tax credit programs, those where a refund cheque is issued to an individual or corporation, based on the significance of the expenditures.

2. Financial statement audits

Unqualified opinion

We have no reservations of opinion on the March 31, 2004 financial statements of the Ministry and the Department of Finance.

3. Specified auditing procedures

4 exceptions noted

Our specified auditing procedures report includes four exceptions because we could not complete our specified auditing procedures on the following four measures.

Baseline data not available for 2 measures

Results were not available for three of the Ministry's performance measures. Two measures *Stakeholder Satisfaction with Harmonization of Financial Sector Policy and Regulation* and *Stakeholder Satisfaction with Canada-wide Harmonization of Private Pension Legislation and Regulatory Processes* did not establish baselines to develop targets for future years as set out in the Ministry's Business Plan. For both measures, the Ministry did not complete baseline surveys as planned.

No survey data for a third measure

There was no survey data available for a third measure *Percentage of Local Authorities Satisfied with Lending Policies and Efficiency of ACFA (biennial survey)*. The biennial survey, which historically has been the source for this measure, was last conducted in 2001. As the survey was not done in 2003, no data was available.

Underlying data not provided for part of one measure

For the measure *Percentage of Financial Management Commission accepted recommendations implemented*, management asserts that 11 of the 22 accepted recommendations have been implemented. However, they provided us with the final budget and business plan documents, but not the underlying data to support their assertion that they have implemented the first component of the following recommendation:

- Recommendation No. 15—there should be regular reviews, including benefit-cost assessments, of all major government programs, policies and delivery mechanisms. The number of government departments and agencies should be reviewed.

4. Other entities that report to the Minister

4.1 Systems audits at ATB

4.1.1 Lending policy compliance

Recommendation No. 17

We again recommend that Alberta Treasury Branches ensure its lending officers comply with corporate lending policies (2003—No. 15).

Background

ATB has policies to manage credit risk

ATB has established rules, guidelines and procedures to manage credit risk when lending officers issue new loans and manage existing loans.

Criteria: the standards we used for our audit

For each borrower, ATB's lending officers should:

- Perform a financial ratio analysis to measure the client's financial condition and capacity to make payments
- review the collateral to appraise the security for the loan
- conduct a character analysis to measure past borrowing experience
- complete an economic review of the relevant industry
- comply with ATB's internal lending limits or provide authorization and justification for exceptions
- maintain the accuracy and completeness of information in the banking system
- ensure conditions of approval are satisfied before the disbursement of funds
- ensure accurate and timely reporting is received from the borrower

Lending policies not followed

Our audit findings

ATB has not made satisfactory progress implementing this recommendation that we reported last year (2003—No. 15) because the actions taken by management to date have not corrected the lending officers' non-compliance with certain ATB lending policies.

The more significant and recurring exceptions noted below include issues that involve a serious breach of a key control. These could impact the decision to grant or renew the loan, the potential for repayment of the loan, or the terms of the loan.

Financial ratios frequently incorrect

- Lending officers do not consistently follow the guidance in the lending policies that describes how to calculate financial ratios. While miscalculations occur occasionally, we frequently noted errors in the computation of financial ratios used to assess the financial condition of ATB's customers. One fifth of the mortgage and personal loans, and one third of the business loans reviewed contained significant errors in the financial ratio calculations.

Income verification not on file

- There is a general lack of evidence in the files that lending officers verified the borrower's employment income. Half of the personal and mortgage loan files reviewed did not contain this information.

Collateral values not supported

- Collateral values were not supported or appropriately determined in half of the business files reviewed, with one fifth considered material.

Borrowers are not reporting back to ATB

- In half of the files reviewed, post-disbursement conditions, such as borrower reporting requirements, were not adhered to.

Our observations were consistent with those reported by ATB's Internal Audit department during their extensive credit audits.

Remaining criteria met

Our testing and Internal Audit's results did not note recurring significant weaknesses regarding the remaining criteria noted above. In general, lending officers are completing character analyses and economic reviews, meeting internal lending limits, entering data correctly into the banking system and ensuring conditions of approval are satisfied before disbursing funds.

Management redesigning the loan processes

We will consider this recommendation implemented when management establishes compliance expectations and lending officers meet them. We understand that management is redesigning the business loan processes. These changes are expected to correct the compliance problems by automating certain processes and centralizing more procedures. In addition, management will emphasize staff development. We will continue to review ATB's progress in this area.

Implications and risks if recommendation not implemented
Failure to follow established lending policies increases ATB's credit risk which is the potential for loss resulting from the failure of a borrower to repay their loan.

4.1.2 Key internal controls

Recommendation No. 18

We again recommend that Alberta Treasury Branches ensure branch processes comply with corporate policies and procedures (2002—No. 17).

Background

Management must ensure controls are effective

Management has a responsibility to ensure that adequate controls are in place and functioning properly at the branches. On page 123 of our *2002–2003 Annual Report*, we reported that ATB made satisfactory progress implementing our 2002 (No.17) recommendation that management document, evaluate and monitor internal controls to ensure assets are properly protected and financial information is accurate and complete. Last year management evaluated the internal controls, issued new guidance to communicate the controls to the branches and hired operating managers to monitor compliance with the guidance. This year, we tested whether the branches are now complying with the policies and procedures.

Criteria: the standards we used for our audit

Management should:
1. establish effective policies and procedures
2. monitor branches to ensure they are in compliance
3. take corrective action when non-compliance occurs

Our audit findings

Unsatisfactory progress at branches to improve compliance

Management has established effective policies and procedures, and is monitoring branch compliance. However, management has made unsatisfactory progress to take the necessary corrective action to fix the weaknesses that persist in the following areas:
- lack of authorization and supporting documentation for non-routine general ledger entries
- new customer accounts missing required customer information and evidence of credit bureau verification
- insufficient authorization supporting reactivation of dormant customer accounts
- insufficient access controls into the main banking system

- dual employee policy inconsistently followed during servicing of automated banking machines and collection of night deposits
- lack of documentation explaining teller cash outages

Management is working with the branches to improve compliance

This year, ATB formed a team to visit all the branches to determine the level of compliance and developed action plans to improve the areas of weakness. During these visits, the team found that 37% of the branches had significant compliance issues. ATB is now focusing on these branches by providing coaching and then monitoring their progress. In addition, ATB reviewed the policies and procedures and where appropriate, made revisions to improve clarity. ATB identified systemic issues that will be resolved through training courses for applicable staff.

We will consider this recommendation implemented when management establishes compliance expectations and branches meet them.

Implications and risks if recommendation not implemented

Risk of financial losses

ATB is unnecessarily exposed to losses when branches do not follow policies and procedures.

4.1.3 Investment services subsidiaries' regulatory compliance

Recommendation No. 19

We recommend that ATB Investment Services Inc., ATB Investment Management Inc, and ATB Securities Inc. enhance their control processes to ensure they meet regulatory requirements.

Background

ATB has three wholly-owned subsidiaries

ATB has three wholly-owned subsidiaries that provide investment services and products to ATB customers. ATB Investor Services Inc. (ATBIS) was established in 1997 to distribute mutual funds to customers; ATB Investment Management Inc. (ATBIM) was established in 2002 to manage six mutual fund portfolios offered to customers; ATB Securities Inc.(ATB Securities) was established in 2003 to facilitate trading of securities on behalf of customers.

Criteria: the standards we used for our audit

The subsidiaries must comply with extensive regulatory requirements

1. All three subsidiaries must comply with regulatory requirements of the Alberta Securities Commission, the Mutual Fund Dealers Association of Canada and the Investment Dealers Association of Canada (regulators), as applicable. The complete set of regulatory requirements is extensive and is not reproduced here. The findings include those requirements that the three subsidiaries did not fully meet.

An audit committee should oversee the subsidiaries

2. An independent audit committee should be established to oversee the activities of all three subsidiaries and to ensure they meet regulatory requirements.

Our audit findings

Thorough reviews not done

1. **Independent reviews**—thorough independent reviews of financial information were not consistently performed by management during the year. As a result, several errors went undetected in the monthly regulatory filings, the general ledger, and account reconciliations, and in information from the service provider.

Transactions recorded in the wrong subsidiary

2. **Segregation of accounts**—transactions and assets were not adequately segregated as two of the subsidiaries currently share a general ledger with ATB. Transactions during the year amounting to $110,000 in revenues and $23,000 in expenses were initially recorded in the wrong subsidiary.

Policies incomplete

3. **Internal control policies**—ATBIS' internal control policies do not include the necessary information prescribed by the regulators on the maintenance of minimum insurance coverage and segregation of cash and securities between the customer and the company.

Customers' cash not directly deposited to trust account

4. **Trust accounts**—ATBIS has a regulatory requirement that customers' cash be directly deposited into a trust account. However, ATBIS was not following this policy as customers' cash was first deposited to a suspense account, then to a trust account. Management was not reconciling the suspense account daily to ensure all amounts were transferred appropriately.

Mutual fund trades not properly processed

5. **Mutual fund trades**—ATBIS is not properly processing and approving certain mutual fund trade transactions. Within our sample of 24 trades, ATBIS did not process 3 of them within one day of the order date as required by the regulator. In two instances, ATBIS did not document the customer's trading instructions and in two more, ATBIS did not approve trades by a compliance officer. In a further case, ATBIS incorrectly initiated a trade and a customer received a mutual fund that was not within ATBIS' licensed authority to trade.

Security documents not properly managed

6. **Security documents**—ATB Securities holds physical security certificates and power-of-attorney documents on behalf of some of its customers. ATB Securities did not follow appropriate processes to track security documents in transit, and to store the documents, as

required by the regulators. As well, ATB Securities did not reconcile security documents held in the vault to the safekeeping report each month.

No independent oversight

7. **Audit committee**—while there is an independent audit committee for ATB, there is no audit committee at the subsidiary level. The subsidiaries are governed by Boards comprised of senior management. As a result, there is no independent oversight of subsidiary activities such as risk management, compliance with laws and regulations, financial reporting, safeguarding of assets, and budgeting and forecasting.

Management resolving weaknesses

We understand that management has already, or will in the near future, resolve these non-compliance problems.

Implications and risks if recommendation not implemented

Non-compliance could result in losses, disciplinary action, or loss of membership status with the regulators. Without membership status, these subsidiaries cannot conduct business.

4.1.4 Loan concentration limits

ATB provided support for its loan portfolio concentrations

On pages 118–119 of our *2002–2003 Annual Report*, we recommended that Alberta Treasury Branches provide support for its loan portfolio industry concentrations (2003—No. 14). ATB has implemented this recommendation. Management performed a review of their industry concentration limits in March 2004 using industry principles and made supported recommendations to the Credit Committee of the Board to adjust certain concentration limits.

4.1.5 Business resumption plan

ATB completed and tested a business resumption plan

On pages 122–123 of our *2002–2003 Annual Report,* we reported that ATB was making satisfactory progress implementing our recommendation to complete and test the business continuity and disaster recovery plan to enable the timely resumption of business in the event of a significant business disruption. ATB implemented this recommendation. Management has prepared a plan for the main banking system. The plan was successfully tested. Management intends to review and prioritize ATB's other systems and then develop disaster recovery plans according to priority.

4.2 Financial statement audits

4.2.1 ATB

Unqualified opinions for ATB and its subsidiaries' financial statements

Exceptions for compliance audits

ATB—we issued unqualified auditor's opinions for all of the financial statement audits we completed during the year for ATB and its subsidiaries listed in section 4.2.1 of Scope. PricewaterhouseCoopers issued auditor's reports with exceptions for the compliance audits for ATB'S subsidiaries listed in section 4.2.1 of Scope. The significant exceptions are summarized in our recommendation in section 4.1.3.

4.2.2 Other entities

Unqualified opinions for other entities

We issued unqualified auditor's opinions for all of the financial statement audits we completed during the year for the entities listed in section 4.2.2 of Scope.

Gaming

Summary: what we found in our audits

Systems
The Alberta Gaming and Liquor Commission (AGLC) should improve the gaming worker registration process—see page 168.

Financial statements
Our auditor's reports on the financial statements of the Ministry, Department, AGLC, and Alberta Lottery Fund are unqualified.

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

Overview of the Ministry

Ministry core businesses

The Ministry's 2003–2006 business plan describes three core businesses:

- Develop legislation, regulation and policy for the gaming and liquor industries
- Manage the Alberta Lottery Fund and administer designated lottery programs
- Support gaming and liquor research

Ministry entities

The Ministry consists of the Department, AGLC, and the Alberta Lottery Fund.

Ministry received $1.69 billion and spent $1.11 billion

In 2003–2004, the Ministry had total revenues of $1.69 billion and expenses of $1.11 billion. The majority of revenues ($1.68 billion) came from the net gaming and liquor income of AGLC.

	(millions of dollars)
Expenses are:	
Lottery funded programs	$ 139.6
Gaming research	1.6
Ministry support services	1.6
	142.8
Transfer from Lottery Fund to other ministries	992.1
	$ 1,134.9

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

Scope: what we did in our audits

1. We examined the process relating to gaming worker registration at AGLC. We also followed up our previous recommendations on the integrity of gaming activities at AGLC.

2. We audited the financial statements of the Ministry, Department, the Alberta Gaming and Liquor Commission (AGLC), and Alberta Lottery Fund for the year ended March 31, 2004. We also audited:
   - the financial statements of the Alberta Gaming Research Institute for the year ended March 31, 2004
   - AGLC–Schedules of Sales Volumes of Liquor Containers

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

Findings and recommendations

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

1.1 Gaming worker registration

Recommendation

We recommend that the Alberta Gaming and Liquor Commission (AGLC) improve the worker registration process, including controls to confirm the identity of gaming worker applicants.

Background

To register with AGLC as gaming workers, applicants must apply either in person or by mail. The application must include a police records check and confirmation by a licensed casino facility that the applicant has the knowledge and experience to perform their duties. Gaming workers have to renew registrations every two years if they want to continue working in the industry.

Criteria: the standards we used for our audit

To maintain integrity in the gaming industry, AGLC should ensure it registers only qualified gaming workers.

Our audit findings

As described below, AGLC partly met the criteria.

The worker registration system has a number of controls that are consistent with gaming industry standards. The system requires applicants to produce:

- an original birth certificate, citizenship or immigration record.
- a color photograph.
- proof of a police records check.

AGLC risks issuing worker registration licences to the wrong applicant

However, the system does not have sufficiently strong controls to adequately reduce the risk of licences being provided to the wrong applicant. Other jurisdictions, including Nevada, reduce this risk by visual confirmation of the identity of a registrant, either in person or by verification of a photograph from the applicant. Also, gaming worker licenses in other jurisdictions have a photo of the registrant. AGLC's systems do not include either of these features. Both controls are of value, however our primary concern is with the absence of visual confirmation.

AGLC guides the work of registration staff

AGLC has established guidelines to assist the registration staff in their duties. The guidelines provide that if staff are not certain about an applicant's eligibility or continued eligibility, they are to refer the matter to the investigations division. Investigators do further review, which may include detailed security checks for more information. This is a valuable step.

Registration staff's work not reviewed

We found that staff followed the guidelines and obtained all required documentation. Also, staff referred matters that required further reviews to the investigators. However, supervisors do not review the work of their staff before final approval of the worker registration. Supervisor's review of their staff's work, on at least a sample basis, would provide assurance that guidelines are consistently applied.

AGLC can't confirm applicants' identity

Implications and risks
Without strong controls, AGLC cannot confirm the identity of applicants. This results in an increased risk that applicants who lack ethical standards will be registered as gaming workers.

1.2 Gaming operator compensation-implemented

Background
In our *Annual Report* (2001—No. 10), we recommended AGLC determine whether the compensation rates it pays to VLT and casino facility operators represent an appropriate commercial return for services provided.

We made this recommendation because of the risk that the revenue-based compensation, if not appropriate, could result in casino and VLT facility operators "participating in the conduct and management of gaming activities". That participation is a violation of section 207(1) of the *Criminal Code*. Our concern was that AGLC had insufficient information on the effects of its revenue-based compensation rates.

In our *2001–2002* and *2002–2003 Annual Reports*, we reported AGLC had taken the initial steps to develop a reporting model for different casino sizes and collect information from casinos to compare to its models.

Our audit findings
AGLC has implemented this recommendation. AGLC has developed an assessment and reporting model and collected cost information from all sizes of casinos. It also plans to obtain this information in future years to monitor the rate of return earned by casino operators.

1.3 Integrity of gaming activities

1.3.1 Gaming products and services-satisfactory progress

Background
On pages 127–128 of our *2002–2003 Annual Report*, we recommended AGLC implement processes to ensure:

- gaming operators buy gaming supplies only from registered suppliers.
- AGLC buys gaming terminals and gaming supplies only from registered suppliers.

AGLC's progress is satisfactory

Our audit findings
AGLC has made satisfactory progress implementing our recommendation by revising its casino inspection program. Although the revised program still requires senior management approval, inspectors have already started using it.

AGLC has a new casino inspection program

During casino inspections, inspectors verify that the gaming operators buy gaming supplies only from registered suppliers. We will re-examine the casino inspection process once the revised inspection program is fully implemented.

AGLC is revising its policies

AGLC is revising its policies for buying gaming products and services from approved suppliers. When AGLC applies the draft policy, it will implement our recommendation. We will re-examine the process after AGLC implements its policies.

1.3.2 Use of proceeds-satisfactory progress

Background

On pages 128–130 of our *2002–2003 Annual Report,* we recommended that AGLC implement a process for timely monitoring of licensed groups' use of gaming proceeds.

Our audit findings

Satisfactory progress—backlog reduced

AGLC has made satisfactory progress implementing our recommendation. Last year we reported that in April 2003, AGLC had not yet issued about 11,000 reports to charitable organizations and had not reviewed about 12,200 reports. By May 2004, it had sent all but 500 reports to these organizations.

AGLC has plan to eliminate backlog

AGLC devised a plan, which includes hiring additional temporary employees, for completing by March 31, 2005 all reports received up to and during the fiscal year ended March 31, 2004. Management also provides regular updates to the Board on the status of the backlog. We will consider the recommendation is implemented when backlog has been removed.

2. Financial statement audits

We have no reservations of opinion on the financial statements of the Ministry, Department, the Alberta Gaming and Liquor Commission, Alberta Lottery Fund, or the Alberta Gaming Research Institute.

3. Specified auditing procedures

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

Government Services

Summary: what we found in our audits

Financial statements
Our auditor's report on the Ministry financial statements for the year ended March 31, 2004 was unqualified.

Specified auditing procedures
We identified two exceptions when we applied specified auditing procedures to the Ministry's performance measures—see page 177.

Other entities that report to the Minister
The Alberta Corporate Service Centre (the Centre) needs to:
- develop comprehensive contracting policies and procedures and ensure that staff follow them—see page 177.
- implement conflict-of-interest policies and procedures to ensure employees disclose potential conflicts of interest—see page 180.
- ensure it has appropriate recovery facilities and equipment available to resume business operations if a service disruption occurs at the government's data centre—see page 181.

Overview of the Ministry

The Ministry's 2003–2006 business plan identifies two core businesses:

Two core businesses

- providing a variety of licensing, registry and consumer protection services to Albertans
- providing service improvement initiatives on behalf of the Government of Alberta to improve Albertans' access to services, ensure protection of their privacy and streamline government support processes

The Ministry consists of the Department of Government Services, the Alberta Corporate Service Centre (Centre) and the Utilities Consumer Advocate (the Advocate).

Utilities Consumer Advocate created in September 2003

The government created the Advocate in September 2003 to represent the interests of residential, farm and small commercial consumers of electricity and natural gas. The Advocate receives 80% of its funding through the Balancing Pool and 20% from private natural gas distributors in the province.

Ministry spent $237 million

In 2003–2004, the Ministry spent $236.7 million, including $160.2 million the Centre spent on services to government departments and $1.5 million that the Advocate spent.

Ministry received $474.9 million

Revenues from fees and licences were approximately $324 million from external sources. The Centre also received $149.4 million from government departments for delivering services. The Advocate received $1.5 million from the Balancing Pool and the natural gas distributors.

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

Scope: what we did in our audits

Four parts to our audit

1. We followed up the Department's progress implementing our previous recommendations to:
   - have recovery facilities and equipment available to resume business operations if a service disruption occurs
   - complete and approve a project management plan for the Registry Renewal Initiative
   - adopt fair information practices for the use, disclosure and protection of information in the Motor Vehicles Registry

2. We audited the financial statements of the Ministry for the year ended March 31, 2004.

3. We applied specified auditing procedures on the Ministry's performance measures in its 2003–2004 annual report.

4. We performed the following work at the Centre:
   - reviewed the Centre's contract management systems
   - reviewed the Centre's information technology management controls for the government's data centre
   - followed up the Centre's progress implementing our previous recommendations to improve its:
     - performance measurement systems
     - processes to deliver audit services
     - controls for the Electronic Payment System and the Expense Claim System

Our audit findings and recommendations

1. Systems findings

1.1 Disaster recovery plan—satisfactory progress

Background

Needed equipment to recover critical registry systems

The computerized registry systems for land titles, motor vehicles and personal property are critical for the Department, as these systems support the delivery of its core businesses. The Department has contracted out the operation and maintenance of these systems to a private sector service provider. Last year, we recommended that the Department of Government Services make provision for appropriate recovery facilities and equipment to resume business operations if a service disruption occurs.

Our audit findings

Department has assessed needs and will have recovery equipment available in fall of 2004

The Department is making satisfactory progress implementing our recommendation. The Department assessed the importance of the Registry systems and determined the requirements necessary to restore critical business services. The Department signed an agreement with the service provider to have appropriate recovery equipment available in the fall of 2004.

We will follow up on the implementation in 2004–2005.

1.2 Project management plan for Registry Renewal Initiative—satisfactory progress

Background

Registry renewal initiative to renew 20-year-old systems. Estimated cost: $100 million. Spent $25 million

The Registry Renewal Initiative (the Initiative) is a project to renew the systems for the land titles, motor vehicles and personal property registries to ensure that they are capable of meeting the growth in demand. This involves moving to new technology that will enable the Department to improve service delivery to Albertans. Several private sector service providers are involved in developing the new systems. The Department expects the Initiative will cost approximately $100 million and will take eight years to complete. The Department has spent approximately $25 million on the Initiative from 2002 to 2004.

Project management processes were not implemented

Last year (2003—No. 19), we recommended that the Department of Government Services complete and approve a project management plan for the Initiative. The Department did not have an approved project management plan, nor did they have comprehensive project management processes before significant work began on the Initiative.

Our audit findings

Implemented processes to review and manage risks

The Department is making satisfactory progress implementing the recommendation. The Department has updated the Initiative's risk management plan by indicating how it will manage the risks identified, and implemented processes to review and update the plan regularly. It also updated sections of the project management plan, such as the scope, and human resources management plans, and is working on the quality assurance and cost management plans.

Need to implement processes to monitor project's progress whether on time and within budget

The Department recently hired a consultant to update the original business case for the Initiative based on current information and assist them implementing processes to monitor changes from the initial cost-benefit analysis. This information will help the Department monitor whether the Initiative is still on target in terms of cost, time and scope.

Requested Internal Auditor to review governance and project management practices

The Department also requested the Office of the Chief Internal Auditor (Internal Auditor) to review the governance structure and project management processes for the Initiative and make recommendations for improvement. The Department expects the Internal Auditor to finalize its review by the end of September 2004.

We will follow up the implementation of the recommendation in 2004–2005.

1.3 Motor Vehicles Registry access standards—implemented

Background

Access standards needed for personal information in the Registry

In our *2001–2002 Annual Report* (No. 21), we repeated our recommendation that the Ministry implement access standards for the use and disclosure of personal information in the Motor Vehicles Registry (the Registry). This recommendation was originally made in our *1997–1998 Annual Report* (No. 47), when our Office and the Office of the Information and Privacy Commissioner issued a joint report on the protection of privacy and security of registry systems.

Our audit findings

Amendments to Legislation and a new Regulation effective May 1, 2004

The Department implemented the recommendation. The Department worked with the Ministry of Transportation and the Office of the Information and Privacy Commissioner on amendments to the *Traffic Safety Act*, the *Freedom of Information and Protection of Privacy Act* and the development of the *Access to Motor Vehicles Information Regulation*. The Regulation prescribes the purposes for which Registry information may be disclosed. Most sections of the Regulation came into effect on May 1, 2004.

Department has communicated the new standards, signed new agreements and implemented controls to monitor compliance

The Department has communicated the new standards for accessing information in the Registry to Registry users and the public. The Department has also entered into new access agreements with users that limit how they can use and disclose information, and developed controls to monitor their access and use of the Registry. In addition, the Department plans to verify compliance with the new access standards in August 2004 as part of its ongoing audits of Registry Agents.

2. Financial statement audits

Our auditor's report on the Ministry financial statements is unqualified.

3. Specified auditing procedures

Results were not available for the following two Ministry's performance measures:

- percentage of performance targets in service level agreement that are met—targets in the agreements are not clearly defined and no processes exist to track results
- stakeholder/customer satisfaction—the Centre did not conduct a survey

Therefore, we could not perform our specified auditing procedures on these measures. This resulted in two exceptions in our specified auditing procedures report. See section 4.4 on page X for the follow up of our prior years' recommendation to improve performance measurement systems.

4. Other entities that report to the Minister—Alberta Corporate Service Centre

4.1 Contract management systems

4.1.1 Contracting policies and procedures

Recommendation No. 20

We recommend that the Alberta Corporate Service Centre:

- **develop comprehensive contracting policies and procedures**
- **train staff on how to follow the policies and procedures**
- **monitor staff compliance with the policies and procedures**

Background

Centre signs and manages contracts

The Centre enters into and manages contracts totalling $210 million so that it can deliver the following services to ministries:

worth $210 million

- information technology
- administration
- human resources

Criteria: the standards we used for our audit

The Centre's staff should understand and comply with contracting policies and procedures. To ensure this happens the Centre should:

1. use a comprehensive policies and procedures manual for all contracting that includes standards for the preparation, review and approval of business cases
2. train staff on applying the policies and procedures
3. monitor compliance with the policies and procedures

The Centre's contracting process should ensure that:

4. business case analyses are prepared to support contracting decisions
5. an appropriate contractor selection method is chosen
6. competition is open, fair and gets good value
7. proposals are evaluated fairly against predetermined criteria.
8. the contracts contain a sound framework for contract management and accountability and include performance targets
9. contractor performance is monitored and acted upon

Our audit findings

We determined that the Centre's contracting systems met criteria 6, 7, 8 and 9. The following findings illustrate the reason why the Centre's contracting systems do not meet the other criteria:

Centre's contract policies and procedures outdated and not comprehensive enough

Contracting policies and procedures manuals—the policies and procedures in the Centre's *Financial Policies and Procedures Manual* are outdated and are not sufficiently comprehensive for the Centre's current operations. Because of this, some contracting staff refer to other sources when entering into contracts.

Policy and guidelines for business cases do not exist

Business case policies and procedures—the Centre has not developed any specific policy or guideline for preparing, reviewing, and approving business cases. The Centre's normal practice is to prepare business cases for projects requiring significant investments.

Revised business case identified an alternative that will save $1.2 million

For one business case we reviewed, management started work to outsource the management of the government's office equipment fleet, without completing a cost-benefit analysis on all the alternatives it identified. Because of our audit, the Centre did a cost-benefit on all the alternatives and selected another alternative. Instead of outsourcing, it is now improving its internal processes and it is estimated that this alternative can save the government approximately $1.2 million per year.

Two contracts not in accordance with Centre's policies or Agreement on Internal Trade

Lack of adherence to policies and procedures—the selection method for 2 (total value of $250,000) of the 13 contracts that we examined did not comply with the Centre's policy. The Centre should have publicly advertised these contracts in accordance with the Agreement on Internal Trade. Instead, the Centre renewed one contract without considering competition and provided the other request for proposal only to certain vendors. The Centre did not document the reasons for these actions.

Reasons for sole service of contracts not always documented

Files for contracts that were sole sourced did not contain documentation required by the Centre manual and Guide. In 5 (total value of $362,000) of 9 contracts that we reviewed that were sole sourced, we could not find evidence of the justification and approval for the sole sourcing that the Centre used. The values of these contracts ranged from $7,000 to $188,000. In addition, for one of these contracts, the Centre did not post a Notice of Proposed Procurement in accordance with the Supply Management Branch's policies.

No alternatives considered to sole sourcing

In 5 (total value of $600,000) of 13 contracts that we reviewed, the Centre selected contractors solely on the Centre's or Ministry's previous experience with the contractor. We could not find evidence that the Centre considered competition, or other alternatives in delivering the services, before renewing the contracts.

Contracts signed after work started or after existing contract expired

The Centre signed four new contracts after the contractors started supplying the services. We found a further three contracts that the Centre renewed approximately one month after the original contracts expired.

Contract approvals not in accordance with policies

In addition, a contract extension, worth over $1 million, was not approved in accordance with the Centre's policies. The ministry receiving the services notified the vendor that its Minister was exercising the option to renew the agreement. This notification was signed off by the ministry and contractor, and copied to the Centre. The original agreement expired on March 31, 2003 and a new agreement was not signed. Instead, a change order to extend the previous change orders related to the agreement was signed. However, the approval was not in accordance with the Centre's policies.

Implications and risks if recommendation not implemented

Without adequate contracting policies and procedures, and monitoring and training, inconsistencies and deficiencies in awarded contracts may exist. These can expose the Centre to risks, including:

- public criticism for unfair contract awarding
- unreasonable financing risks
- legal liability to contractors treated unfairly
- increased costs

4.1.2 Disclosure of conflict of interest

Recommendation

We recommend that the Alberta Corporate Service Centre require staff involved in contracting to disclose annually in writing:

- **that they understand and agree to follow the *Code of Conduct and Ethics*, and**
- **any potential conflicts of interest they may have.**

Background

Public Services Conduct and Code of Ethics produced by PAO

All government employees must be familiar with and follow the Code of Conduct and Ethics for the Public Service of Alberta (the Code) produced by the Personnel Administration Office. Administration and enforcement of the Code, including the development of any department-specific supplementary codes, are the responsibility of each deputy minister. The Code requires deputy ministers to issue instructions for implementing the Code and to promote the Code regularly to ensure that employees are aware of their obligations. The Code requires employees to disclose to their deputy minister any situations that may be, or appear to be, conflicts of interest.

Criteria: the standards we used for our audit

The Centre should have conflict-of-interest guidelines and a means to ensure that staff follow them. The Centre should:

1. Require all employees involved in contracting to disclose annually in writing any potential conflicts of interest they may have.

2. Issue written guidance on circumstances that could result in a potential conflict of interest; the guidance should define related parties and potential conflict-of-interest situations and how to manage those situations in the contracting process.

Our audit findings

Code provided to all employees when employment starts

The Centre gives all of its employees a copy of the Code and requires each employee to sign an oath when they start employment. Further, during the contract evaluation process, the Centre asks staff who evaluate proposals whether any potential conflict of interest exists and requires them to abstain from purchasing decisions if appropriate.

Centre does not require employees to disclose annually potential conflict of interest

Although we did not find any potential conflicts of interest during our testing, we found the following problems:

- The Centre has not issued any written guidance on circumstances that would result in a conflict of interest.

- The Centre does not require employees involved in contracting to:
  - confirm in writing that they understand the Code and agree to follow it.
  - disclose annually the status of any potential conflict of interest.
  - disclose any potential conflict of interest during the project initiation phase to ensure that staff do not disclose confidential information to related parties.

Implications and risks if recommendation not implemented

Contracting decisions could be based on personal interest

The Centre may be unaware of its employees' conflicts of interest. As a result, the Centre may not obtain best value from a contract if employees make decisions based on their personal interests.

4.2 Disaster recovery plan

Recommendation

We recommend that the Alberta Corporate Service Centre improve the disaster recovery plan for the government's data centres by:

- **having appropriate recovery facilities and equipment available to resume ministries' critical business systems.**
- **developing a communication strategy and assigning responsibilities for staff.**
- **establishing detailed procedures for restoring systems based on ministry priorities.**

Background

Centre responsible for government's data centre

The Centre provides technology and infrastructure services to ministries from both its Calgary and Edmonton data centres. This includes networking, e-mail and internet services for most of government, including the Government of Alberta website, and a number of ministries' applications run on the data centres' mainframe and servers environments.

24–48 hours recovery time

As part of the disaster recovery plan management determined that the timeframe to restore services in case of service disruption for critical systems is 24–48 hours. Ministries that use the Centre have identified many of their systems as critical.

Criteria: the standards we used for our audit

The Centre should:

- assess the minimum requirements necessary to restore critical business services in the desired time if a service disruption occurs
- ensure the appropriate recovery facilities and equipment are available, based on the assessment
- document a comprehensive disaster recovery plan that sets out the procedures to follow if a service disruption occurs

Our audit findings

Appropriate recovery equipment not available if service disruption occurs

The Centre has not assessed the minimum requirements necessary to restore ministries' critical business services. In addition, for ministries' applications that run in the data centre, the Centre either:

- does not have appropriate recovery equipment available in the Edmonton and Calgary data centres, or
- has alternate recovery equipment in the Edmonton and Calgary data centres, but the computer environments are not the same in the two locations. Therefore, the Centre would first have to make the environments compatible to recover the systems.

Because of these deficiencies, the Centre would not be able to recover critical services for ministries' applications and data in the required 24–48 hours.

In addition, the disaster recovery plan contains most of the sections required to facilitate recovering from a disaster, but does not include:

- a communication strategy and responsibilities for staff, ministries and third parties in the event of a disaster
- detailed restoration procedures that indicate how the Centre should restore ministries systems in the order of priority that ministries established

Implications and risks if recommendation not implemented

Business operations of some ministries could be severely affected if a service disruption occurs at the data centres. The government's networks, e-mail and internet communications could also be impaired if appropriate facilities and recovery equipment are not available.

4.3 Performance measures—satisfactory progress

Background

Improve performance measurement systems

Last year (2003—No. 20), we repeated our recommendation that the Alberta Corporate Service Centre clarify its performance measures and targets and improve its processes to monitor and report results. Management accepted our recommendation and indicated that they would implement a performance measurement system and reassess and clarify performance measures and targets.

Our audit findings

Satisfactory progress

The Centre has made satisfactory progress improving its performance measurement systems.

New strategic plan and performance measures. Working on systems to track results

The Centre developed a strategic plan for shared services of the Government of Alberta. The Centre defined new performance measures in its 2004–2007 business plan. The Centre is defining the methodology and developing the systems to track the results for the new performance measures in the 2004–2007 business plan. To implement the recommendation, the Centre needs to complete this and report results in the Ministry's 2004–2005 annual report. We will follow up the full implementation of the recommendation in 2004–2005.

4.4 Audit services—recommendation no longer relevant

Background

In our *2001–2002 Annual Report* (page 122), we recommended that the Alberta Corporate Service Centre improve its processes to deliver audit services to ministries that request them.

Our audit findings

Audit services transferred to Executive Council

The compliance audit function of the Centre was transferred to the new Office of the Chief Internal Auditor in the Ministry of Executive Council effective October 15, 2003. The Centre did not make any substantive changes to its audit processes before the transfer. We will continue to follow up this recommendation in the Ministry of Executive Council.

4.5 Information technology systems operations and controls—satisfactory progress

Background

In our *2001–2002 Annual Report* (page 123), we recommended that the Centre improve controls for the Electronic Payment System and the Expense Claim system.

Our audit findings

Developed new policies and procedures for the systems

The Centre is making satisfactory progress implementing our recommendation. During the year, the government signed a new agreement with an outsourced service provider, which covers the operation and maintenance of IMAGIS, EPS and ExClaim. The Centre also:

- developed operations manuals for EPS and ExClaim
- drafted policies and procedures for access controls
- developed reports to review access to the systems

Still need to implement the new policies

The transition to the new service provider is underway and the Centre expects to complete this in the fall of 2004. The Centre will finalize the policies and implement procedures for access after completing the transition. To implement the recommendation, the Centre should complete these steps to improve controls.

We will follow up the implementation of the recommendation in 2005–2006.

Health and Wellness

Summary: what we found in our audits

Systems

- The Department should improve control over health care registration—see page 190.

- The Department should improve accountability of the regional health authorities to the Minister of Health and Wellness—see page 197.

Financial statements

Our auditor's reports on the financial statements of the Ministry and the Department are unqualified for the year ended March 31, 2004. Our auditor's report on the financial statements of the Ministry includes information on the definition of the government reporting entity—see page 200.

Specified auditing procedures

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

Other entities that report to the Minister

1. Systems
   The Calgary Health Region needs to analyze the benefits and the risks of all viable alternatives for new and complex projects—see page 202.

All but one Health Region received an unqualified audit opinion on their financial statements

2. Financial statements
   - The Department of Health is taking appropriate steps to encourage regional health authorities (Health Regions) and Provincial health boards (Boards) to improve their internal controls—see page 205.
   - Our auditor's report on the financial statements of both Boards and five of the six Health Regions contained no reservations. We had one reservation of opinion on the financial statements of the Chinook Regional Health Authority—see page 205.
   - The financial statements of the three Health Regions that we do not audit received unqualified auditor's reports from their appointed auditors—see page 205.
   - Our auditor's report on the financial statements of the Alberta Alcohol and Drug Abuse Commission was unqualified.

Overview of the Ministry

The Ministry's business plan lists two core businesses:

- lead and support a system for the delivery of quality health services.
- encourage and support healthy living.

The Ministry's financial statements include the operations of the Department of Health and Wellness and the Alberta Alcohol and Drug Abuse Commission.

Boundaries of Health Regions changed

Effective April 1, 2003, eight Health Regions were discontinued and the boundaries of the remaining nine Health Regions were expanded to include the area of the discontinued Health Regions. The operations of the Alberta Mental Health Board were also transferred to the Health Regions effective April 1, 2003.

Ministry spent $7.4 billion

Total expenses in the Ministry consolidated financial statements were $7.4 billion for the year ending March 31, 2004. The main components were:

	(millions of dollars)
Health Regions	4,136
Physician Services	1,571
Blue Cross Benefit Program	466
Province-wide Medical Services by Health Regions	415
Human Tissue and Blood Services	122
Protection, Promotion, and Prevention	168
All other	488

Ministry received $2.4 billion

Main external sources of revenue were $1.4 billion in transfers from the Government of Canada and $964 million in premiums and fees.

For more information and details of operations and financial results, see the annual report and financial statements of the Ministry and the Department at www.health.gov.ab.ca.

Scope: what we did in our audits

1. We followed up certain of our previous recommendations—see section 1.1 on page 187 and recommendations on pages 190 and 197.

2. We audited the financial statements for the year ended March 31, 2004 for the Ministry and the Department.

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

4. We performed the following work on other entities that report to the Minister:

   - We audited the financial statements for the year ended March 31, 2004 for the following entities:
     - Alberta Alcohol and Drug Abuse Commission
     - Alberta Cancer Board
     - Alberta Mental Health Board
     - Calgary Health Region, and Carewest, its wholly-owned subsidiary
     - Capital Health, and Capital Care Group Inc., its wholly-owned subsidiary
     - Chinook Regional Health Authority
     - East Central Health
     - Northern Lights Health Region
     - Peace Country Health

   - We reviewed the results of audits of three Health Regions that we don't audit:
     - Aspen Regional Health Authority
     - David Thompson Regional Health Authority
     - Palliser Health Region

Our audit findings and recommendations

1. Systems findings

1.1 Progress on past recommendations

The Ministry made satisfactory progress implementing the following recommendation:

Satisfactory progress

In 2003—No. 23, we recommended that the Department of Health and Wellness improve its control processes for ensuring accountability for restricted funding.

We previously recommended that the Department's accounting system should track restricted grants so management can subsequently follow up with Health Regions to determine whether funding conditions were met and decide if unspent amounts are repayable to the Department. The Department has made satisfactory progress implementing a process for monitoring restricted grants. The Health Regions are required to include a continuity schedule in their annual financial statements detailing the balance carried forward, amounts received during the year, amounts for which conditions have been spent and unspent balances at year end. This will be provided to the program areas to assist them in monitoring restricted grants.

The Department has been advising the Health Regions to report as unrestricted funding some grants which have specific accountability requirements or conditions. To implement the recommendation the Department told us that all 2004/05 grant agreements will be reviewed, and where the grant has conditions, will advise the Health Region to report the amounts as restricted funding in financial and other records. We will report in 2004–2005 on the Department's progress in implementing our recommendation.

The Ministry has made unsatisfactory progress implementing the following recommendations:

Unsatisfactory progress

Year & Reference	Topic	Location in 2004 Annual Report
1999—No. 40	Control over health registration	1.2, See page 190
2002—No. 24	IT General Control Environment review – corporate information systems – risk assessment – IT disaster recovery plan	1.4, See page 195
2003—No. 21 Recommendation first made in 1998	Accountability by the Health Regions to the Minister	1.5, See page 197

Fully implemented

The Ministry implemented the following recommendation since our *2002–2003 Annual Report*: We recommended that the Department of Health and Wellness improve the quality control process for performance information in its annual report (2003—page 158). The Department has implemented a quality control review process that requires senior management to document their review of performance measures and supporting documentation.

Recommendation not repeated

We are not repeating our recommendation from 2002 (page 129) where we recommended that the Department clarify the extent of control over, interests in, and potential liabilities related to Canadian Blood Services (CBS). We have obtained independent legal advice indicating that the Memorandum of Understanding (MOU) adequately specifies the nature of the relationship between the parties and each party's share of the liabilities.

We will report on the status of the following recommendations in our *2004–2005 Annual Report*:

Reporting on the status of these recommendations will be in the *2004–2005 Annual Report*

- **2001—No. 14 Measuring and reporting the performance of the health system**—we recommend the Department of Health and Wellness, in cooperation with stakeholders, improve the measurement and reporting of the quality and cost of health services.

- **2000—No. 21 Using information to improve funding systems**—we again recommend that the Department of Health and Wellness examine regional differences in the utilization and cost of health services with a view to improving the system for allocating funds to health authorities (1998—No. 27).

- **2001—No. 17 System for paying physicians**—we recommend the Department of Health and Wellness implement strategies that would promote cost-effectiveness as part of the system for paying physicians for their services.

- **2001—Page 127 Information systems management**—we recommend the Department of Health and Wellness, in collaboration with health authorities, assess the benefits and risks of the approach to information management in the health system and clarify the accountability of the chief information officer for health.

- **2003—No. 23, page 156, page 157 Province-Wide Services**—we recommend that the Department of Health and Wellness and the Province-Wide Services Working Group:
  - Clarify the mandate of the Working Group and approve processes to achieve that mandate.
  - Decide what pre- and post-transplant services qualify as PWS services and determine their costs.

  We recommend the Province Wide Services Working Group review the changes to the qualifying list of PWS services arising from methodology changes.

- **2003—Page 159 Alberta's Report on Comparable Health Indicators**—we recommend that the Department of Health and Wellness continue to improve the processes used to prepare its next Alberta's Report on Comparable Health Indicators.

  Alberta Health and Wellness is currently preparing several reports including health indicators and plans to publicly release these reports on or before November 30, 2004. We will follow up on our prior recommendation relating to processes to prepare reports when we carry out third party verification on these reports.

1.2 Control over health care registration

Recommendation No. 21

We recommend the Department of Health and Wellness improve control over the health care registration system (1999—No. 40).

Background

In our *1998–1999 Annual Report*—No. 40, we recommended that the Department improve control over health care registration. The Department's progress implementing this recommendation has been unsatisfactory.

Personal health numbers are issued to eligible persons

Since 1994, the Department has controlled access to publicly funded health services in Alberta by issuing personal health numbers to people lawfully entitled to be or remain in Canada, who make their home and are ordinarily resident in Alberta (registrants). The Department maintains a personal health number registration system (the registration system) to record health information and manage billing of health services.

No photographs or addresses on health cards

Personal health numbers are unique numbers issued by the Department to each eligible registrant. The registration system is designed so each registrant should have only one personal health number and a health card is issued by the Department to each registrant with the personal health number imprinted on it. Health cards do not include photographs or addresses. Registrants may apply to the Department for duplicate (joint-custody family purposes) or replacement health cards in cases of loss or accidental destruction. There is no cost to the registrant for duplicate or replacement health cards.

Personal health numbers are issued for life

Personal health numbers are issued for life and not recycled when a registrant dies. Also, they are de-activated if a registrant leaves Alberta for longer than specified in the regulations and are re-activated when a registrant returns.

Visitors to Alberta can be issued personal health numbers

Personal health numbers are also issued to visitors who require health services in Alberta. Costs are typically recovered by the Department from the visitor or their home jurisdiction. Information on visitors who have received health services while in Alberta is maintained in the registration system.

Applications for personal health numbers are screened by the customer service and registration branch of the Department to ensure proper completion.

Criteria: the standards we used for our audit

The Department should have adequate controls to ensure that only eligible people obtain health services at public expense. These controls should verify:

1. the identity of the person applying for the personal health number
2. that the person is lawfully entitled to be or remain in Canada and a resident of Alberta
3. that cards, including replacements, are appropriately issued.

Our audit findings

By analyzing over five million records provided by the Department and conducting inquiries with Department staff, law enforcement and other jurisdictions in Canada, we found:

- The registration system relies primarily on the good faith of those applying for a personal health number. Application forms may be mailed or faxed to the Department for processing. A personal visit to the Department or other government office is not required. This process is the least stringent of five Canadian jurisdictions that we reviewed.

- Applicants who disclose that they or a family member are not Canadian citizens are required to include only a photocopy of their Canada entry document with the application. Applicants who claim to be Canadian citizens are not required to provide any identification, either original or photocopied, during the application process.

Over 2 million replacement health cards issued since 1994

- Since 1994, there have been 3,749,705 million personal health numbers assigned to people claiming eligibility as Alberta residents and 5,853,241 health cards issued to the same people. Therefore, the Department has issued over two million duplicate or replacement health cards.

9,000 duplicate or replacement cards issued to non-Alberta active registrants

- Since 1994, 469,350 personal health numbers have been issued to non-Alberta residents. Only 16,334 of these are currently active however, they have received 25,547 health cards. Therefore, the Department has issued over 9,000 duplicate or replacement health cards to non-Alberta residents with current access to health services.

- 123 municipalities in Alberta had between 2 and 4 personal health numbers for every person counted in the December 31, 2003 Government of Canada census.

Health cards have value on the black market

- Law enforcement advised us that criminals use improperly obtained personal health numbers and health cards as foundation documents to obtain further identification and establish fictitious identities. By using these identities to commit criminal offences such as unlawfully obtaining prescription narcotics, they may avoid arrest by changing identities frequently.

Limited resources directed to identifying ineligible registrants

- The Department's Questionable Residency Unit (QRU) consisted of one staff at the time of our audit, whose primary duty was customer service, and who investigated suspicious personal health number issues as time permitted. During 2002–2003, this individual conducted 105 reviews, resulting in the cancellation of 54 personal health numbers for residency related ineligibility.

US residents may be accessing health services

- In 1998, QRU had two full-time and one part-time staff. QRU stated in their 1998 annual report that for Health Regions located close to the US border, the number of personal health numbers could be as high as double the census population, implying that ineligible non-Canadians were accessing health services. We found no follow-up work by QRU or the Department since this report was released.

- Duplicate or replacement cards can be issued to a registrant upon request. There is no requirement to provide either a reason for the request or supporting documentation. Numbers of duplicate or replacement cards issued to registrants are tracked in the registration system.

- In a three-year period, seven duplicate health cards for one personal health number were used for 330 visits to 37 health care providers in seven geographically diverse communities. The frequency, location and nature of the visits suggested that several people were using the health card to obtain services.

- 32,440 registrants received more than five duplicate or replacement health cards; of these registrants, 506 were children under the age of ten. One adult registrant was issued 60 duplicate or replacement health cards.

- One apparently related group of 22 people was issued 982 duplicate or replacement health cards since 1994.

- Until December 2003, the registration system could track only up to 99 duplicate or replacement cards issued to a registrant. The registration system can now record over 100 duplicate or replacement health cards for each registrant. There was no Department review to consider why a registrant may require so many duplicate or replacement health cards.

Implications and risks if recommendation not implemented

Ineligible persons may be given access to services

Without adequate control over the registration process:

- Ineligible people may access health services in Alberta with improperly obtained personal health numbers and/or cards, resulting in increased costs, lost revenues and decreased health care service for eligible people.

1.3 Contracting for consulting services

Recommendation

We recommend the Department of Health and Wellness follow its contract management policy and processes in awarding any contract for consulting services.

Background

To ensure that contracts are a cost-effective means of delivering services, it is important that contracting policies and practices are appropriate and adhered to. In response to allegations in the Legislative Assembly that the Department of Health and Wellness did not follow its own policies in awarding a contract, we reviewed the awarding of the contract and the payments to the consultant for the fiscal years ending March 31, 2002, 2003 and 2004. Total payments made to the consultant for each of these years were approximately $141,000, $137,000, and $111,000, respectively.

Prior to March 1, 2002, the Department's policy was to enter into contracts to provide goods and services when it was of benefit to the Department and was conducive to meeting program requirements.

The policy advised that "sole sourcing" as an alternative to the competitive bid method of awarding contracts, should be used with discretion, and may be considered when the following criteria have been met:

- The acquisition is available from only one source;
- The Contractor's previous work performance and familiarity with the project justifies the retention of the contractor.

On March 1, 2002, the Department implemented a new contract policy and procedures to comply with the requirement that contracting policies and procedures adhere to the Government of Alberta Accountability Framework.

For the decision to contract—a written record of all contracting activities and decisions is to be maintained within a contract support file of each Branch. Mandatory documentation to support the decision to contract is needed to:

- Identify and support the need to obtain the services and/or goods by contract.
- Support that the contracted service and/or goods will contribute to the business plan of the branch.
- Identify the specifications for the goods or the goals, objectives and performance measure of the contracted service.

For contractor selection—contract should be awarded based on a "competitive bid" process. If bids are not sought, a brief explanation should be provided.

Expenditure officers approving payments under contracts should be able to substantiate that a disbursement for a product or service complies with the terms of the contract.

Criteria: the standards we used for our audit

1. The Department should adhere to its policy in awarding contracts.

2. The expenditure officer should approve disbursements when satisfied that the disbursement complies with the terms of the contract.

Our audit findings

We reviewed the awarding of the contract in question, as well as payments made under the terms of the contract and found:

- no support in any of the three years that explained why the service needed to be contracted. Further, there was no documentation explaining why a competitive bid process was not used.

- that the contractor was paid $100 per hour for hours spent travelling. The contract was silent on the rate to be paid for travel.

- that all payments for the 2002–2003 fiscal year were approved without documented support or description of services performed in the period. The documentation did not support how the expenditure officer was able to obtain satisfaction that the disbursements were in accordance with the terms of the contract, when services were provided directly to the Minister and/or no explanation of the service was provided.

- that none of the Contract Completion Evaluation Forms for the 2002, 2003 and 2004 years were signed or dated.

Implications and risks if recommendation not implemented
If policies are not complied with, there is a risk that the Department may enter into inappropriate contracts. Also, if payments are made without adequate support, the expenditures may not be correct.

1.4 Information technology control environment

Recommendation No. 22

We again recommend that the Department of Health and Wellness carry out a comprehensive risk assessment of its IT environment, and develop and implement an IT disaster recovery plan (2002—No. 24).

Background
The Department's Information Technology Branch is responsible for the effective operation of the many information systems that are essential to the Department's ongoing operations, as well as for ensuring the security and availability of the Department's information assets.

IT risk assessment and IT disaster recovery plan not developed

Two years ago, we recommended (2002—No. 24) that the Department assess the effectiveness of controls over information technology, resolve deficiencies, and strengthen the overall control framework. We had recommended that the Department obtain assurance that its service providers were maintaining effective controls, and we had noted that the Department had not performed a comprehensive risk assessment of its IT environment, and that it had not established and implemented an IT disaster recovery plan. We are pleased to note that the Department is now in the process of obtaining assurance on the adequacy of the control environments of its service providers. Management's response to the balance of our recommendation had also indicated that the Department would complete a comprehensive overall risk assessment of the IT environment, and have an IT disaster recovery plan in place by the end of the 2003 fiscal year.

Criteria: the standards use used for our audit

IT operations should be adequately protected

To discharge its responsibility, the Department must ensure that its IT operations are adequately protected. In particular, a comprehensive risk assessment of the IT environment should be carried out, and an IT disaster recovery plan should be prepared.

The risk assessment process should relate business risks to IT risks, resulting in the identification of risks, and the deployment of mitigating controls.

An IT disaster recovery plan, which uses the results of the risk assessment analysis to establish priorities and to focus resources on the assets of greatest value, should ensure that critical and vital Information Technology operations can resume within required timeframes in the case of a disaster.

Our audit findings

Unsatisfactory progress

Progress on this recommendation is unsatisfactory. A comprehensive risk assessment has not been completed, nor has an IT disaster recovery plan been developed.

Risk assessment—the Department has prepared a 'Risk Assessment' project proposal; however, the proposal is waiting for management approval before any further action can be taken. Management of IT-related risks is a key part of enterprise governance, and since management must ultimately decide on the level of risk that it is willing to accept, a comprehensive risk assessment would enable the Department to identify and quantify risks, and develop a practical risk management strategy.

IT Disaster Recovery Plan—the current IT Disaster Recovery Plan is an outline for a disaster recovery plan, with some limited guidance for disaster recovery. For instance, it does not list the Department's applications, servers, network components, operating systems or PCs. An effective IT disaster recovery plan is necessary to ensure the continuity and protection of critical application and data processing services, and to minimize the economic impact of an extended disruption of systems services in the event of an incident.

Implications and risks if recommendation not implemented

Security and control safeguards should be in place

Without a comprehensive risk assessment of its IT environment, the Department cannot be confident that security threats, potential vulnerabilities and impacts have been identified and evaluated, and that appropriate security and internal control safeguards for reducing or eliminating identified risk have been considered and deployed.

Further, if the Department does not have an up-to-date, functional IT Disaster Recovery Plan, the Department will not be adequately prepared to deal with a disaster to its IT infrastructure.

1.5 Accountability of the Health Regions to the Minister of Health and Wellness

Recommendation No. 23

We again recommend that the Department of Health and Wellness improve accountability of the Health Regions to the Minister by:

- **ensuring performance expectations for the Health Regions are explicit and accepted by the Health Regions,**
- **reviewing and providing feedback to the Health Regions on the Health Regions' progress towards meeting expectations, and**
- **taking follow up actions, including rewards and sanctions, to improve the future performance of the Health Regions (1998—No. 26).**

Background

Business planning process not effective

Each year, beginning with our *1997–1998 Annual Report* we reported that the business planning process has not been operating effectively. Up until March 31, 2003, business plans were the main accountability mechanism between the Health Regions and the Minister. The business plans were not approved at the beginning of the year to which they pertained, causing uncertainty for the Health Regions about their resources and expectations.

Multi-year performance agreements introduced

The Department introduced multi-year performance agreements for the fiscal year ending March 31, 2004 in response to the recommendations in the Mazankowski Report[1]. The agreements differed from business plans because they set out the obligations not only of the Health Region or Board, but also of the Minister. The multi-year performance agreements also included performance measures. As was the case with business plans, a budget was a key component of the performance agreements.

Criteria: the standards we used for our audit

To assess the accountability relationship of the Health Regions to the Minister, we used the elements of the Department's accountability framework, defined in "Achieving Accountability in Alberta's Health System, November 2001", as our criteria. We believe that if these elements were in place, an effective accountability relationship would exist.

1. Roles and responsibilities are mutually understood and accepted,
2. Performance expectations are explicit and accepted,
3. Sufficient resources, including authority to act, are provided,
4. Review and feedback are carried out, and
5. Follow up actions, including rewards and sanctions, may be taken to improve future performance.

[1] 'A Framework for Reform – Report of the Premier's Advisory Council on Health', issued December 2001. It recommended multi-year performance agreements as effective mechanisms for enhancing accountability.

Our audit findings

1. Roles and responsibilities should be mutually understood and accepted—the Department has met this criterion.

   The primary roles and responsibilities of the Health Regions as defined in legislation are:
   - Assess health needs in the region
   - Determine priorities and allocate resources
   - Provide reasonable access

   The Health Regions have final authority for these matters.

2. Performance expectations should be explicit and accepted—the Department has not met this criterion.

None of the Regions signed

Performance expectations should be in place at the beginning of the year to which they apply—none of the nine Health Regions signed the 2003–2004 multi-year performance agreements. The Health Regions told us that they didn't sign the agreements because funding was not known for the second and third years of the agreement. One expectation in the agreement was that the Health Regions would achieve a balanced budget.

Department abandoned multi-year performance agreements

For 2004–2005, the Department again changed the planning process. The Department advised the Health Regions in April 2004 that it was abandoning multi-year performance agreements. For 2004–2005, the Department requires:
- A three-year health plan, requiring the Minister's approval
- An annual business plan, including a financial plan, not requiring the Minister's approval

Health plans should be submitted at the beginning of the year

Because the announcement was not made until April 2004, the Health Regions were not required to submit their plans until May 21, 2004. However, most were not submitted until early July. The plans should have been submitted, reviewed and approved prior to the beginning of the year.

Measures and targets not established

Performance expectations should be explicit—we reviewed the expectations and performance measures in the unsigned multi-year performance agreements for 2003–2004 and in the three-year health plans for 2004–2005 and found that performance measures and targets were not established for all expectations.

For example, the Minister expects that the Health Regions will improve access and decrease wait times for selected services. However, the measure of achievement is that selected services be provided within established access standards, but the access standards have not been established.

Regions had concerns about performance expectations

The Health Regions agreed that some of the measures were not clear, some were in direct conflict with one another, priorities weren't set for measures, and the consequences of not meeting the measures were unknown. The Department also agreed that there was a lack of specificity in some of the measures and that further work was required to establish performance measures and targets.

Provincial health plan would help align priorities and expectations

Health is a provincial program that is delivered regionally. Health Regions have cited the lack of a provincial health plan as a barrier to the alignment of the Health Regions' and the Minister's priorities and expectations. Without a clear understanding by the Health Regions, elected officials, and the citizens of Alberta as to what can be expected of the health delivery system, there are conflicting and contradicting priorities and expectations of the Health Regions and the Minister.

3. Sufficient resources, including authority to act, should be provided—we were unable to assess whether this criteria was met.

We could not assess adequacy of funding

Sufficient resources—we noted that all Health Regions received sufficient funding to meet their cash flow requirements. However, we could not assess the adequacy of the funding in relation to the Health Regions' expectations. In other words, without explicit performance measures, we could not determine if the appropriate level of services were provided in a cost effective manner.

Difficult to exercise authority

Authority to act—the Health Regions told us that even though their authority is clearly defined in legislation, the reality is that it is difficult for them to exercise that authority because of public expectations.

4. Review and feedback should be carried out.

5. Follow up actions, including rewards and sanctions, should be taken to improve future performance—we were unable to assess whether these criteria were met.

Because the Health Regions didn't sign the performance agreements for 2003–2004 and the 2004–2005 year is underway, the Department has not been able to demonstrate whether they met these criteria.

Follow up should be collaborative

One of the main benefits of an appropriate accountability relationship between the Health Regions and the Minister is the opportunity created to work together in a collaborative manner to develop strategies, which will help the Health Regions meet expectations. It is important that performance measures and targets be developed which enable the Health Regions and Department to quantify the extent of progress being made towards expectations and to identify the initiatives which are having the greatest impact improving the delivery of health services. Appropriate performance measures and targets are necessary because it is not possible to conclude on the effectiveness of a Health Regions operations simply by observing if they have a surplus or deficit at the end of the year. The on-going practice of one-time funding to cover the deficits of the Health Regions creates disincentives for good management because it rewards Health Regions based on the extent of their deficits and not on the extent to which expectations were achieved.

Implications and risks if recommendation not implemented

If appropriate accountability between the Health Regions and the Minister is not implemented, there is a risk that opportunities to improve health services and/or reduce costs will be missed.

2. Financial statements

2.1 Unqualified opinion on the Ministry's financial statements

PSAB revised definition of the government reporting entity

As disclosed in Note 2 to the financial statements, the recommendations of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants are the primary source for the disclosed basis of accounting. PSAB has recently revised the definition of the government reporting entity for implementation for years beginning on or after April 1, 2005. In Note 2, management has stated when it intends to comply with PSAB's recommendations. If the regional health authorities had been included in the Ministry financial statements, I estimate that revenues, expenses, assets and liabilities would increase by approximately $863, $967, $4,115 and $3,527 million respectively.

The Government of Alberta Annual Report section indicates the action planned by the government in response to this issue—see page 47.

3. Specified auditing procedures

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

4. Findings on other entities that report to the Minister

4.1 Health Regions

Satisfactory progress has been made in implementing the following recommendations:

Year & Reference	Recommendation
2001—No. 20	We recommended that the Calgary Health Region and Capital Health Authority enhance their conflict of interest processes. The first part of the recommendation has been implemented. We reviewed the Health Regions' bylaws and found that all Health Region bylaws have a clause stating that disclosure is required from senior management, officers and others who may influence the Health Region's actions. We will continue to monitor the Health Regions' progress in implementing our recommendation.
2001—Page 135	We recommended that the Calgary Health Region and Capital Health Authority establish a comprehensive set of standards of outcome-based performance measures for surgical services and incorporate these standards of performance into ongoing monitoring of contracted facilities. The Health Regions now include performance measures in their contracts. We will report in 2004—2005 whether the performance measures have been incorporated into the contracting monitoring process.
2003—Page 161	We recommend that the Calgary Health Region set financial reporting and assurance requirements for contractors and strengthen its monitoring of contractors' financial performance and risks. The Health Region issued written direction to contractors for the 2002–2003 fiscal year. These directions include independent audit verification of staffing hours, a management declaration letter, audited general purpose financial statements, and an audited detailed schedule of program revenue and expenses. As a result, the Health Region received audited financial returns from most contractors. The Health Region evaluated these returns to assess the contract agency's overall financial position and operating results through margin analysis and financial ratio analysis. (continued on next page)

Year & Reference	Recommendation
2003—Page 161	However, of the 15 financial returns we tested, eight did not have any independent audit verification of staffing hours, six did not contain a management declaration letter, eight did not provide a separate detailed revenue and expense schedule for each site where the Health Region's programs were delivered, and one did not provide general purpose financial statements. Some contractors did not provide the Health Region with the necessary documentation, since the Health Region requested the contractors to make their best efforts to provide this information for the 2002–2003 fiscal year. The Health Region subsequently outlined this information in its reporting requirements for 2003–2004.

The following recommendations have been implemented since our *2002–2003 Annual Report*:

Year & Reference	Recommendation
2001—Page 136	We recommended that the Calgary Health Region and Capital Health Authority revise documented policies and procedures to include process changes resulting from the Health Care Protection Act and the assessment criteria and guidelines issued by the Department of Health and Wellness. The two Health Regions have implemented the recommendation. The policies and procedures have been revised as recommended.
2002—No. 26 Recommendation first made in 2001.	We recommended that the Chinook Regional Health Authority (Chinook RHA) continue to work with the Department of Health and Wellness and Alberta Infrastructure to clarify the nature of the Authority's future responsibilities for, and control of, one long-term care facility. Chinook RHA has implemented the recommendation. Chinook RHA and Alberta Infrastructure have signed a capital lease which conveys to the benefits and risks incidental to ownership to Chinook RHA. Also, an operating lease between the Alberta Infrastructure and the voluntary service provider has been assigned to Chinook RHA.

I will report on the status of the following recommendation in our *2004–2005 Annual Report*:

Year & Reference	Recommendation
2002—No.25	We recommend that the Alberta Cancer Board improve systems for managing cancer drug programs.

4.1.1 Calgary Health Region: business cases

Recommendation

We recommend that the Calgary Health Region analyze the benefits and the risks of all viable alternatives considered in their business cases for new and complex projects.

Background

Outsourcing the delivery of human resource services can involve risks

In December 2003, the Health Region outsourced the delivery of certain human resource services to a contracted service provider. Because of the scale of the costs involved and the inherent risks, we audited the systems the Health Region used to decide to outsource and to select the service provider. The fundamental risks associated with outsourcing are dependence on the provider, unexpected cost escalation, and loss of key in-house competencies in the long-term.

The outsourced services covered payroll, occupational health and safety, workforce planning and recruitment, compensation, and pensions and benefits. The annual base fees for outsourced services were set at approximately $10 million subject to inflation and changes in the number of the Health Region's employees. The term of the agreement is 15 years. The Health Region transferred 169 employees to the service provider. The service provider committed to spend $15.5 million on developing and implementing new systems by October 2004. The new systems are to be based on *Peoplesoft* software.

Criteria: the standards we used for our audit

In deciding to outsource a function and in selecting a service provider, the Health Region should:

1. prepare a business case that identifies all feasible alternatives and analyzes their costs, benefits, and risks
2. adequately inform the appropriate level of management or the Board who should approve the decision to outsource
3. select the provider in an open and fair way that complies with good contracting practice
4. set service expectations with performance targets and service level standards
5. monitor the provider's compliance with its expectations set out in the contract and correct non-compliance

Our audit findings

The Health Region met most criteria

The Health Region met most of our criteria. The Health Region identified all feasible alternatives and conducted some basic analysis of the costs of alternatives. This analysis showed that an in-house solution would have been more expensive than outsourcing and that capital funds were not available for in-house development.

Analysis did not cover benefits and risks

However, the analysis did not cover the respective benefits and risks or contain support for the costs. Also, the Health Region's management did not make a recommendation to the Board that human resource and payroll services should be outsourced. A recommendation to the Board should have included the costs, benefits, and risks of the alternatives. The Board did not formally approve a recommendation to outsource.

The selection process was open and fair

The selection of the provider was open and fair. The Health Region used competitive bidding, allowed all qualified organizations to bid, and gave bidders sufficient time and information. The evaluation criteria were predetermined, impartial, and based on the Health Region's service objectives. The Health Region short listed three bidders, checked their references, and evaluated their costs, benefits, and risks.

Contract set service expectations but did not define all performance criteria

The Health Region set the service provider's obligations and expectations, deliverables, certain performance targets, and service level standards in a signed agreement. The agreement protects the Health Region well in case of disputes, non-performance, and default in the short-term. Since the Health Region was not monitoring its own performance in some areas, due to the weaknesses in the existing systems, the agreement did not fully spell out or include all performance criteria.

Targets for *Peoplesoft* implementation key

At the end of May 2004, the Health Region had not subsequently developed and agreed with the service provider on the remaining performance measures, including interim targets for implementing *Peoplesoft*. Interim target dates are key in helping to ensure that the new systems are delivered on time.

Implications and risks if recommendation not implemented
Inadequate business case analysis and reporting of related risks may result in a decision that leads to a less cost-effective solution.

4.1.2 Chinook Regional Health Authority—reservation of opinion

Background
In three *Annual Reports*, we recommended that the Chinook RHA work with the Department of Health and Wellness and Alberta Infrastructure to clarify the nature of the Chinook RHA's future responsibilities for, and control of, one long-term care facility.

Our audit findings
The Chinook RHA has implemented the recommendation. The Chinook RHA and Alberta Infrastructure have signed a capital lease which conveys the benefits and risks incidental to ownership of the facility to the Chinook RHA. Also, an operating lease between Alberta Infrastructure and the voluntary service provider has been assigned to the Chinook RHA.

4.2 Financial statement audits

4.2.1 Internal controls at Health Regions

Background

The Auditor General is the auditor of six of nine Health Regions and both Boards (Cancer and Mental Health). For those Health Regions we don't audit, we reviewed the management letters sent to the Health Regions by their auditors. Those audits were not designed to assess all key systems of control and accountability. However, the auditors communicated any findings to management if weaknesses came to their attention when auditing the financial statements.

Our audit findings

Need for improved controls and processes

Recommendations were made on how the Health Regions and Boards could improve their controls over cash, accounts receivable, inventory, capital assets, purchases and payables, and payroll. Recommendations were made that the Health Regions and Boards improve their contracting processes and that they establish appropriate workloads to ensure adequate and timely review of financial information. And, there were recommendations on information technology access, security, disaster recovery, and business interruption.

We are satisfied that the Department is taking appropriate steps to ensure that these recommendations will be implemented.

4.2.2 Unqualified auditor's opinions on five of six Health Regions and two Boards

With the exception of the Chinook RHA, all Health Region financial statements received unqualified auditor's opinions. The financial statements, results of operations, and changes in cash flows were fairly presented in accordance with Canadian generally accepted accounting principles.

Our auditor's opinion on the financial statements of the Chinook RHA was again qualified because evidence was not provided to support management's assertion of control over an asset valued at $25.2 million. This was because the signing of the capital lease, as indicated under 4.1.2, occurred after we had issued our auditor's report.

4.2.3 Audits of three Health Regions we don't audit

The financial statements of three Health Regions that we don't audit received unqualified auditor's opinions from their appointed auditor.

Human Resources and Employment

Summary: what we found in our audits

Financial statements
The auditor's report on the financial statements of the Ministry was unqualified—see page 212.

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

Other entities that report to the Minister
The Workers' Compensation Board (WCB)
- We issued an unqualified auditor's opinion on the financial statements of the WCB for the year ended December 31, 2003.
- We found no exceptions when we completed specified auditing procedures on the WCB's Accountability Framework.

We issued unqualified auditor's reports on the audits listed in section 4.2 of Scope.

Overview of the Ministry

The Ministry delivers programs and services through the Department of Human Resources and Employment, the Personnel Administration Office (PAO), the Alberta Labour Relations Board (ALRB), the Appeals Commission for Alberta's Workers' Compensation and the WCB.

Three core businesses

The Department's 2003–2006 business plan describes three core businesses:
- People Investments: providing the foundations for people in need
- Skills Investments: helping people to be their best at learning and work
- Workplace Investments: supporting workplaces to make Alberta prosperous

In addition, PAO's core business is to provide strategic direction and services for human resource management in the Alberta public service.

WCB's four strategic themes

The WCB's 2002–2004 strategic plan describes four strategic themes to guide the organization:
- Leveraging prevention
- Focus on return to work
- Commitment to fairness
- Financial stability

Ministry spent $1.1 billion

During 2003–2004, the Ministry spent $1.1 billion on the following programs:

	(millions of dollars)
People Investments	799
Skills Investments	287
Workplace Investments	24
Personnel Administration Office	8
Workers' Compensation Appeals	6

Ministry received $482 million

The Ministry received $482 million in 2003–2004, $463 million of which came from the following transfers from the Government of Canada:

	(millions of dollars)
Canada Health and Social Transfer	311
Labour Market Development Agreement Benefits	121
Rehabilitation of Disabled Persons	22
Services to On-reserve Status Indians	9

WCB's 2003 financial results

WCB's financial results are reported on a calendar year basis and are not consolidated with the Ministry. Its financial results are summarized as follows:

	(millions of dollars)
Revenue	1,094
Expense	941
Assets	4,403
Liabilities	3,860
Reserves and fund balance	543

For more information on the Ministry and its programs, see its website at www.gov.ab.ca/hre. For more information on WCB and its programs, see its website at www.wcb.ab.ca.

Scope: what we did in our audits

1. We followed up on our 2002–2003 recommendations that the Department ensure the new contract management administration system meets user requirements, clarify and ensure consistent application of the *Training-on-the-Job* program policies, and develop conflict-of-interest guidelines for all programs involving service providers. We also followed up on our previous recommendations that the Department improve the procedures to monitor training providers, safeguard client information, obtain independent assurance on the control environment of its computer service provider and complete a business resumption plan.

2. We audited the financial statements of the Ministry for the year ended March 31, 2004.

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

4. We also performed the following work on entities that report to the Minister:

   4.1 The Workers' Compensation Board

   4.1.1 We followed up on our 2002–2003 recommendation that the WCB strengthen controls in its claim management system for economic loss payments.

   4.1.2 We audited the financial statements of the WCB for the year ended December 31, 2003.

   4.1.3 We completed specified auditing procedures on the WCB Accountability Framework.

   4.1.4 We audited the Schedule of administrative charges of the WCB for the year ended December 31, 2003.

   4.2 We audited the following claims and financial statements:

   - The *Canada-Alberta Agreement on Labour Market Development Claim* of $120 million for the year ended March 31, 2004

- The *Annual Statement of Expenditures for the Canada-Alberta Agreement on Employability Assistance for People with Disabilities Claim* of $22 million for the prior year ended March 31, 2003
- The financial statements of the following trust funds under the administration of the Ministry:
  - Long Term Disability Income Continuance Plan–Bargaining Unit and Long Term Disability Income Continuance Plan–Management, Opted Out and Excluded for the year ended March 31, 2004
  - Government of Alberta Dental Plan Trust for the year ended December 31, 2003
  - Government Employees Extended Medical Benefits Plan Trust for the year ended December 31, 2003

Our audit findings and recommendations

1. Systems findings

1.1 *Training-On-the-Job* policies—implemented

Department clarified Training-On-the-Job policies and ensures they are followed

On pages 170–171 of our *2002–2003 Annual Report*, we reported that the Department was making satisfactory progress implementing our recommendation to clarify the *Training-on-the-Job* (TOJ) program policies and procedures, and to ensure all regions consistently apply them. The Department has now implemented this recommendation. In July 2003, management issued additional guidance to staff clarifying the program policies and documentation standards. During the year, the Department also performed compliance audits on the TOJ program to assess the success of the new guidance provided to training providers. There were no significant findings in these audits and we conclude that the Department adequately clarified TOJ program policies and procedures for staff and ensured all regions are consistently applying them.

1.2 Conflict of interest guidelines—implemented

Department implemented conflict-of-interest guidelines for all programs involving service providers

On pages 171–172 of our *2002–2003 Annual Report,* we reported that the Department was making satisfactory progress implementing our recommendation to incorporate conflict of interest guidelines into the contract policies and procedures manual for all programs involving services providers. The Department has now fully implemented this recommendation. The Department included in its contract templates a clause requiring the service providers of any client-related contract to state that they are not aware of any conflicts of interest that exist between the service provider and the client, its employees, agents and sub-contractors. In addition, the Department performs contract compliance audits that include a review of the contracts. When performing this work, the Department checks to ensure that the contract template used is from the Contract Management Administration System, which has an appropriate conflict of interest clause.

1.3 *Skills Development Program* compliance—implemented

Department monitors training providers

On pages 172–173 of our *2002–2003 Annual Report,* we reported that the Department made satisfactory progress implementing our recommendation to improve the procedures to monitor compliance by training providers with the *Skills Development Program* (SDP). The Department has now implemented this recommendation.

Department hired consultant

The Department improved procedures to monitor compliance by hiring a consultant to:

- develop a risk assessment framework and identify delivery and financial administration risks
- perform regular monitoring of compliance by training providers with the SDP, which will include:
  - reviewing placement and eligibility criteria to ensure students are placed in appropriate courses
  - monitoring student attendance in courses
  - assessing student progress to ensure training needs are met

The procedures to resolve deficiencies noted by the consultant during the reviews of the training providers are still being finalized by the Department. The procedures include development by the Department of a compliance policy for all training providers based on the findings of the consultant's work. The Department will also form a compliance committee to review the progress of training providers in correcting deficiencies the consultant identifies.

1.4 Security of client information—implemented

Department restricted access to client information

On pages 173–174 of our *2002–2003 Annual Report,* we reported that the Department was making satisfactory progress implementing our 2001 recommendation (No.21) to restrict access by training providers to client information and monitor enquiries to sensitive information to assess whether they are appropriate. The Department has now implemented this recommendation.

All clients must sign a form granting access to all Department staff, agents and contractors

The Department had originally planned to replace the *Career Assistance Information System* (CAIS) with a new system to resolve the access concerns. The Department did not proceed with this new system because it did not meet their needs for the newly implemented *Income and Employment Supports Act.* Instead, to ensure clients understand that any training provider the Department uses may access their personal information, all clients must sign a consent, within the client application form. By signing the consent, the client grants all Department employees, agents and contractors access to the client's personal information to verify eligibility or continuing eligibility for funding; to monitor, assess and evaluate the effectiveness of assistance; and to evaluate the results of provincial benefits and support measures programs.

Consultant also reviews client file security

In addition, during the training provider reviews described in 1.4 above, the consultant verifies that appropriate security measures protect the integrity of CAIS client files at the training provider locations.

1.5 Controls to protect data—implemented

Department obtained assurance on computer control environment

On page 174 of our *2002–2003 Annual Report,* we reported that the Department had made satisfactory progress implementing our recommendation to obtain assurance on the effectiveness of controls in the outsourced computer environment. The Department has now implemented this recommendation. The Department resolved the deficiencies identified by the SysTrust review last year and received SysTrust Certification in March 2004.

1.6 Business resumption planning—implemented

Department established and tested a BRP

On page 174 of our *2002–2003 Annual Report,* we reported that the Department had made satisfactory progress implementing our recommendation to establish and test a business resumption plan (BRP). The Department has now implemented this recommendation. The Department has developed a *Headquarters' BRP and Departmental Framework* and each worksite has completed an individual BRP. The Emergency Management Alberta branch of Municipal Affairs evaluated the *Headquarters' BRP and Departmental Framework* and concluded that the Department has provided a plan that will be functional in a business disruption.

2. Financial statement audits

Our auditor's report on the Ministry financial statements is unqualified.

3. Specified auditing procedures

No exceptions

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

4. Other entities that report to the Minister

4.1 Workers' Compensation Board (WCB)

4.1.1 Economic loss payments

New policies and procedures implemented

On pages 175–177 of our *2002–2003 Annual Report,* we recommended that the WCB strengthen controls in its claim management system for economic loss payments (ELPs). The WCB has made satisfactory progress implementing our recommendation. New procedures help ensure that the WCB does not designate the permanent ELP status before it is justified. In addition, the WCB implemented new controls and monitoring procedures to ensure it calculates the ELP correctly. The WCB also changed its ELP policy effective July 1, 2003 to allow for more frequent reviews. The WCB will review each ELP 36 months after its award and annually thereafter. The WCB's Quality Assurance audit function is finalizing its review of ELPs for 2003. We will review the results of this work during our next audit cycle.

4.1.2 Financial statements

We issued an unqualified auditor's opinion on the WCB's financial statements for the year ended December 31, 2003.

4.1.3 Specified auditing procedures

We found no exceptions when we completed specified auditing procedures on the WCB's Accountability Framework.

4.1.4 Schedule of administrative charges

We audited the WCB's Schedule of administrative charges for the year ended December 31, 2003.

4.1.5 An alleged fraud at the WCB

As we reported last year (page 177), the WCB has filed a statement of claim alleging that a former case manager and injured worker defrauded the organization. The claim and a criminal investigation are proceeding. Through the year, we provided input and advice as the WCB considered and implemented new detective, preventive, and mitigating controls. We concluded that the WCB's actions in following up this incident were appropriate.

4.2 Unqualified auditor's reports

Unqualified

We issued unqualified auditor's reports on the audits listed in section 4.2 of Scope.

Infrastructure

Summary: what we found in our audits

Systems
The Ministry should establish a process to assess whether the Swan Hills Treatment Plant is achieving its objectives—see page 216.

Financial statements
We have issued an unqualified auditor's opinion on the Ministry's financial statements—see page 223.

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

Overview of the Ministry

The Ministry's 2003–2006 business plan describes four core businesses:

Four core businesses

- Working with partners to provide cost-effective, innovative and sustainable building infrastructure to support the delivery of government services
- Managing government owned and operated facilities
- Providing realty services for government facilities
- Managing government air and vehicle fleets

Ministry spent $1.433 billion

In 2003–2004, the Ministry spent $1.433 billion primarily on the following programs:

	(millions of dollars)
Infrastructure Operations	592
Infrastructure Preservation	189
Infrastructure Expansion	383
Energy Rebates	214
Swan Hills Treatment Plant	29

Ministry received $20 million

The Ministry's revenue from sources external to the government in 2003–2004 was $20 million of which $14 million came from operating the Swan Hills Treatment Plant.

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

Scope: what we did in our audits

1. We audited the business case and processes the Ministry used in determining if a public-private-partnership is the most cost-effective way to build and operate the Calgary Court Centre—the results of this work are included in a separate section on page 58.

   We also audited the Ministry's systems to provide cost-effective direction to the operators of the Swan Hills Treatment Plant and to periodically assess the program.

   Further, we followed up our previous year's recommendations on monitoring of construction grants, ensuring physical security of government buildings, and assessing capital plans contain information to support long-term capital plans.

2. We audited the Ministry's financial statements for the year ended March 31, 2004.

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

Findings and recommendations

1. Systems findings

1.1 Swan Hills Treatment Plant

Recommendation No. 24

We recommend that the Ministry of Infrastructure establish a process to assess whether the Swan Hills Treatment Plant is achieving its objectives.

Background

The Swan Hills Treatment Plant (the Plant) has been in operation, disposing of hazardous waste, since September 1987. From its opening until December 31, 2000, the Plant was a joint venture between the province and Bovar Inc. On January 1, 2001, the Province took over ownership and operations of the Plant, and the Ministry of Infrastructure was directed to find a private party to own and operate the facility. No acceptable proposals were received. Other options, such as decommissioning or mothballing the plant, were also considered.

The Agenda and Priorities Committee of Cabinet decided that the service provided by the Plant was needed. Therefore, in November 2001, the Ministry was asked to operate the Plant as a government program. The Ministry was also asked to pursue proposals for a firm to operate the Plant on behalf of the government, at the lowest net cost to government while meeting all safety and environmental requirements.

The Plant's operations are disclosed separately in the financial statements of the Ministry. As noted in the Ministry's March 31, 2004 financial statements, the Plant had revenues of $14.4 million ($24.5 million—2003) and expenses of $25.1 million ($28.1 million—2003). It had $5.4 million in capital assets (depreciated historical cost) as at March 31, 2004. The Ministry anticipates that the plant will be decommissioned in 2018.

Criteria

1. The Ministry should clearly define, assign, and communicate business objectives, responsibilities and accountabilities.
2. The Ministry should have an effective governance and risk management framework to provide direction to the operator and to monitor performance.
3. Ministry management and the management committee that oversees the Plant's operations should promptly obtain the information they require to assess the continuing operations.
4. The Ministry should periodically evaluate the effectiveness of operating the Plant.

Findings

First three criteria met

The Ministry met the first three criteria. It has clearly defined roles and the operations are adequately supported by the proper technical and other expertise. The Ministry is represented on a management committee that has instituted an effective governance model and has processes in place to identify and mitigate risks. The Ministry also receives adequate information to assess the operational cost effectiveness of the Plant on a regular basis.

Ministry does not periodically assess operations at a strategic level, including whether:

However, the Ministry does not have a process or system that periodically assesses the operations at a strategic level. The strategic assessment differs from the operational assessment in that operations are viewed from a higher level long-term focus. A reasonable timeframe for such analysis would be every 3 to 5 years. The analyses could include:

- revenue expectations are being achieved

- review of whether the operations are meeting revenue expectations and what net cost level would cause the Ministry to reassess the program. Before deciding that the Plant was to be operated as a government program, other options such as decommissioning and mothballing the Plant were considered. Also, the expectation was to operate at the lowest net cost, but no thresholds were identified as to what net cost would be reasonable. Revenues for hazardous waste management can be both volatile and difficult to predict. As noted above, the revenue dropped by 42% from the year ended March 31, 2003 to March 31, 2004.

- program benefits are being achieved

- review of whether the expected benefits of the government program are being achieved. For example, part of the justification for running the Plant as a government program is that it provides services that are needed and not otherwise available. Since the types and quantities of hazardous waste produced vary over time, as well as the options to dispose of waste, a periodic review would allow the Ministry to adjust program objectives as necessary.

- other opportunities to operate or dispose of the plant exist

- a determination of whether other opportunities to operate or dispose of the Plant exist. For example, as noted above, the Ministry looked for opportunities to dispose of the Plant, but there was no acceptable purchaser at the time. However, a changing market could make the disposal option viable. Opportunities may also exist by taking a cross-government look at the operations and the changing environment. For example, working with Environment, the Ministry may determine that the operations could receive a significant increase in revenues due to environmental legislation changes.

Implications and risk

The Ministry may not identify opportunities to improve the way that the Plant achieves the Ministry's objectives.

1.2 Construction grants

1.2.1 Terms and conditions of construction grants—satisfactory progress

Background

The Ministry provides construction grants to school jurisdictions, regional health authorities, and post-secondary institutions. During the year, the Ministry paid grants totalling $308 million for infrastructure expansion to these recipients.

In our *Annual Report* (2003—No. 26), we recommended that the Ministry of Infrastructure communicate, and require grant recipients to formally accept, the terms and conditions of construction grants. We indicated that the terms and conditions should include:

- an accountability framework, including roles and responsibilities
- the consequences of failing to adhere to the terms and conditions
- reporting requirements
- the Ministry's right to audit

Findings

Ministry made satisfactory progress

The Ministry has made satisfactory progress implementing this recommendation by drafting an agreement for grants to school boards that meets all of the criteria that we reported last year. It requires school boards to comply with the Ministry's current standards and requirements for school projects, as set out in a newly updated School Infrastructure Manual and Contracting Directive.

The agreement still has to be reviewed and approved by senior management and then goes through stakeholder consultation. The Ministry plans to start using the new agreements for grants authorized during the 2005–2006 fiscal year.

Management advised us that they will draft agreements for grants to regional health authorities (Authorities) and post secondary institutions (Institutions) after the Minister has reviewed and approved the draft school board agreement. The Ministry intends to draft manuals for use by the Authorities and the Institutions and make the grants conditional on compliance with these manuals and the Contracting Directive. Management anticipates that the manuals for Authorities and Institutions will be completed in the fall of 2004 and spring of 2005 respectively.

Implications and risks

Lack of terms and conditions in agreements reduces accountability of grant recipients. Grant recipients may not build capital projects or sign construction contracts according to the Ministry's standards and requirements. The Ministry may therefore not receive value for money on capital projects.

1.2.2 Monitoring of construction grants—satisfactory progress

Background

In our *2002–2003 Annual Report* (2003—No. 27), we recommended that the Ministry of Infrastructure strengthen its monitoring processes for construction grants. We also recommended that the Ministry make all construction grant payments through the Consolidated Cash Investment Trust Fund bank account.

Findings

Ministry made satisfactory progress

The Ministry has made satisfactory progress. It improved the grant monitoring processes for school boards and funded them in installments.

For post-secondary institutions, the Ministry is developing a monitoring process to meet all of our criteria that will be finalized at the same time as the grant agreements discussed in section 1.2.1.

The Ministry has undertaken research to determine regulatory or other issues that would impede making grants through the Consolidated Cash Investment Trust Fund bank account. Currently, the Minister is reviewing the matter.

Implications and risks

If monitoring processes are inadequate or not complied with, facilities may fail to meet the Ministry standards and projects may not be cost-effective. Also, grants may not be used for the purpose intended or in accordance with the project approval.

If monitoring processes are not based on risk assessments, then Ministry resources may not be used in the most cost-effective manner. Also, a lack of documentation may result in the Ministry being unable to demonstrate it properly monitored grant recipients.

1.2.3 Construction management contracts—satisfactory progress

Background

School jurisdictions and regional health authorities use construction managers to provide contract management services during both the design and construction phases of a capital project. On pages 185 and 186 of our *2002–2003 Annual Report*, we recommended that the Ministry of Infrastructure implement a process to ensure that contracts with construction managers protect the Ministry's interests as a funder and are cost-effective.

Findings

Ministry made satisfactory progress

The Ministry has made satisfactory progress in meeting the criteria we reported last year. A revised Contracting Directive outlines the Ministry's requirements and supplemental information provides guidance on using the construction management project delivery system. The Ministry has had discussions with school jurisdictions and regional health authorities on the use of construction managers as part of its improvements to the monitoring processes. Ministry personnel and the Contracts Review Committee review the draft contracts. The recommendation will be implemented when the Contracting Directive is finalized and compliance with the directive is made a condition in the agreements referred to in section 1.2.1.

Implications and risks

Grant recipients may suffer losses if construction management contracts do not protect the recipient's interests. Also, the Ministry may not be receiving value for money.

1.3 Physical security of government buildings—satisfactory progress

Background

On page 187 of our *2002–2003 Annual Report*, we recommended that the Ministry of Infrastructure, working with other ministries, improve the security of government buildings and the safety of people who use them by:

- identifying resources to lead and coordinate security-related activities for and between ministries
- establishing and communicating a minimum standard of security for all buildings
- implementing increased levels of security on buildings determined by risk and security assessments to require enhanced protection
- monitoring compliance with recommendations made in risk and security assessments

Findings

Ministry made satisfactory progress

The Ministry of Infrastructure has made satisfactory progress implementing this recommendation. It has retained a security manager with responsibility over approximately a two-year period to:

- develop a facility risk assessment template for all government buildings
- conduct and coordinate site visits of all government buildings using the facility risk assessment template
- develop an appropriate minimum standard of physical security for all buildings
- establish cost estimates and schedules to bring buildings to recommended standards

The Security Manager is currently completing these tasks and we will examine his progress next year.

1.4 Deferred maintenance—satisfactory progress

Background

Ministry made satisfactory progress

In our *Annual Report* (2001—No. 24), we recommended that the Ministry ensure that its spending decisions are based on adequate information on deferred maintenance.

Findings

Ministry needs a plan to regularly update deferred maintenance

The Ministry made satisfactory progress by:

- working with a cross-ministry committee to fine tune the definition of deferred maintenance. The committee developed guiding principles and evaluation criteria of deferred maintenance to provide consistency both within and between ministries.
- disclosing an estimate of deferred maintenance in its March 31, 2004 annual report

To implement the recommendation, the Ministry needs to develop a plan on how to regularly update deferred maintenance amounts, as some of the estimates are five years old.

Implications and risks if recommendation not implemented

If deferred maintenance is not properly identified and fixed, health and safety risks may go undetected and the long-term costs of maintaining assets may increase.

1.5 Capital plans–implemented

Background

On pages 192 and 193 of our *2002–2003 Annual Report*, we reported satisfactory progress on a 2001–2002 recommendation that the Ministry implement processes to ensure that capital plans received from other ministries, school jurisdictions, post secondary institutions and health authorities contain the information the Ministry requires to prepare its long-term strategic plans.

As of last year, the Ministry had implemented this recommendation for school jurisdictions, post secondary institutions, and health authorities. However, the Ministry was still developing a "Project Capital Funding Request Form", including project description, estimated project cost, and the project's priority, that would be used to obtain the necessary information from other ministries.

Findings

Recommendation implemented

The Ministry has implemented our recommendation for the remaining parties. The Capital and Accommodation Budget Request form was completed and issued to Ministries with guidance on how to rank projects for the 2004–2005 budget cycle. Furthermore, the Ministry developed a Property Development Procedures Manual, which it plans to issue to other Ministries for information purposes.

2. Financial statement audit

Our auditor's report contains an unqualified opinion on the Ministry's financial statements for the year ended March 31, 2004.

3. Specified auditing procedures

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

Innovation and Science

Summary: what we found in our audits

Systems
The Ministry should improve systems and procedures in the following areas to ensure it effectively delivers services at reasonable cost:

- Alberta Government Integrated Management Information System (IMAGIS)—the Ministry should:
  - develop a plan to optimize the use of IMAGIS—see page 228.
  - resolve deficiencies in the IMAGIS control environment—see page 230.

- Government of Alberta Central Information Technology (IT) Environment—to improve the central IT environment , the Ministry should:
  - implement a security awareness program—see page 231.
  - establish a systems development methodology—see page 234.

Financial statements
We issued unqualified auditor's opinions on the financial statements of the Ministry and Department—see page 235.

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

Other entities that report to the Minister
We issued unqualified auditor's opinions on the financial statements of the Alberta Science and Research Authority, Alberta Research Council, iCORE Inc., Alberta Heritage Foundation for Medical Research, Alberta Foundation for Health Research, and the Alberta Heritage Foundation for Science and Engineering Research for the year ended March 31, 2004.

Overview of the Ministry

Two core businesses

The Ministry's 2003–2006 business plan describes two core businesses:
- Research and Development
- Corporate Information and Communications Technology

Department, ASRA, iCORE Inc., ARC and the Heritage Foundation

The Ministry consists of:
- the Department and
- the Alberta Science and Research Authority (ASRA).
  ASRA has two wholly owned subsidiaries, the Alberta Research Council Inc. (ARC) and iCORE Inc.

Also, the Alberta Heritage Foundation for Medical Research (AHFMR), the Alberta Foundation for Health Research (AFHR) and the Alberta Heritage Foundation for Science and Engineering Research (AHFSER) report through the Minister of Innovation and Science to the Legislative Assembly. These entities are not consolidated in the Ministry financial statements.

Ministry spent $219 million

In 2003–2004, the Ministry spent $219 million, mainly on the following:

	(millions of dollars)
Research and Development	162
Corporate Information and Communications Technology	50

Ministry received $45 million for external sources

The Ministry received $45 million from sources external to government, consisting mainly of contract revenue from research and development projects.

For more information on the Ministry, visit its website at www.innovation.gov.ab.ca.

Scope: what we did in our audits

Four parts to our audit

1. We followed up on the following recommendations from previous years that the Ministry:
   - prepare a plan for testing completed components of SuperNet (2003—page 198).
   - optimize the use of IMAGIS (2003—page 199).
   - formalize and implement an effective accountability framework for IMAGIS (2003—No. 29).
   - coordinate reviews of control environments at service providers (2003—page 204).
   - implement a systems development methodology (2003—No. 30).

   We also:
   - examined the IMAGIS general control environment at the service provider and at the ministries
   - reviewed the Alberta Government Network that provides

communication infrastructure to all ministries
- reviewed government employees' awareness of their information security responsibilities

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

3. We audited the financial statements of the Alberta Science and Research Authority (ASRA), the Alberta Research Council Inc.(ARC), iCORE Inc., the Alberta Heritage Foundation for Medical Research (AHFMR), Alberta Foundation for Health Research (AFHR) and Alberta Heritage Foundation for Science and Engineering Research (AHFSER) for the year ended March 31, 2004.

Our audit findings and recommendations

1. Systems findings

1.1 Alberta SuperNet

Background

Plan for testing SuperNet needed

Last year, we recommended that the Ministry of Innovation and Science prepare a plan for testing completed components of SuperNet (2003—page 198). The Alberta SuperNet is a high-speed, high-capacity broadband network that links an estimated 4,700 government offices, schools, health-care facilities and libraries in approximately 422 Alberta communities. As at March 31, 2004, the government spent $153 million to build SuperNet.

Our audit findings

Recommendation implemented

The Ministry has implemented this recommendation. The Ministry has successfully developed and implemented an acceptance test plan for the completed portions of the SuperNet.

Ministry extended SuperNet completion date to January 2005

The Ministry has extended the completion date of the SuperNet to January 2005 in accordance with the terms of the SuperNet Master Agreement. Of the 4700 sites to be connected, 90% are not complete. To meet the deadline, the construction contractor must connect the remaining sites in a very short period. Although the Ministry has implemented an acceptance test plan, it has not identified how it will fund this process for the remaining sites that need to be completed.

We will continue to monitor the Ministry's progress to ensure that the SuperNet is adequately tested.

1.2 Alberta Government Integrated Management Information System (IMAGIS)

Government's main financial system

IMAGIS (a customized version of PeopleSoft) is the system that ministries use to process financial transactions, including payments for supplies, services and payroll. It also produces the accounting records that ministries rely on to prepare their financial statements. Alberta Finance uses IMAGIS to prepare the province's consolidated financial statements.

A service provider hosts and operates IMAGIS under an outsourcing agreement with the Government of Alberta. Under the agreement, the service provider maintains IMAGIS.

The following three points relate to this system.

1.2.1 IMAGIS use

Background

10 modules in use

Last year (page 199), we recommended that the Deputy Minister of Innovation and Science work with other deputy ministers to optimize the use of IMAGIS. Implementation of IMAGIS began in 1997, and by 2001, 10 modules were in use in government. However, much of the business of ministries that could be processed through these ten IMAGIS modules was processed through other applications.

Team formed to resolve inconsistencies

The government formed an IMAGIS optimization team to resolve inconsistencies in the use of IMAGIS. However, the optimization team postponed the project in 2003 when the government upgraded IMAGIS to PeopleSoft Human Resources version 8.3 and PeopleSoft Financials version 8.4. The implications of this upgrade are that IMAGIS now offers improved functionality for many of the modules that were not widely used in government.

Criteria: the standards we used for our audit

Management should optimize the use of IMAGIS to reduce the cost of operations.

Our audit findings

Satisfactory progress

The Ministry has made satisfactory progress implementing our recommendation. During fiscal 2004, the IMAGIS Project Team worked with the ministries to implement a budget module and a procurement card module for IMAGIS. These new modules are used in most ministries.

Council formed to develop plan

In addition, the government formed the Administrative Strategy Council in 2004 to oversee the work of the Alberta Corporate Service Centre Project Management Office, the Cross Council Working Committee and the Project Team. The Strategy Council is coordinating the development of a plan to improve the use of IMAGIS. In addition, the Strategy Council is hiring a consultant to establish benchmarks for IMAGIS use and the Strategy Council is in discussions with the vendor to determine how the ministries can use the software efficiently.

We will continue to monitor the Strategy Council's progress in implementing this recommendation.

Implications and risks if recommendation not implemented

Government may not minimize costs.

Without optimizing the use of IMAGIS, the government may not reduce the cost of operations. Ministries may continue to use other applications to perform the same functions that are available in the IMAGIS system.

1.2.2 IMAGIS governance

Background

Last year, we recommended that the Ministry of Innovation and Science formalize and implement an effective accountability framework for IMAGIS (2003—No. 29).

Several parties have responsibilities for IMAGIS

IMAGIS has been in operation since 1997. In prior years, we have reported that we were unable to ascertain the unique roles and responsibilities of the parties involved in IMAGIS. There were many parties involved, namely, the Ministry of Innovation and Science, Alberta Corporate Service Centre, the Deputy Ministers Council, the Senior Financial Officers Council, the Human Resource Directors Council and numerous other committees for implementation, upgrades and maintenance. In addition, there are other parties, such as the service provider, who are also responsible for processing government information and protecting government information assets.

Criteria: the standards we used for our audit

The Ministry should have an effective accountability framework with clearly established responsibilities and reporting relationships for effective control, operation, use and refinement of a system as complex, diverse, and critical as IMAGIS.

Our audit findings

Recommendation implemented

The Ministry has implemented our recommendation. The Corporate Chief Information Officer has assumed ownership and accountability for all aspects of the IMAGIS system—no customization of the system can occur without his approval. There is now a framework of cross-government committees that provides input and recommendations to the Corporate Chief Information Officer on IMAGIS issues.

1.2.3 IMAGIS control environment

Background

In 2002, we recommended that the Ministry of Innovation and Science resolve deficiencies in the IMAGIS environment and strengthen the overall IMAGIS control framework (2002—No. 31).

Assessment of control environment performed

In 2001–2002, management initiated a SysTrust review of the IMAGIS control environment at the service provider. SysTrust is a reporting standard developed by the Canadian Institute of Chartered Accountants, specifically designed to assess the reliability of financial systems. The IMAGIS system did not meet the standard defined by SysTrust because significant deficiencies existed in the control environment.

In 2003, the government and the service provider developed a plan to resolve deficiencies in policies, procedures and practices.

Criteria: the standards we used for our audit

The Ministry should use reliable systems to process critical business information. The SysTrust standard consists of the following five criteria to determine if a system is reliable:

1. The system should be protected against unauthorized access (both physical and logical).
2. The system should be available for operation and use as agreed.
3. System processing should be complete, accurate, timely and authorized.
4. Personal information obtained as a result of e-commerce should be collected, used, disclosed, and retained as agreed.
5. Corporate information designated as confidential should be protected as agreed.

Our audit findings

Satisfactory progress

Progress on this recommendation is satisfactory. An interim review in 2004 by the SysTrust auditors confirmed that many of the deficiencies they found last year have been resolved. However, deficiencies still exist. The majority of these deficiencies relate to Criteria 1 - *The system should be protected against unauthorized access (both physical and logical).* These deficiencies include:

- **Security strategy for outsourced operations—**the Ministry uses guidance prepared by the service provider as the security policy for the IMAGIS processing environment, instead of requiring compliance with the government's IT security policy.

- **Security configuration of system equipment**—while significant progress has been made, consideration is not formally given to system security in the change management process.

- **Granting or changing access of users**—access to sensitive computer functions and data are not subject to thorough review procedures.

- **System development controls**—some developer user groups are assigned excessive access privileges; also, many users have the ability to create public queries within the production environment**.**

- **Access to infrastructure systems**—infrastructure security policies (e.g., password design, numbers of attempts allowed, password refresh rules, and adequacy of server event log retention periods) are not adequate.

- **Internet-based architecture**—although the design of Internet-based security around IMAGIS is strong enough to prevent breaches from outside the government network, it remains vulnerable to unauthorized access from within the government.

Independent assurance required

In 2004, the government entered into a new contract with the service provider. The contract requires the service provider to obtain independent assurance on its control environment each year. In order to receive SysTrust certification, deficiencies that currently exist will need to be resolved.

Implications and risks if recommendation not implemented

Integrity of data is at risk

If the Ministry does not resolve deficiencies in the IMAGIS control environment, data that is used for key business decisions may not be available or could be susceptible to unauthorized modification, resulting in incomplete or inaccurate management information.

1.3 Government of Alberta central information technology environment

1.3.1 User awareness of information security responsibilities

Recommendation No. 25

We recommend that the Corporate Chief Information Officer implement a security awareness program for government employees.

Background

Ministries are responsible for the protection of information

Albertans, expect reliable, accurate and timely information that is adequately safeguarded. Each ministry is responsible for implementing a level of security that is sufficient to meet the legislative requirements for protection of privacy and access to information, as well as a sufficient level of protection to ensure that government business can be conducted in an uninterrupted, seamless manner.

The objective of a security awareness training program is to ensure that all users with access to government information and systems understand the key elements of information security, why it is needed and their personal information security responsibilities.

Criteria: the standards we used for our audit

A security awareness program should be available to all individuals who have access to government information and government systems.

Our audit findings

Not all ministries had security awareness programs

We randomly selected five ministries and reviewed their security policies. We found that security awareness training programs did not exist in three of the five ministries. In the ministries that did have security awareness training programs, the programs were not provided to employees on a regular basis.

Not all employees received training

We also sampled 100 employees from these five ministries who had access to government information systems. We found that 75 employees had not received any security awareness training in the last 3 years. For 14 of those employees, security awareness training was available but they did not attend.

Password controls were weak

In all five ministries sampled, we found that access controls were weak. We found instances where:

- passwords were shared among employees
- passwords were written down or easily accessible to other staff
- users access to applications was greater than what was need to perform the job

Security risk assessments not performed regularly

In two of the five ministries sampled, we found that IT security risk assessments had not been updated for more than two years. In one ministry a security risk assessment had never been done.

Physical security of information assets was weak

In two of the five ministries sampled, we found that physical security of information assets was weak. For example, intrusion detection systems were not used, logs to track visitors were not used, and non-IT personnel were allowed into secure areas.

Implications and risks if recommendation not implemented

Security breaches may occur

Without a security awareness training program, security breaches may occur. Periodic reinforcement of security practices is necessary to ensure users remain diligent.

1.3.2 Co-ordination of reviews of control environments at service providers

Background

Originally recommended in 2001–2002

Last year (page 204), we recommended that the Ministry of Innovation and Science coordinate reviews of control environments at service providers. Many ministries have outsourced their IT processing, management, or operational activities to private sector service providers. We have recommended in the past that management needs to obtain assurance on the adequacy of control procedures at the service organizations they use. In many cases, the same service providers were used by different ministries, and unless ministries coordinate reviews of service providers, there could be unnecessary duplication of reviews, resulting in waste.

Criteria: the standards we used for our audit

To minimize duplication, ministries should coordinate reviews of service providers when possible.

Our audit findings

Recommendation implemented

The Ministry has implemented this recommendation. During the year, the ministry played a role in assisting the ministries that would benefit most from such coordination, and the ministries of Health, Children's Services, and Human Resources and Employment collaborated to carry out SysTrust reviews on their common service providers.

In addition, there is an initiative currently underway that will further facilitate coordination of reviews. The Ministry is developing a business case to evaluate the viability of a Shared Information Communications Technology Services Project (the Project). The Project deals with computer hardware, software and the networking of computer systems that comprise the Government of Alberta IT services infrastructure, including applications maintenance. The objective of the Project is to consolidate all information and communications technology services under a single outsourced services coordinator. If the Project becomes a reality, it will require that outsourced environments receive SysTrust (or equivalent) certification.

1.3.3 Systems development

Background

Originally recommended in 2000–2001

In 2001—No. 27, we recommended that the Ministry of Innovation and Science establish systems development methodology guidelines that can be used as a source of reference when any systems development projects are initiated in government for both outsourced and in-house systems development. We repeated the recommendation in our 2002 and 2003 *Annual Reports* (2003—No. 30).

We had noted that vendors were developing systems using a variety of systems development methods that might not be acceptable to the Ministry. Last year, the Ministry was in the process of creating a Project Management Office with cross-ministry responsibilities. We anticipated that the Project Management Office's responsibilities would include the establishment of a consistent set of cross-ministry systems development methodology guidelines.

Criteria: the standards we used for our audit

The Ministry should promote systems development methodologies that ensure that information systems are reliable, robust, efficient and effective.

Our audit findings

Satisfactory progress

The Ministry is making satisfactory progress. The Project Management Office has begun a project to catalogue, assess and supplement existing project management and systems development approaches used by government departments.

Through the Chief Information Officer's Council which is chaired by the Corporate Chief Information Officer, departments were invited to participate in this project by providing representatives for a Working Group and a Steering Committee. Fourteen departments agreed to participate. The objective of this Group is to:

- assemble, consolidate and evaluate existing departmental project management and systems development practices
- identify practices that met acceptable standards, fill in gaps with industry standards and best practices, and
- develop and initiate an implementation plan and continuous improvement strategy for government-wide system development methodologies.

Achievement of the above objectives will ensure that acceptable systems development methodologies are promoted. We will continue to monitor the progress of the Project Management Office in this regard.

Implications and risks if recommendation not implemented

Without an approved set of systems development criteria that are adopted by all members of the government community, there is an increased risk that flawed systems may be developed, and that new systems might not be efficient and effective, and in some cases, even pose security risks. Having to administer poorly designed and inadequately tested systems creates an unnecessary administrative overhead, in addition to incurring costs for remediating the systems on an ad-hoc basis.

2. Financial statement audits

Our auditor's reports on the Department and Ministry financial statements contained unqualified opinions

3. Specified auditing procedures

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

4. Other entities that report to the Minister

4.1 Financial statement audits

4.1.1 Entities consolidated

Our auditor's report on the financial statements of ASRA, ARC and iCORE Inc. contained unqualified opinions.

4.1.2 Entities not consolidated

Our auditor's report on the financial statements of AHFMR, AFHR and AHFSER contained unqualified opinions.

4.2 Clarification of legislation—Alberta Heritage Foundation for Science and Engineering Research (AHFSER)

Background

In 2002—No. 34, we recommended that the Minister of Innovation and Science seek an amendment to the *Alberta Heritage Foundation for Science and Engineering Research Act* to clarify the meaning of "real value of the Endowment Fund over the long term."

Recommendation implemented

This recommendation has been implemented. The relevant provision of the *Alberta Heritage Foundation for Science and Engineering Research Amendment Act*, 2003 came into force on April 1, 2004.

International and Intergovernmental Relations

Summary: what we found in our audits

Financial statements
Our auditor's report for the Ministry's financial statements is unqualified.

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

Overview of the Ministry

Three core business

The Ministry's 2003–2006 business plan describes three core businesses:
- Canadian Intergovernmental Relations
- International Relations
- Trade Policy

Key services

Some key services include:
- advancing Alberta's interests through intergovernmental negotiations and discussions
- coordinating Alberta's strategies on international and intergovernmental relations
- providing strategic advice and policy analysis to Alberta ministries and other clients
- obtaining, disseminating and analyzing information for Alberta ministries and other clients

Ministry spending and funding

In 2003–2004, the Ministry spent $6.5 million. The Ministry receives no revenue from sources external to the government.

For further details about the Ministry, visit its website at www.iir.gov.ab.ca.

Scope: what we did in our audits

1. We followed up our 2002–2003 audit of the systems that the Ministry uses to monitor intergovernmental agreements.

2. We audited the financial statements of the Ministry for the year ended March 31, 2004.

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

Our audit findings and recommendations

1. Intergovernmental agreements

Background

On pages 210 – 212 of our *2002–2003 Annual Report*, we recommended that the Ministry enhance its intergovernmental agreements system to comply with section 11 and Schedule 6 of the *Government Organization Act*.

Ministry's legislative mandate

Section 11 and Schedule 6 of the *Government Organization Act* set out the Ministry's legislative mandate for intergovernmental agreements. Section 11 requires the Minister to approve all intergovernmental agreements. Schedule 6 requires the Ministry to "be a party to the negotiation of all proposed intergovernmental agreements" and to "conduct a continuing review of all intergovernmental agreements".

Our audit findings

Four of six criteria met

Last year, we noted the Ministry successfully met four of the six criteria. However, we found that the system should be improved to:

- define and fulfill the Ministry's role in negotiating intergovernmental agreements
- identify, classify, and track potential intergovernmental agreements

Legislative amendments have been drafted

Management has made satisfactory progress implementing this recommendation. The Ministry has clarified its role by receiving a legal opinion from Alberta Justice on the application of section 11 of the *Government Organization Act* to Alberta government agencies, boards and commissions. A series of amendments to the *Government Organization Act* have been proposed by the Ministry to clearly define the list of government entities that fall under the Ministry's intergovernmental agreement review process.

Communications plan being developed

Further, the Ministry is developing a communications plan to remind departments and agencies of the requirements of section 11 of the *Government Organization Act* and to keep the Ministry informed of their intergovernmental activities. We will assess the Ministry's progress next year.

Implications and risks if recommendation not implemented
Without effective systems at the Ministry to manage the intergovernmental agreements requirements of the *Government Organization Act*, government entities could sign agreements inconsistent with Alberta government's goals and principles.

2. Financial statement audits

Our auditor's report for the Ministry's financial statements for 2003–2004 has an unqualified opinion.

3. Specified auditing procedures

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

Justice and Attorney General

Summary: what we found in our audits

Financial statements
We issued unqualified auditor's reports on the financial statements of the Ministry and the Office of the Public Trustee, Estates and Trusts.

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

Overview of the Ministry

Four core businesses

The Ministry's 2003–2006 business plan describes four core businesses:
- Prosecutions
- Courts
- Legal services to government
- Justice services to Albertans in need

Ministry spent $257 million

The total operating expenses for the Ministry were $257 million in 2003–2004, comprised mainly of the following:

	(millions of dollars)
Court services	113
Legal services	70
Support for legal aid	29
Motor vehicle accident claims	26
Office of the Public Trustee	9
Medical examiner	5

Ministry received $115 million

Total revenue for the Ministry was $115 million in 2003–2004. The Ministry's main revenue sources are:

	(millions of dollars)
Fines and related late payment penalties	51
Fees	39
Transfers from the federal government	12

Trust funds

The Ministry manages trust funds of approximately $527 million. This total includes $476 million in trust funds administered by the Office of the Public Trustee. For more detail on the Ministry, visit its website at www.gov.ab.ca/just/.

Scope: what we did in our audits

Three parts to our audit

1. We did further work on the system used by the Ministry to process maintenance enforcement payments. We also followed up on our previous recommendation on the Office of the Public Trustee's management of the Special Reserve Fund.

2. We audited the financial statements of the Ministry and the Office of the Public Trustee, Estates and Trusts for the year ended March 31, 2004.

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

Our audit findings and recommendations

1. Systems findings

1.1 Maintenance Enforcement Program—satisfactory progress

Background

Last year, we recommended that the Ministry of Justice and Attorney General obtain sufficient information from the Ministry of Children's Services to ensure child support payments for children in care are paid to the appropriate party.

Our audit findings

Ministry is following up on certain files and developing a monthly reconciliation process

The Ministry has made satisfactory progress implementing this recommendation. The Ministry examined all 701 files that matched the Ministry of Children's Services records to identify the appropriate party to receive child support payments. The Ministry is now following up on 268 files, with the assistance of the Ministry of Children's Services, to determine what further action the Ministry should take. In addition, the Ministry is developing a monthly process to enable it to determine the correct recipient.

To implement this recommendation, the Ministry needs to complete monthly reconciliations and complete its follow up of the 268 matched files. We will follow up progress on this recommendation next year.

1.2 Special Reserve Fund—recommendation no longer relevant

Background

In our *2001–2002 Annual Report* (page 183), we recommended that the Public Trustee determine and plan for the level of funding required to meet the legislative purposes of the Special Reserve Fund.

Our audit findings

New Act resolves previous problems

During the year, the Legislature passed a new *Public Trustee Act*. Under this Act, the Common Fund and Special Reserve Fund established under the former legislation are combined and continue as a single fund called the Common Fund. The changes to the Act have also resolved the problems that led to our recommendation. As a result, our recommendation is no longer relevant.

2. Financial statement audits

Our auditor's reports on the financial statements of the Ministry and the Office of the Public Trustee, Estates and Trusts are unqualified.

3. Specified auditing procedures

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

Learning

Summary: what we found in our audits

Financial statements

Unqualified Auditor's Reports

We issued unqualified opinions on the Ministry, Department and the Alberta School Foundation Fund financial statements—see page 249.

In our auditor's report on the Ministry financial statements, we included information about the definition of the government reporting entity—see page 249.

Specified auditing procedures

No exceptions

We found no exceptions when we applied specified auditing procedures in 2003 on the Ministry's performance measures. Our work in 2004 on the Ministry performance measures is in progress.

Other entities that report to the Minister

We noted internal control weaknesses and financial statement reporting issues when we reviewed, under section 19(4) of the *Auditor General Act*, the audited financial statements and audit findings of the 62 school jurisdictions and 10 charter schools—see page 250.

Improve research planning

The University of Alberta should improve its integration of research plans into the strategic business plan (the plan)—see page 252.

The University of Calgary should improve:

- measures and targets for assessing research performance—see page 254
- planning for research capacity—see page 255
- controls over sponsored research and trust accounts—see page 257

Overview of the Ministry

The Ministry's 2003–2006 business plan describes three core businesses:

- basic learning (kindergarten to grade 12)
- adult learning
- apprenticeship and industry training

The Ministry consists of the Department of Learning and the Alberta School Foundation Fund.

Ministry spent $5.1 billon

In 2003–2004, the Ministry spent approximately $5.1 billion. The largest expenses are:

	(billions of dollars)
Total basic learning support	3.7
Assistance to post-secondary institutions	1.2
Support to post-secondary learners	0.1

Ministry received $1.6 billion

The Ministry's revenue was approximately $1.6 billion in 2003–2004. Major sources of revenue are:

	(billions of dollars)
School Property Taxes	1.2
Transfers from Government of Canada	0.2

For more information on the Ministry, visit its website at www.learning.gov.ab.ca.

Scope: what we did in our audits

1. We followed up on our previous recommendations.

2. We audited the financial statements of the Ministry, Department, and the Alberta School Foundation Fund for the year ended March 31, 2004.

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

4. We performed the following work on entities that report to the Minister:

    4.1 We reviewed, under section 19(4) of the *Auditor General Act*, the audited financial statements and audit findings for the 62 school jurisdictions and 10 charter schools for the year ended August 31, 2003.

    We audited the financial statements of the Northland School Division No. 61 for the year ended August 31, 2003.

4.2 We audited the financial statements for the year ended March 31, 2004 of the following entities:

- Athabasca University
- University of Alberta and its related entity, PENCE Inc.
- University of Calgary and its subsidiaries/related entities, The Arctic Institute of North America, The University of Calgary Foundation (1999), University Technologies International Inc. and the Olympic Oval/Anneau Olympique
- University of Lethbridge

We audited the financial statements for the year ended June 30, 2003 of the following entities:

- Alberta College of Art and Design
- Bow Valley College
- Fairview College and its related entity Fairview College Foundation
- Grant MacEwan College
- Grande Prairie Regional College and its related entity Grande Prairie Regional College Foundation
- Keyano College
- Lakeland College and its related entity Fire Etc. (Emergency Training Centre)
- Lethbridge Community College
- Medicine Hat College and its related entity Medicine Hat College Foundation
- Mount Royal College and its subsidiary/related entities Mount Royal College Day Care Society, Mount Royal College Foundation, Rockyview Aviation Fuels Ltd. and the Students' Association of Mount Royal College
- Northern Alberta Institute of Technology and its related entity the Northern Alberta Institute of Technology Foundation
- Northern Lakes College
- NorQuest College
- Olds College and its related entities Olds College Foundation and the Olds College Centre for Innovation Inc.
- Portage College
- Red Deer College
- Southern Alberta Institute of Technology

Our audit findings and recommendations

1. Systems findings

1.1 Affordability of the learning system—satisfactory progress

Background

In our *Annual Report* (2003—No. 31), we recommended that the Department of Learning improve one of the core performance measures (public satisfaction with the affordability of the learning system) that reports its progress in delivering high quality learning opportunities.

Our audit findings

Alternate measures being developed

The Department is making satisfactory progress implementing this recommendation. The Department is reviewing the definition of affordability and alternative measures of affordability. The earliest it will be able to report on a new measure would be the Department's 2007–2010 business plan and the 2007–2008 annual report.

1.2 Tuition fee policy

1.2.1 Measurement of results—satisfactory progress

Background

In our *Annual Report* (2002–2003—No. 32) we recommended that the Department of Learning periodically measure whether the tuition fee policy and its related programs are effective in making post-secondary education affordable to students.

Our audit findings

Additional surveys planned

The Department is making satisfactory progress implementing this recommendation. The Department has revised its employment graduate survey and is planning additional surveys of high school students and students who start but do not complete post-secondary education.

1.2.2 Tuition fee policy compliance—satisfactory progress

Background

In our *Annual Report* (2002–2003—No. 33) we recommended that the Department of Learning require public post-secondary institutions to comply with the tuition fee policy. We also recommended that the Department clarify the methodology for applying the policy.

Act restricts the amount of tuition charged

In 2004, the *Post-secondary Learning Act* and *the Public Post-secondary Institutions' Tuition Fees Regulation* were enacted and the tuition fee policy revised. The tuition fee sections of the Act restrict the annual amount by which institutions can raise tuition fees.

Our audit findings

Calculation is being clarified

The Department is making satisfactory progress implementing these recommendations. The enactment of the regulation and the revisions to the policy have clarified some of the instances where the calculation's methodology was unclear. The Department is developing additional guidance to further clarify how to do the calculation.

All of the changes proposed will be in effect by the 2005–2006 academic year. We will continue to monitor the Department's implementation and report again in September 2006.

2. Financial statement audits

2.1 Auditor's report

Unqualified opinion

We issued unqualified opinions on the Ministry, Department, and Alberta School Foundation Fund financial statements.

PSAB revised definition of the government reporting entity

We included information about the definition of the government reporting entity in our audit opinion of Ministry financial statements. The Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants has recently revised the definition of the government reporting entity for implementation for years beginning on or after April 1, 2005. In Note 2 of the Ministry's financial statements, management has stated when it intends to comply with PSAB's recommendations. Had the school jurisdictions and the public post-secondary institutions been included in the Ministry financial statements for the year ended March 31, 2004, the assets and expenses would have increased by approximately $9 billion and $3 billion respectively.

2.2 Alberta School Foundation Fund net assets

Background

In our *2002–2003 Annual Report*—page No. 232) we recommended that the Department of Learning determine the amount of net assets that the Alberta School Foundation Fund (the Fund) should retain.

Our audit findings

Recommendation implemented

The Department implemented the recommendation. Although net assets continued to grow from $65 million in 2003 to $78 million in 2004, the Fund's 2004–2005 budget plans a reduction in net assets to $30 million.

The Ministry has adopted a plan to maintain the net assets of the Fund at an amount sufficient to cover assessment appeals and adjustments that the Fund may experience in any one year. The $30 million threshold was established in relation to $35 million of assessment adjustment/appeals made in 1999–2000.

3. Specified auditing procedures

We had no exceptions on the specified auditing procedures report provided in 2003 on the Ministry's performance measures. Our work in 2004 on the Ministry performance measures is in progress.

4. Other entities that report to the Minister

4.1 Review of school jurisdictions' financial reporting

Background

We audit one of the school jurisdictions. For those jurisdictions we don't audit, we review the management letters sent to the jurisdictions by their auditors. Those audits were not designed to assess all key systems of control and accountability. However, the auditors communicate any findings to management if weaknesses come to their attention when auditing the financial statements. We also review the auditors' report sent to each school jurisdiction and charter school.

Our audit findings

Auditors' Opinions—of the 62 school jurisdictions and 10 charter schools, 1 (3 in 2002) received a qualified auditor's opinion for the year ended August 31, 2003. The report was qualified for that jurisdiction because the auditor was unable to verify the completeness of revenue from school generated funds.

Management letters—the following is a summary of the audit findings and recommendations reported in writing to school jurisdictions by their auditors for the year ended August 31, 2003:

- **School-generated funds**—17 school jurisdictions (21 in 2002) need to improve controls over the processes used to collect, record and report school-generated funds.
- **Payroll and personnel management**—13 jurisdictions (18 in 2002) need to improve controls over accuracy, completeness, proper recording, and access to payroll information.
- **Capital assets**—Six jurisdictions (15 in 2002) need to improve the recording of capital assets.
- **Purchases—**18 jurisdictions (15 in 2002) need to improve controls over the purchase cycle such as implementation of the review and

authorization processes over purchases and payments, retention of supporting documentation, and following the established policy of tendering for major purchases.

- **Timeliness of financial recording**—16 jurisdictions (13 in 2002) need to ensure bank reconciliations and related correcting entries, payroll reconciliations, accounting transactions, purchase orders and monthly financial statements are prepared or recorded on a regular and timely basis.
- **Computer security**—12 jurisdictions (12 in 2002) need to improve computer security including the implementation of access control, physical security controls, and environmental controls; segregation of incompatible functions; development of disaster recovery and business continuity plans; implementation of data back up and restoration procedures; development of comprehensive security policy and computer application policy manual; and the use of offsite storage.
- **Segregation of duties**—six jurisdictions (10 in 2002) need to have segregation of duties over authorization and recording of transactions and custody of and accounting for certain assets.
- **Policies and procedures**—12 jurisdictions (nine in 2002) need to update or implement formal procedures and policies.
- **Accounting issues**—two jurisdictions (eight in 2002) need to address accounting issues such as assessing valuation of long term investments, determining fair values of contributed materials, following accounting policies relating to capitalization and amortization as disclosed in the financial statements, etc.
- **Review of financial information**—17 jurisdictions (seven in 2002) need to review financial information such as bank reconciliations and other financial information, journal entries to ensure that they are supported and authorized, and variances between budget and actual expenditures.
- **Cash management**—nine jurisdictions (seven in 2002) need to improve cash management processes and controls.
- **Board approval**—three jurisdictions (seven in 2002) need to ensure that the board approvals are obtained for matters such as board minutes; decisions such as transfer of reserves and the use of unrestricted surpluses; revised budgets and unbudgeted expenditures.
- **Goods and Services Tax**—three jurisdictions (five in 2002) need to review their taxable sales regularly to determine if there is a need to collect and remit GST, ensure GST calculations are reviewed to ensure accuracy, and file GST returns on a timely basis.
- **School deficits**—two jurisdictions need to improve their budgetary processes to prevent or eliminate deficits at some schools.

The Department is taking steps to encourage school jurisdictions to improve their controls.

4.2 Research at the University of Alberta and University of Calgary

Background

Research is a primary function

Teaching and research are primary functions of the University of Alberta and the University of Calgary. These functions are linked as professors are responsible for teaching students and performing research. Funders expect that research will improve education. Funders also expect societal outcomes from research such as improved quality of life, health, employment opportunities and wealth creation.

Research needs to be managed

Over the last decade, both undergraduate enrolments and research activities have increased at these universities. The increase in research was due to increased federal and provincial government grants along with increases in other sources of revenue. The Universities compete against each other and other universities for federal funding and are required to be accountable for how the funding is spent and the results of the research. To be successful at research, the Universities must maximize research results and funding, while at the same time managing the costs of research.

We examined the management of research at both Universities. The recommendation for the University of Alberta updates a recommendation made in our *Annual Report* (1995—No. 9).

4.2.1 University of Alberta— Strategic planning for Research

Recommendation

We recommend that the University of Alberta improve the integration of research into its strategic business plan by ensuring that:

- **key performance measures and targets are identified with each strategy indicated in the plan**
- **the costs of achieving these targets are considered when making budget allocation decisions**
- **the faculty and other research administrative unit plans set out in clear, consistent terms the extent to which faculties and units are planning to contribute to the achievement of these targets**

Background

Research is key to the University's performance

The University's vision is to be indisputably recognized, nationally and internationally, in teaching, research and community service as one of Canada's finest universities and amongst a handful of the world's best. Research funding is approximately 32% of total University funding.

Each year, the University updates its four-year strategic business plan. The plan includes the University's goals and budget for the four-year period. The research section of the plan includes research goals and initiatives, strategies, expected results and performance measures. Faculties and the Office of the Vice President of Research also prepare business plans in support of the University plan.

Criteria: the standards we used for our audit

The University should perform sufficient planning for research activities. Specifically the University should:

1. develop, communicate and periodically review goals and strategies
2. indicate relevant performance measures in the business plan
3. prepare and review realistic business plans
4. design annual operational plans and budgets to implement the business plans

Our audit findings

The University has met the first criterion and partially met each of the other criteria.

Some research performance measures are incomplete or vague

The strategies in the plan indicate the steps the University needs to take to meet the research goals. In some instances the plan clearly indicates by the expected results or performance measures, how the University will determine the effectiveness of these strategies in meeting research goals. In a significant portion of strategies however, the expected result and associated performance measure are not indicated or are vague.

Of those research strategies that have performance measures and targets, the University has three performance measures:

- amount of sponsored research revenue to be awarded during the period 2002–2006,
- number of NSERC Industrial research chairs, and
- number of NSERC fellowships,

where it is readily apparent, the performance the University must demonstrate to meet the target.

The other targets indicate the national ranking the University wants to achieve. For example, the plan indicates the University wants to move from a fifth place national ranking to a first or second place ranking for gross licensing revenue. The University is more likely to consider the additional costs that may be needed to meet this target if the amount of licensing revenue that the University must obtain is also clearly indicated in the plan.

Each faculty prepares a separate business plan that describes how goals will be met. However, the extent to which faculties plan to contribute to each of the research performance measures is not consistently described in the faculty plans. Without this information, the University cannot tell, for all measures, whether the overall planned performance of the faculties and units will result in the University achieving its targets. As the Office of the Vice President (Research) also prepares a strategic business plan, this plan could be a logical place to indicate such information.

Implications and risks

Improving the strategic planning process makes the University more likely to achieve its research goals.

4.2.2 University of Calgary—research management

Background

The University is a research-intensive institution

The University of Calgary is a research-intensive institution. Revenue from external funding for research was $247 million (before deferrals) in fiscal 2004. This represented 36% of the University's total revenue. The University plans to increase research revenue by 15% a year.

Scope of audit

Our audit focused on research planning, systems for monitoring research results, and processes for planning, building, and maintaining research capacity.

4.2.2.1 Research measures and targets

Recommendation

We recommend that the University of Calgary improve measures and targets for assessing research performance and systems for monitoring research results.

Criteria: the standards we used for our audit

The University and faculties should:

1. prepare research plans that contain clear goals and priorities, consistent performance measures and targets, and related resource needs
2. monitor research results and compare them to goals and targets

Our audit findings

The University partially met the criteria.

Research plans prepared

Both the University and faculties prepare research plans. In fiscal 2002, each faculty self-assessed and benchmarked their research strengths. These assessments fed into the University strategic research plan.

Inconsistent performance measures and targets

The strategic research plan states the University's research goals, objectives, and priorities. The plan identifies output and outcome measures of research performance such as publications, commercialization, and awards. The plan does not identify performance targets for these measures. It does set input targets such as to double research funding within ten years.

In addition, the University's business plan identifies measures and targets for research. However, some of the measures and targets differ from the strategic research plan and from the University's annual report.

No performance measures and targets for strategic priorities

The strategic research plan and the business plan are built on four strategic priorities and sixteen pillars. Neither plan presents the budget and performance measures and targets for these components.

No targets for output and outcome measures

Four of the five faculties we have reviewed identified input measures and targets such as funding, staffing, and research chairs. However, we found little evidence that they had set targets for the output and outcome measures proposed in the strategic research plan.

Faculties use multiple systems to track research information

The University has at least seven different systems to track research performance measures such as publications, citations, and grants received. However, faculties told us that use of these systems is limited owing to lack of reporting capabilities and incomplete data.

Implications and risks if recommendation not implemented

Inability to monitor progress towards attaining research goals

Without adequate performance measures and targets, and comprehensive, integrated systems to monitor performance, the University will not know whether it is attaining all of its research goals.

4.2.2.2 Planning for research capacity

Recommendation No. 26

We recommend that the University of Calgary improve human resource and space plans and develop a system to quantify and budget for the indirect costs of research.

Criteria: the standards we used for our audit

The University and faculties should plan for, build, and maintain research capacity. Specifically:

1. human resource plans should provide for the right number and calibre of researchers to accomplish research plans
2. facility plans should provide for adequate space to accomplish research plans
3. funding of indirect costs should be adequate

Findings

The University partially met the criteria.

Level of human resource planning varies among faculties

Human resource capacity—hiring of staff is the primary way the University can orient research (and teaching and service) activities to the academic plan. The University and faculties also have programs to train and develop researchers. Four of the five faculties we reviewed had done some form of human resource planning. The level of planning varied among the faculties.

Long-term human resource plans needed.

Given the University's goal to increase research activity, all faculties need long-term human resource plans to ensure they will have sufficient staff. Such plans would enable the faculties to estimate the demand for, and the supply of, staff and develop strategies to eliminate any gap. Aggregation of these plans would then enable senior management in determining whether overall demand can be met.

The Campus Community Plan includes expansion initiatives

Space capacity—the Campus Community Plan provides a framework for future physical development but does not detail faculty requirements for research. The University's business plan includes initiatives to expand facilities, many of which are research related.

Aggregate research space requirements to be determined.

Only one of the five faculties had analyzed their space requirements in conjunction with their research plans. Faculty business plans include only current and proposed initiatives, not total space requirements. Thus, the University cannot determine whether adequate space exists on campus to accommodate the requisite increase in staff, equipment, and facilities.

Indirect costs 45 cents for every dollar of research

Indirect costs—the indirect costs of research include overhead items that research grants do not typically pay for, such as research management and administration. In fiscal 2004, the University received $13.6 million ($6.7 million—2003) from research granting agencies and under contracts to pay for indirect costs. Additional indirect costs are paid with unrestricted revenue such as operating grants, tuition fees, and investment income. A federal government report estimates indirect costs at 45 cents for each direct research dollar of revenue. Based on this estimate, indirect research costs for fiscal 2003 could have been $60 million. It is expected that indirect costs will increase given the goal of the University to increase research. However, understanding indirect costs and how they will change for planning and budget purposes is not as simple as applying 45 cents to each dollar increase in research revenue. For example, given that a university by its nature carries out research and teaching, some indirect costs serve both purposes. Other costs will not vary directly with research activity or revenue.

Inability to budget for indirect cost funding requirements

Senior management is aware of the indirect cost issue but does not have a system to determine the magnitude of its impact on University operations. Consequently, faculties and the University cannot budget confidently for indirect costs.

Implications and risks if recommendation not implemented

Potential for insufficient resources to accomplish research goals

Without long-term human resource and space plans, the University may not have sufficient resources to accomplish its research goals.

Without an appropriate system, the University cannot determine the impact of increased research revenue on the indirect costs of research. If indirect costs are not appropriately budgeted, the University may either have insufficient funds to cover these costs or it may have to use funds intended for other purposes.

4.2.2.3 Controls over sponsored research and trust accounts

Recommendation

We recommend the University of Calgary improve the controls over sponsored research and trust accounts.

Background

Policy defines limits and approval processes for over-expended accounts

The University operate accounts for its researchers to track the research awards and expenses for each of their grants. To manage the sponsored research and trust accounts, the University has a policy that defines limits and approval processes for over-expenditures (research expenses in excess of research revenue) in researchers accounts. Any exceptions to the maximum limits imposed by the policy must be approved by senior management.

Criteria: the standards we used for our audit

The University should manage the over-expenditures in sponsored research and trusts accounts.

Our audit findings

Unauthorized over expended accounts increasing

A report at March 31, 2004 from the University's Research and Trust unit showed that researchers' accounts had an aggregate of $6.3 million (2003: $4.0 million) of over-expenditures, of which, $4.5 million (2003: $1.9 million) was identified by the University as unauthorized.

Lack of evidence of authorization

We tested 25 accounts with combined over-expenditure balances of $1.9 million and found that 3 files did not have evidence that over-expenditures were authorized.

Implications and risks if recommendation not implemented

Possible losses could result from unrecovered over-expended accounts

Weak enforcement of the University's policy could result in an increase in over-expended accounts. Potential financial losses could arise if over-expended accounts are not recovered.

4.3 Internal control systems at the University of Alberta and the University of Calgary

4.3.1 University of Alberta

Background

In our *Annual Report* (2002–2003—No. 34) we recommended that the University of Alberta improve its system of internal control.

Our audit findings

Progress is satisfactory

During 2004, the University made satisfactory progress implementing this recommendation: The following are examples of what the University has done and the additional processes that need to be put in place for this recommendation to be implemented.

- The University developed a significant number of policies and procedures. One of the results of adding these processes was that the number and dollar value of over-expended research accounts were reduced from the prior year. We also found a reduced number of errors as compared to prior years. The University needs to ensure that the processes recently put in place which resulted in these improvements are maintained.

- The University also developed an internal control self-assessment guide which it plans to send to the faculties. The University anticipates that through this process remaining gaps and deficiencies in internal control will be identified. Once these gaps have been identified the University will need to develop additional policies and processes. The University will also need to establish processes to monitor and enforce compliance with the stated control requirements.

While we believe satisfactory progress has been made by the University, this area continues to require the support of University senior management to ensure that appropriate resources are brought to bear to resolve this issue.

4.3.2 University of Calgary—internal control systems

Background

Weaknesses in internal controls

In our *Annual Report* (2001—No. 38, 2002—No. 43 and 2003—No.35) we recommended that the University of Calgary improve its internal control systems.

Our audit findings

Progress satisfactory

The University has made satisfactory progress implementing the recommendation. The University has given the improvement of internal controls high priority. This is evidenced by the University creating a Senior Manager's Internal Control Group, chaired by the University's Associate Vice-President Administration. This group established internal control priorities, initiated improvements in internal controls, and is in the process of developing a number of policies including the Fraud Policy and Signing Authority Policy.

Steps to improve internal controls

The University took several steps to improve internal controls. These steps include new processes to reduce the number of accounting errors, preparing quarterly financial reports for the University's Board Audit Committee and setting plans for a new financial system in 2005. The University's Board approved the implementation of new administrative systems for financial processes, including Materials Management, Human Resources, Payroll and Student Information Systems.

To implement this recommendation, the University must show that it has:

- completed comprehensive internal control reviews and resolved any identified deficiencies in internal controls
- designed adequate internal controls in the new financial systems to ensure that financial data is reliable

We will continue to monitor the University's progress in implementing this recommendation.

4.3.3 University of Calgary—application development methodology

Progress is satisfactory

In our *Annual Report* (2001–2002—No.44), we recommended that the University of Calgary implement a formal methodology to design, develop, implement, test and maintain software applications.

New IT Definition and Delivery Model created

The University made satisfactory progress implementing this recommendation. The University has developed an "IT Definition and Delivery Model" that incorporate elements of application development methodology. This model is currently being deployed in several areas of Information Technology and has been used extensively in developing the University's portal. The University has also engaged external consultants to assist in developing appropriate methodologies.

To implement this recommendation, the University must show it has a complete and formally documented application development methodology. It must also show that it is applying the methodology to systems development in its core operations. We will review the implementation of this recommendation in 2004–2005.

4.4 Capital construction projects

In our *1999–2000 Annual Report*—No. 38, we recommended that the University of Calgary improve its contract project management systems by ensuring project proposals are complete and fit with the long-term campus plan before approval. We further recommended that project management controls be strengthened.

Progress satisfactory

The University made satisfactory progress implementing this recommendation. The University implemented a process to ensure that project proposals fit with the long-term campus plan. The University business cases for capital projects now demonstrate how the project aligns with the strategic priorities of the university.

New manuals implemented

The University developed a project administration manual that instructs staff on procedures for managing all capital construction projects from start to end. To complement its project administration manual, the University also produced a Project Planning Delivery Process manual. This manual is a working tool designed to assist staff in planning, developing and implementing all major capital projects and renovations in all phases of construction.

Both manuals incorporate practices intended to strengthen project management controls. We will review the implementation of this recommendation in 2004–2005.

4.5 Mount Royal College

4.5.1 Internal controls

Background

Efficiency in internal and external reporting can improve

In our *2002–2003 Annual Report*—page 241, we recommended that Mount Royal College increase efficiency in the preparation of internal and external reporting and increase the accuracy of the reporting.

Our audit findings

Progress satisfactory

The College made satisfactory progress implementing this recommendation by taking several steps to improve financial processes and controls. These steps include a new process to review the valuation of investments that have other than temporary decline, improved controls over changes to student fee rates in the student information system and daily review of banking transactions.

To fully implement this recommendation, the College must show that it has:

- improved practices to restrict accesses to computer systems applications
- made further improvements in reducing errors in accounting for transactions in the correct period
- identified and resolved internal control deficiencies in the College's operations

We will continue to monitor the College's progress in implementing this recommendation.

4.6 Other matters in auditor's report

Our auditor's report on the financial statements of the Lethbridge Community College Foundation had a reservation of opinion because we could not verify the completeness of donation revenue.

Municipal Affairs

Summary: what we found in our audits

Systems
The Ministry should improve its information technology management controls—see page 265.

Financial statements
Our auditor's report on the Ministry financial statements for the year ended March 31, 2004 contained information on the non-consolidation of certain organizations—see page 270.

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

As well, we found no exceptions when we completed specified auditing procedures on the claims submitted to the Federal Government under the Joint Emergency Preparedness Program for the year ended March 31, 2004.

Other entities that report to the Minister
Our auditor's reports for the year ended December 31, 2003 on the following entities that report to the Minister were unqualified:
- Improvement Districts 4, 9, 12, 13 and 24
- Kananaskis Improvement District
- Special Areas Trust Account

Overview of the Ministry

Four core businesses

The Ministry's 2003–2006 business plan describes four core businesses:
- Local Government Services
- Safety Services and Fire Protection
- Emergency Management Alberta
- Municipal Government Board

Ministry spent $139 million

Ministry expenses for 2003–2004, amounted to $139 million and comprise:

	(millions of dollars)
Local Government Services (including the Municipal Government Board)	$ 113
Safety Services and Fire Protection	12
Disaster Services	14

$5 million from external sources

The Ministry received $5 million from external sources.

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

Scope: what we did in our audits

1. We performed the following systems work at the ministry:
   - We reviewed the Ministry's information technology management controls.
   - We also followed up on our prior-year recommendations to:
     - improve the controls designed to ensure that municipal property tax assessments are fair and equitable.
     - improve procedures to promote and coordinate emergency preparedness plans developed by Alberta government departments and municipalities.
     - improve the process to verify that responsibilities to issue permits under the Safety Codes Act, which the Ministry has delegated to other entities, are being properly discharged.

2. We audited the financial statements of the Ministry for the year ended March 31, 2004. We also followed up on our prior-year recommendation that the Ministry should not advance funds to other organizations to acquire its own assets.

3. We completed the following specified auditing procedures work:
   - We completed specified auditing procedures on the Ministry's performance measures.
   - We applied specified auditing procedures on claims submitted to the Federal Government under the Joint Emergency Preparedness Program for the year ended March 31, 2004.

4. We audited the financial statements for the year ended December 31, 2003 of the following entities that report to the Minister:
   - Improvement Districts 4, 9, 12, 13 and 24
   - Kananaskis Improvement District
   - Special Areas Trust Account

Our audit findings and recommendations

1. Systems findings

1.1 IT management controls

Recommendation

We recommend that the Ministry of Municipal Affairs approve its draft security policies and implement procedures so that only authorized users can access the ministry's systems and data. We also recommend that the Ministry strengthen controls over its information technology by:
- **implementing a risk assessment framework to manage IT risks**
- **obtaining assurance on technical aspects of the general computer control environment**

Background

Some systems contain sensitive and confidential data

The Ministry relies on its computer application systems to deliver many of its programs. Some key systems contain sensitive and confidential data. All municipalities in the province have some level of access to the Ministry's systems.

Outsourced information technology services

The Ministry has contracted out the operation and maintenance of these systems to a private sector service provider. The outsourced environment is an extension of the Ministry's control environment. The effectiveness of the Ministry's control environment is dependent on an effective control environment at the service provider.

Criteria: the standards we used for our audit

The Ministry's IT environment should meet industry standards of control to protect the confidentiality, integrity and availability of information. To ensure this happens, the Ministry should:
- develop comprehensive policies and procedures for the operations, maintenance and security of its systems
- implement a risk assessment framework to identify and manage information technology risk

- monitor staff and private sector service providers compliance with the policies and procedures

Our audit findings

The Ministry's general computer control environment provides reasonable assurance that certain risks are managed. However, our audit noted specific areas, described more fully below, where improvements could be made.

Security weakness identified

1. **Security controls**—our audit of the technical environment for a key ministry application revealed that password controls for administrative accounts and data encryption keys were not strong. Also, the administrative access privilege is not restricted to allow access to only the functions required by the job description. Activity on the server and database is not logged and monitored. Confidential production data is copied to the backup site and development environment using an unsecure transmission method.

IT policies drafted, but compliance procedures not yet implemented

2. **IT security policy and procedures**—the Ministry drafted IT security policies using the Government of Alberta guidelines for security policies and procedures. These draft policies are dated August 2003. Although the Ministry implemented some procedures, it has not yet finalized the policies nor has it developed comprehensive procedures or communicated them to the service provider to implement. For instance, the Ministry has not developed procedures for:
   - incident management and reporting, and
   - confidential data handling.

Identified threats and impacts against IT assets but did not identify how to manage those risks

3. **Risk assessment framework**—the Ministry does not use a systematic risk assessment framework linking business risks to IT risks. It developed a business risk matrix as part of the business continuity planning process that identifies possible threats and their impact. But the Ministry has not developed an integrated risk assessment process that:
   - incorporates a regular assessment of the relevant IT risks with the achievement of business objectives. This would include identifying potential threats against IT assets that support the business applications that have been ranked as critical, vital or necessary.
   - forms a basis for determining how these risks should be managed to an acceptable level. For instance, identifying the risk of:
     - having a single UNIX server for all the Ministry's applications and accepting the risk based on the recovery time tolerance that management determined or,

- breaching confidentiality of sensitive data and mitigating the risk by implementing a control such as encryption.

No assurance on its and service providers computer control environment

4. **System operations and technical controls**—the Ministry does not obtain assurance of the service provider's general computer control environment, including key areas such as: the security and configuration of servers, firewalls, network components, database security, and compliance with policy and procedures. Our audit of the control environment for a key Ministry application, identified various security gaps and inconsistent application of policy and procedures at the service provider. The Ministry would have identified these problems in points (1) and (2) above, if it obtained assurance on the control environments of the Ministry and its service provider.

   The IT environment is essential to delivering the Ministry's services. A comprehensive security review will allow the Ministry to identify potential vulnerabilities and impacts and how to manage the risks.

Implications and risks if recommendation not implemented

Cannot guarantee integrity and confidentiality of its data and systems

Unauthorized users may access confidential and sensitive data. The Ministry may not be able to guarantee the availability, integrity and confidentiality of its systems and data.

1.2 Municipal property tax assessments–satisfactory progress

Background

In 2000–2001 (No. 41), we recommended that the Ministry improve the controls designed to ensure that municipal property tax assessments are fair and equitable. Last year, we reported that the Ministry was making satisfactory progress toward eliminating deficiencies we identified previously. The main part of this was developing the Assessment Shared Services Environment (ASSET) system.

Our audit findings

ASSET system implementation delayed

The Ministry made satisfactory progress implementing the recommendation. The Ministry amended the *Municipal Government Act* to allow more time for municipalities to implement ASSET, and to prepare for the new equalization process. The Ministry worked with municipalities to load their assessment information into ASSET. The Ministry plans to use the system for the calculation of equalized assessments in 2004–2005. ASSET will improve the:

- annual audit on each municipality's annual tax assessment submission
- detailed audits of a municipality's processes to prepare the submission

- equalization process to determine the portion of the taxes that municipalities should collect and pay to the Alberta School Foundation Fund

Although the Ministry improved its review procedures, it still needs to improve its review of auditors' work where samples are tested. Supervisors only review in detail one audit in a year for each auditor. For the rest of the audits, they only review the audit report. The audit reports contain detailed information on some of the tests performed, but not on tests where samples were reviewed. The report only details the overall conclusion on the samples tested. There is a risk that the conclusions reached on the individual samples are invalid, thus the overall conclusion is invalid.

We will follow up on the implementation of the recommendation and the use of the ASSET system in 2004–2005.

1.3 Emergency preparedness

1.3.1 Cross-department coordination of emergency preparedness–satisfactory progress

Background

Ministries failed to prepare emergency response plans

In 2001–2002 (No. 46), we recommended that the Ministry take more active steps to promote the need for, and facilitate the efforts of, provincial government departments to develop and exercise comprehensive emergency plans. Cross-department coordination of emergency preparedness was being hindered because of the failure of many provincial government departments to prepare adequate plans, and the ineffectiveness of the Ministry systems in dealing with this problem.

Our audit findings

Satisfactory progress

Templates and training to ministries

The Ministry continues to make satisfactory progress implementing our recommendation. It provided:

- an emergency plan template that departments can use to prepare their emergency plans
- training and conducted exercises for departments on the use of the Emergency Management Alberta Operations Centre and its equipment

Departmental emergency plans due by March 2005

However, the Ministry again did not require completion of departmental emergency plans, because of the delay in approving amendments to the Government Emergency Planning Regulation 62/2000. Emergency Management Alberta intends to work with departments on preparing emergency plans once the new regulation is in place. The Ministry expects the new regulation to come into effect by March 31, 2005.

We will continue to follow this up in 2005–2006.

1.3.2 Consistency in review and testing of municipal plans–implemented

Background

Implemented recommendation by developing standards

In 2001–2002 (No. 46), we recommended that the Ministry develop criteria to evaluate the quality of municipal emergency plans. Last year, we reported that the Ministry was making satisfactory progress on this.

The Ministry has now implemented our recommendation by developing standards and guidelines to consistently review and exercise municipal emergency plans.

1.4 Safety services–implemented

Background

Weaknesses in Ministry's checking procedures

On page 223 of our *2001–2002 Annual Report*, we recommended that the Ministry improve its process to verify that responsibilities to issue permits under the *Safety Codes Act,* that it has delegated to other entities, are being properly discharged.

Our audit findings

Implemented the recommendation

The Ministry implemented the recommendation by addressing the outstanding issues. In response to our observations and the Ministry's Safety System Review Report issued last year, the Ministry restructured the Safety Services branch and made the changes discussed below.

Established communication centre

The Ministry established a communication enquiry centre to deal with safety codes enquiries and issues from the delegated entities, Safety Codes Officers and the public. In addition, the *Administrative Items Regulation* under the *Safety Codes Act* requires delegated entities to report all accidents to the Administrators employed by the Ministry.

Developed formal monitoring plan and conducts an annual risk assessment

The Safety Services Branch developed a formal monitoring plan whereby each municipality and corporation is reviewed every three years. The Branch conducts an annual risk assessment of all accredited entities to determine whether coaching and advice is required before the scheduled formal review.

1.5 Managing for results

Background

Last year, we reported that the Ministry was making satisfactory progress implementing our 2001–2002 recommendation to help it obtain more value from its *Managing for Results* (business planning, performance information, and human resource management) processes.

Given the time required to implement the recommendation, we did not perform any work this year. We will follow up the implementation of the recommendation 2004–2005.

2. Financial statement audits

2.1 Auditor's report

We audited the financial statements of the Ministry for the year ended March 31, 2004. The financial statements are prepared in accordance with the corporate government accounting policies established by the Department of Finance.

Some entities not consolidated in Ministry financial statements

Our auditor's report on the Ministry financial statements contains information on the non-consolidation of the Safety Codes Council and the Delegated Administrative Organizations (DAOs). The Government of Alberta Annual Report section indicates the action planned by the government to respond to this issue—see page 47.

2.2 Acquisition and accounting for capital assets–implemented

Background

Ministry recorded payment as grant instead of capital asset in 2001

Last year (2003—No. 37), we recommended that the Ministry of Municipal Affairs not record the acquisition of its assets as grant expense. We further recommended that the Ministry not disburse funds for the development of its systems before any development occurs.

Our audit findings

Ministry properly recorded costs as capital asset

The Ministry implemented our recommendation. The Ministry recorded the ASSET system as a tangible capital asset for $2,234,000 in its financial statements for the year ended March 31, 2004.

3. Specified auditing procedures

We found no exceptions when we completed specified auditing procedures on the Ministry's:

- performance measures
- claims submitted to the Federal Government under the Joint Emergency Preparedness Program for the year ended March 31, 2004.

4. Other entities that report to the Minister

The audits of the financial statements for the year ended December 31, 2003 of the following entities that report to the Minister resulted in unqualified opinions:

1. Improvement Districts, 4, 9, 12, 13 and 24
2. Kananaskis Improvement District
3. Special Areas Trust Account

Revenue

Summary: what we found in our audits

Systems
The Ministry of Revenue should justify its reliance on the compliance audit activities of the Canada Revenue Agency—see page 275.

Financial statements
Our auditor's reports on the financial statements of the Ministry and Department are unqualified.

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

Other entities that report to the Minister
We issued unqualified auditor's opinions on the financial statements of all the entities listed in section 4.1 of Scope—see page 279.

We provided interim review reports to the Endowment Fund Policy Committee and the Minister of Revenue on the Alberta Heritage Savings Trust Fund's quarterly financial statements—see page 279.

Overview of the Ministry

Four core businesses

The Ministry's 2003–2006 business plan identifies four core businesses:
- manage tax and revenue programs fairly and efficiently
- manage and invest financial assets prudently
- manage risk associated with the loss of public assets
- regulate Alberta's capital market

The Ministry consists of the:
- Department of Revenue
- Alberta Heritage Savings Trust Fund
- Alberta Heritage Foundation for Medical Research Endowment Fund
- Alberta Heritage Scholarship Fund
- Alberta Heritage Science and Engineering Research Endowment Fund
- Alberta Risk Management Fund
- Alberta Securities Commission

Ministry manages $42 billion

The Ministry manages investments with a market value of approximately $42 billion as at March 31, 2004. This includes the assets of the Alberta Heritage Savings Trust Fund, other provincial endowment funds, government-sponsored public sector pension plans and other government-related clients.

Ministry received $9.2 billion

The Ministry collected $9.2 billion in net revenue in 2003–2004, from the following sources:

	(in millions)
Income taxes	$ 6,309
Other taxes	1,547
Net investment income	1,271
Fees, permits and licences	17
Other	39
	$ 9,183

Ministry spent $174 million

The Ministry spent $174 million in 2003–2004. For more detail on the Ministry, visit its website at www.revenue.gov.ab.ca.

Scope: what we did in our audits

1. We examined the Ministry's system for assessing the adequacy of Canada Revenue Agency's compliance audit activities to justify its reliance on CRA.

   We also followed up on the previous year's recommendation that the TRA decide how much more audit work it should do to minimize the risk of revenue loss from taxpayers and claimants not complying with tax legislation.

2. We audited the financial statements of the Ministry and Department for the year ended March 31, 2004.

3. We completed specified auditing procedures on the performance measures in the Ministry's 2003–2004 annual report.

4. Other entities that report to the Minister:

   4.1 We audited the financial statements of the following entities for the year ended March 31, 2004:
   - Alberta Heritage Savings Trust Fund

- Alberta Heritage Foundation for Medical Research Endowment Fund
- Alberta Heritage Scholarship Fund
- Alberta Heritage Science and Engineering Research Endowment Fund
- Alberta Risk Management Fund
- Alberta Securities Commission

We also audited the financial statements of ARCA Investments Inc. for the year ended December 31, 2003. ARCA Investments Inc. operates as an intermediary holding certain investments on behalf of the beneficial owners, predominantly pension plans.

4.2 We completed reviews of the Alberta Heritage Savings Trust Fund's quarterly financial statements.

Our audit findings and recommendations

1. Systems

1.1 Reliance on Canada Revenue Agency

Recommendation No. 27

We recommend that the Tax and Revenue Administration division of the Ministry of Revenue justify its reliance on the compliance audit activities of the Canada Revenue Agency.

Background

Ministry collects and administers corporate income tax

The Tax and Revenue Administration (TRA) division of the Ministry of Revenue collects and administers Alberta corporate income tax. The Audit Branch of TRA does not have the audit staff to carry out significant compliance audit activities on corporate tax filers. The Audit Branch focuses its corporate audit activities on the Alberta Royalty Tax Credit program and on examining corporate income allocations proposed by Ontario, Quebec and the Canada Revenue Agency (CRA). The Ministry places almost complete reliance on the CRA for compliance audit activities on corporate income tax even though CRA does not administer the program.

Ministry relies on Canada Revenue Agency for compliance audit activities on corporate income tax

The CRA's comprehensive compliance audit coverage of larger corporations with gross revenues over $15 million reduces the potential tax losses to Alberta. However, the CRA has determined that the four million small and medium-sized unincorporated and incorporated businesses in Canada with gross revenues of less than $15 million present the greatest non-compliance risks. In its 2002–2003 Report to Parliament, the CRA estimated that 27% of the unincorporated and 38% of the small and medium-sized corporate business accounts in Canada were at "substantive risk of non-compliance". In 2002–2003, the CRA estimated that its audit coverage rates were 1.01% (target 0.92%) for unincorporated businesses, and 0.99% (target 1.26%) for small and medium-sized corporate accounts.

The Government of Canada collects and administers personal income tax for Alberta

Under the Tax Collection Agreement between the Governments of Canada and Alberta, the Canada Revenue Agency collects and administers personal income tax on behalf of Alberta, and has responsibility for compliance audit activities on personal income tax. Under a proposed revision to the Tax Collection Agreement, the Government of Canada will provide the Alberta government with audit assurance reports on control procedures within the CRA systems that identify, assess, and report provincial personal income tax revenues.

Specific risk area is underground economy

In addition to CRA's regular compliance activities, the CRA conducts specific underground economy initiatives. The underground economy refers to output produced and income generated by individuals, corporations, criminals, etc., who hide the output and income from tax authorities. The underground economy is difficult to measure as, by definition, it is unobservable.

Tax revenue losses from underground economy estimated at over $20 billion in Canada

Economists conducting global economic research have reported that underground economy activity and tax evasion are large and growing problems. A recent Canadian study, sponsored by the Canadian Tax Foundation, estimated that in 1995, tax revenue losses in Canada were as high as $22 billion from non-reporting of income from legal activities, such as home repairs.

Recent survey shows Canadians becoming more accepting of taxpayer non-compliance

CROP Inc., a firm with over 30 years of experience in social research, conducts an annual Canadian socio-cultural survey that describes consumers and citizens according to values, motivations, and social phenomena. The survey includes a series of questions on the tax compliance attitudes and behaviours of Canadians. The most recent survey revealed a significant growth in the Canadian public's tolerance for, and acceptance of, non-compliant behaviour. A growing number of Canadians, including Albertans, are prepared to abuse voluntary compliance and assessment, which are the basis of the Canadian tax system.

Criteria: the standards we used for our audit

In order to justify its reliance on CRA compliance audit activities, the Ministry should:

- reflect its evaluation of CRA'S corporate compliance audit activities in the Ministry risk assessment.
- review the CRA national and Alberta-specific corporate compliance audit plans.
- obtain information from CRA on the level of the CRA Alberta-based audit resources, compliance activities, audit selection criteria, audit coverage, the nature and extent of the work performed, and the results obtained.

Our audit findings

Ministry risk assessment does not reflect CRA's compliance audit activities

The Ministry prepares a risk assessment for the corporate income tax program at least annually. The assessment includes a description of the risks, an analysis of the severity and likelihood of loss due to the risks, a description of the processes or steps to mitigate the risks, identification of the remaining gaps in processes, and recommendations to reduce the remaining gap. However, the Ministry's corporate income tax risk assessment is incomplete because it does not factor in the Ministry's evaluation of CRA's analysis of risk or CRA's compliance audit activities.

Ministry does not obtain information on CRA audit plans and results

The Ministry does not obtain and monitor information on the CRA audit program for small and medium-sized businesses. On request, the CRA provides the Ministry with CRA planning information on its audit program for small and medium-sized businesses, and reports on the underground economy compliance audit results. However, the information is not sufficient for the Ministry to assess whether the CRA plans and results justify the Ministry's reliance on the CRA. Information is not always presented in a consistent manner or always available from all the Alberta tax services offices.

CRA not required to provide information

There is no service agreement between the Ministry and the CRA for the administration of Alberta corporate income tax. Ministry senior management advised us that the CRA is not required to provide the type of information we recommend because it does not administer the Alberta corporate tax program. However, Alberta and the CRA have agreements in place that permit the exchange of information. For example, the *Cooperation Agreement on the Underground Economy, Tax Evasion and Smuggling* has provisions for enhancing cooperative efforts, including the sharing of results of compliance and enforcement activities. The

Cooperation Agreement does not restrict sharing only to the personal income tax programs that the CRA administers for the province.

Ministry doesn't consider matters identified by Auditor General of Canada

The Ministry does not take into account all matters identified by the Auditor General of Canada when determining the extent of its reliance on the CRA compliance audit activities. In a March 2004 audit report, the Auditor General of Canada identified some deficiencies in the CRA's compliance audit activities in the small and medium-sized enterprises audit program. Some examples are:

- the CRA needs to consider all threats to the tax base when allocating compliance resources, including how much to assign to small and medium-sized business audits.
- the CRA needs to capture and analyze additional information on audit results to gather additional insights into taxpayer behaviour, reasons for non-compliance, and methods of detecting non-compliance.
- the audits of small and medium-sized businesses need more rigour.

Ministry does not obtain assurance from CRA on compliance audit activities directed at the underground economy

The Ministry does not obtain assurance from CRA on compliance audit activities directed at the underground economy. The underground economy presents a significant, specific risk that requires special audit techniques to identify unrecorded income. The CRA audit program for small and medium-sized businesses includes compliance audit activities directed at the underground economy in Canada. In addition to understanding the CRA's regular compliance audit activities, the Ministry needs to determine whether it can rely on the CRA's underground economy initiatives.

Implications and risks if recommendation not implemented
There is a risk of tax revenue losses because of insufficient compliance audit activities.

1.2 Amount of audit work

Background
In our *2002–2003 Annual Report* (No. 38), we recommended that the Tax and Revenue Administration division of the Ministry of Revenue decide how much more audit work it should do to minimize the risk of revenue loss from taxpayers and claimants not complying with tax legislation. The government accepted this recommendation, indicating that audit coverage requirements would be determined based on recommendations arising from the updated assessment of risk of loss in each tax program. Results of the risk assessment were to be used as input for the 2004–2005 audit plan, taking into account the level of resources available to conduct audits.

Our audit findings

Implemented

The Ministry of Revenue has implemented this recommendation. The Ministry completed the risk assessment for the tax programs and estimated the amount of audit work it should do to minimize the revenue loss. The Ministry received budget approval in 2004–2005 for the addition of 26 new audit positions over three fiscal periods beginning with 2004–2005. As resources become available, additional audit work will be scheduled to meet the three main goals of Ministry of Revenue audits: to identify the level of self-compliance, to encourage and promote improvements in self-compliance, and to identify and remedy instances of non-compliance.

We will continue to monitor the Ministry's ability to obtain the resources it has determined it needs to minimize the identified risks. We expect the Ministry to periodically review and refine its risk assessment, for example, to incorporate the matters described in section 1.1 of our audit findings and recommendations.

2. Financial statement audits

We have no reservations of opinion on the financial statements of the Ministry and Department.

3. Specified auditing procedures

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

4. Other entities that report to the Minister

4.1 Unqualified auditor's reports

We issued unqualified auditor's reports on the financial statements of all the entities listed in section 4.1 of Scope.

4.2 The Alberta Heritage Savings Trust Fund

As requested by the Ministry, we provided interim review reports on the Alberta Heritage Savings Trust Fund's quarterly financial statements to the Endowment Fund Policy Committee and the Minister of Revenue. The reports say that we are not aware of any material changes that are needed for these financial statements to meet GAAP.

Seniors

Summary: what we found in our audits

Financial statements

Reservations of opinion

We have two reservations of opinion on the financial statements of the Ministry and one reservation on the financial statements of the Department and the Alberta Social Housing Corporation (the Corporation)—see page 282.

The Ministry should record in the Department and Ministry financial statements surpluses for social housing projects that management organizations retain—see page 283 .

The Corporation should ensure its program objectives are supported by the appropriate business arrangements. The Corporation should also account for transactions arising from these arrangements in accordance with Canadian Generally Accepted Accounting Principles—see page 284.

Specified auditing procedures

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

Other audits—cost-sharing claims

We issued unqualified auditor's opinions on the cost-sharing claims under the *National Housing Act (Canada)*.

Overview of the Ministry

Three core businesses

The Ministry's 2003–2006 business plan describes three core businesses:

- provide financial support and information services to seniors
- support the management of and enable the provision of family, special purpose and seniors housing
- provide planning and policy development for housing, seniors and Alberta's aging population

The Ministry consists of the Department and the Alberta Social Housing Corporation.

Ministry spent $445 million

In 2003–2004, the Ministry spent $445 million, primarily as follows:

	(millions of dollars)
Financial support and information services to seniors	229
Provision and management of housing programs	153
Debt servicing costs	44
Grants in kind	14

Ministry received $93 million

The Ministry received $93 million in 2003–2004, $88 million of which came from transfers from the Government of Canada.

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

Scope: what we did in our audits

Three parts to our audit

1. We audited the financial statements of the Ministry, Department, and Alberta Social Housing Corporation for the year ended March 31, 2004.

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

3. We audited the 2003–2004 cost-sharing claims under the *National Housing Act (Canada)*.

Our audit findings and recommendations

1. Financial statement audits

1.1 Reservations of opinion

Ministry and Department have not recorded surpluses retained by management organizations

Our auditor's reports on the financial statements of the Ministry and Department contain a reservation of opinion because the Ministry and the Department have not recorded surpluses retained by management organizations. Therefore, the Ministry and Department financial statements are incomplete. As at March 31, 2004, assets and net assets are understated by $21.7 million and revenues are understated by $2 million for the year then ended.

Ministry and the Corporation cannot support accounting treatment for additions to seniors lodges

In addition, the auditor's reports on the Corporation and the Ministry financial statements are qualified because management is not able to support the accounting treatment of capital additions to 11 seniors lodges owned by the Corporation. In 6 of 11 cases, the Corporation has recorded the additions as its assets and capitalized $8.9 million. In the other five cases, the additions, amounting to $13.3 million, have not been recorded as capital assets. Management asserted that the accounting treatment for the capital additions is in accordance with its business intention. However, it has been unable to supply documentary evidence to support its assertion.

1.2 Excluded assets

Recommendation

We recommend that the Ministry of Seniors record in the Department and Ministry financial statements surpluses for social housing projects that management organizations retain.

Background

Management organizations can retain operating surpluses

The Ministry uses management organizations, established by Ministerial Orders, to operate and maintain social housing properties that are, in most cases, owned by the Ministry through the Alberta Social Housing Corporation. Any operating surpluses of the projects are returned to the Ministry, except for funds that the management organizations are permitted to retain for future operating and capital expenditures of the housing properties.

Last year, we recommended that the Ministry consolidate in its financial statements the assets, liabilities, revenues and expenses of the management organizations. This year, we re-examined whether management organizations are controlled by government and should be part of the government reporting entity, based on the new Public Sector Accounting Board guidance. We have concluded that management bodies should not be consolidated; however, the operations of the government-owned properties managed by management organizations should be included in the Ministry financial statements.

Criteria: the standards we used for our audit

The Ministry should report the results of operations of social housing projects operated by management organizations in accordance with Canadian Generally Accepted Accounting Principles.

Our audit findings

Financial statements include the net operating results of social housing projects

The net operating results of certain social housing projects are recorded in the Department and Ministry financial statements as grants to management organizations (to fund deficits) and recoveries from management organizations (surpluses returned to the Ministry). The gross revenues and expenses are disclosed in a note to the financial statements.

Surpluses retained by management organizations not recorded in Ministry financial statements

However, amounts retained by management organizations out of operating surpluses are not included in the net operating results recorded in the Department and Ministry financial statements. The surpluses retained by management organizations must be used for future operations or capital upgrades of government housing properties. As a result, the financial statements are incomplete as they do not include information on the complete operations of the properties that the Ministry owns.

$21.7 million of assets and net assets not recorded by the Ministry

Approximately $21.7 million of assets, representing the surpluses retained by the management organizations in the current and previous years, are not reported in the Department and Ministry financial statements. We reserved our audit opinion because of this departure from generally accepted accounting principles.

Implications and risks if recommendation not implemented

The Ministry is not providing complete information in its financial statements.

1.3 Program objectives and policies

Recommendation

We recommend that the Alberta Social Housing Corporation ensure its program objectives are supported by the appropriate business arrangements. We further recommend that these arrangements be accounted for in accordance with Canadian Generally Accepted Accounting Principles.

Background

Long term objective is to have management organizations own properties

The Ministry of Seniors delivers social housing programs through the Department and the Alberta Social Housing Corporation (the Corporation). The Corporation owns most of the properties used to deliver the social housing programs. However, the Ministry has asserted that its long term objective is to deliver social housing through properties owned and operated by management organizations.

Agreements require the Ministry to own lodge additions

Over the past three years, the Corporation has signed memorandums of agreement (the Agreement) with 11 management organizations for the construction of additions to Corporation-owned lodges. The Agreement indicates that the Corporation and the management organization agree that work and other improvements to the lodge and all other fixed improvements that the management organization may construct on the lands are intended to become the absolute property of the Corporation upon completion.

Criteria: the standards we used for our audit

1. The Corporation should ensure that agreements support the achievement of program objectives.

2. The Corporation should account for capital additions and dispositions in accordance with Canadian Generally Accepted Accounting Principles.

Our audit findings

Agreements do not support Ministry objective

The terms of the Agreement and related agreements are not consistent with management's objectives. The Agreement indicates that the Corporation becomes the owner of the additions made to the existing properties. In addition, a land lease agreement entered into for one of the properties states that ownership of the assets should revert back to the Corporation after the end of the lease term. The terms of the lease meet the criteria of an operating lease (for the lessor), which requires the Corporation to record the asset.

Accounting for lodge additions not well-supported

Although the terms of the 11 Agreements are the same, the Corporation did not account for all of the additions the same way. The Corporation capitalized six additions to the Corporation-owned properties. Management informed us that these lodge additions were capitalized by the Corporation because the management organizations donated the additions to the Corporation. However, management was not able to provide documentation as evidence of these donations. The other five additions were not capitalized by the Corporation. Management indicated that these additions were not capitalized by the Corporation because the management organizations did not want to give up the ownership of these assets.

As noted above, the auditor's reports on the Alberta Social Housing Corporation and Ministry financial statements contain a reservation because management was unable to provide us with sufficient and appropriate evidence as to why they capitalized six of the additions but did not capitalize the other five.

Implications and risks if recommendation not implemented

Program objectives may not be met

The Corporation may make business decisions that are not consistent with its program objectives.

2. Specified auditing procedures

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

3. Other audits—cost-sharing claims

We issued unqualified auditor's opinions on the 2003–2004 cost-sharing claims under the *National Housing Act (Canada)*. We did these audits because the cost-sharing agreements require the claims to be audited.

Solicitor General

Summary: what we found in our audits

Financial statements
We issued unqualified auditor's reports on the financial statements of the Ministry, the Department, and the Victims of Crime Fund.

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

Overview of the Ministry

Five core businesses

The Ministry's 2003–2006 business plan describes five core businesses:
- Policing
- Crime prevention
- Security operations
- Victims programs and services
- Custody, supervision and rehabilitative opportunities for offenders

Ministry spent $283 million

The Ministry comprises the Department and the Victims of Crime Fund. The total operating expenses for the Ministry were $283 million in 2003–2004 and consist of:

	(millions of dollars)
Public security	131
Correctional services	133
Victims of crime	12

Ministry received $41 million

Total revenue for the Ministry was $41 million in 2003–2004. The Ministry's main revenue sources are:

	(millions of dollars)
Transfers from the federal government primarily for cost-sharing agreements	22
Fine surcharges	18

Transfers of $20 million from the federal government are for the *Young Offenders Program*.

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

Scope: what we did in our audits

Four parts to our audit

1. We followed up on our *2002–2003 Annual Report* recommendation (No. 40), for the Department of the Solicitor General to implement the plan for provincial policing standards.

2. We audited the financial statements of the Ministry, the Department, and the Victims of Crime Fund for the year ended March 31, 2004.

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

Our audit findings and recommendations

1. Systems findings

1.1 Contracting of police services—satisfactory progress

Background

In our *2002–2003 Annual Report* (No. 40), we recommended that the Department of the Solicitor General implement the plan for provincial policing standards. This repeated our recommendation from 1997–1998 (No. 34) to measure the adequacy and effectiveness of policing services.

Our audit findings

Issued new manual to police services and developing compliance process

The Ministry has made satisfactory progress implementing this recommendation. In March 2004, the Ministry issued a draft version of the Alberta Policing Standards Manual to all police services in the province. The standards are currently being field tested by police services to confirm their appropriateness. The Ministry is still developing a process to assess compliance by police services with the standards.

To implement this recommendation, the Ministry will have to assess compliance by police services with the standards and finalize the standards. We will follow up the Ministry's progress implementing this recommendation next year.

2. Financial statement audits

Our auditor's report on the Ministry, the Department, and the Victims of Crime Funds's financial statements is unqualified.

3. Specified auditing procedures

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

Sustainable Resource Development

Summary: what we found in our audits

Financial statements
We issued unqualified auditor's reports on the Ministry, the Department and the Environmental Protection and Enhancement Fund financial statements—see page 293.

Specified auditing procedures
We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures—see page 294.

Other entities that report to the Minister
The Natural Resources Conservation Board should enhance its compliance and enforcement function by prioritizing tasks based on risk analysis and managing odour and nuisance complaints more efficiently—see page 294.

Overview of the Ministry

Five core businesses

The Ministry's 2003–2006 business plan describes five core businesses:
- Forest protection
- Forest land and resource management
- Fish and wildlife management
- Rangeland management
- Land use disposition management

The Ministry and its components

The Ministry of Sustainable Resource Development consists of the Department of Sustainable Resource Development, the Natural Resources Conservation Board, the Surface Rights Board, the Land Compensation Board and the Environmental Protection and Enhancement Fund. The Ministry has also delegated administration for certain legislative responsibilities to three delegated administrative organizations: the Alberta Conservation Association, the Forest Resource Improvement Association of Alberta, and the Alberta Professional Outfitters Society.

Ministry spent $327 million

In 2003–2004, the Ministry spent $327 million. The following programs are the largest costs of the Ministry:

	(millions of dollars)
Forest Protection	198
Fish and wildlife management	36
Land use disposition management	30
Forest land and resource management	26
Ministry support services	14
Rangeland management	11

Ministry received $185 million

The Ministry received $185 million in 2003–2004. The largest sources of revenue were:

	(millions of dollars)
Timber royalties and fees	116
Land and grazing	49

For further detail about the Ministry, visit its website at www3.gov.ab.ca/srd.

Scope: what we did in our audits

1. We followed up our previous recommendations on budgeting for annual firefighting costs and using consistent action plans.

2. We audited the financial statements of the Ministry, the Department, and the Environmental Protection and Enhancement Fund for the year ended March 31, 2004

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

4. We performed a systems audit on the regulation of confined feeding operations by the Natural Resources Conservation Board. We also audited the financial statements of the Natural Resources Conservation Board for the year ended March 31, 2004.

Our audit findings and recommendations

1. Systems findings

1.1 Budgeting annual firefighting costs—implemented

Background

In our *1998–1999 Annual Report*, we recommended that the Department of Environment budget for the expected annual firefighting costs based on the most current information. We also recommended that the firefighting budget be subject to legislative approval, including approval for any Supplemental Estimates required during the year (1999—No. 27).

Our audit findings

Firefighting costs now included in Department's budget

The Department has implemented our recommendation. Firefighting costs are now included in the Department's base budget and in the supply vote approved in the legislature. In 2002–2003, the Department included unexpected firefighting costs in the Supplementary Estimates for that year.

1.2 Action plans—implemented

Background

In our *1999–2000 Annual Report*, we recommended that the Department of Environment's regional and area Action Plans used in the planning process be completed on a consistent basis (2000—No. 13). At that time, there were 17 areas covering the Province for which the Department's Natural Resources Service (NRS) prepared Action Plans.

Our audit findings

As a result of government-wide reorganization in 2001, the NRS ceased to exist. The programs that were carried on by various areas in the NRS were split between the Department of Sustainable Resource Development, the Department of Community Development, and the Department of Environment.

Regional plans reviewed and approved

The Department has implemented this recommendation. The Department now divides the province into four regions. A common template is used for regional planning. Each regional plan is reviewed and approved centrally to ensure appropriateness and consistency.

2. Financial statement audits

We issued unqualified auditor's reports on the financial statements of the Ministry, the Department, and the Environmental Protection and Enhancement Fund.

3. Specified auditing procedures

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

4. Other entities that report to the Minister

4.1 Confined feeding operations

Recommendation No.28

We recommend that the Natural Resources Conservation Board enhance its compliance and enforcement function by prioritizing tasks based on risk analysis and managing odour and nuisance complaints more efficiently.

Background

Confined Feeding Operations (CFOs)

The *Agricultural Operation Practices Act* (the Act) defines confined feeding operations (CFOs) as fenced or enclosed areas where livestock are confined for the purpose of growing, sustaining, finishing or breeding by means other than grazing. Livestock includes cattle, swine, chicken, turkeys, horses, and others. CFOs need to be regulated because of the health and environmental risks related to manure storage and disposal. The major risk is contamination of surface or underground water systems. CFOs also generate odour and nuisance complaints.

Board responsible for regulating CFOs

Before 2002, each Alberta municipality regulated the CFOs within its boundaries. This led to a patchwork of regulatory standards and practices across the province. As well, some municipalities did not have the resources to fulfil their regulatory responsibilities. At least 2,000 CFOs existed in Alberta before 2002. In 2001, the provincial government created the Act to bring consistency to CFO regulation across Alberta. The Department of Agriculture, Food and Rural Development developed and is responsible for updating the Act and its regulations, while the Natural Resources Conservation Board (the Board) administers the Act. The Act came into effect on January 1, 2002. Under the Act, the Board approves new and expanding livestock operations, applies compliance and enforcement standards to CFOs, and holds Board reviews. Existing CFOs were grandfathered under the Act, and the Board monitors these operations against the terms and conditions of their original municipal approvals.

Criteria: the standards we used for our audit

Eight criteria

We developed and agreed with management eight criteria against which to evaluate the Board's regulation of CFOs. Our field testing examined the Board's activities from January through November 2003. We concluded that the Board had met five criteria and partially met three others.

Criteria	Met	Partially Met
CFO regulatory program **standards** should exist, be communicated to stakeholders, and be updated.	✓	
The Board should handle its CFO approval, compliance and review duties **effectively** and **efficiently**.		✓
Decisions by approval officers, inspectors, and the Board should be **consistent** and **comply with the Act**.	✓	
The CFO regulatory program should be **coordinated** with other government departments, boards, etc.	✓	
Each approval, complaint, and review should be **documented**. Files should be organized.	✓	
The Board should be **accountable** for its CFO regulatory responsibilities.	✓	
The Board's **plans** should estimate activity against which actual results are measured.		✓
The Board should have and integrate **adequate resources** to complete effective, timely work.		✓

Our audit findings

Board organized into three operational groups

To administer the Act, the Board built a province-wide regulatory service. The Board grew quickly in late 2001 and 2002 from about seven employees to 50, expanding from one Edmonton office to six offices[1] around the province. The Board organized itself into three operational divisions: applications, Board reviews, and compliance and enforcement. These three divisions are supported by the Board's legal, administrative, communications, and science and technology units.

Five criteria successfully met

The Board successfully met five criteria. The Board makes the regulatory standards available through its website[2] and through published material. A review of the Act's regulations was held in 2003. Our testing of approval, inspection, and Board review files showed that decisions have been consistent across the province and comply with the Act. The Board coordinates its activities with other government departments. For example, the Board's application for a new or expanded CFO also triggers the application for a water licence, where necessary. In its compliance duties, the Board's staff often work with Health and Environment officials. The Board has approval and compliance staff at each of its regional offices; Board reviews are handled from Edmonton. Each application, complaint,

[1] Regional offices in Lethbridge, Red Deer, Barrhead, and Fairview; central offices in Calgary and Edmonton.
[2] http://www.nrcb.gov.ab.ca/web/legislation/aopa.cfm

or review generates a hard copy file at the office where it is handled. The Board has developed a computerized information system to summarize and share information about its files. The Board makes its decisions, as well as quarterly and annual reports, available on its website.

Critical tasks not progressing due to time spent on complaints

At the time of our audit, management practices were still evolving and led to the partially met criteria. The most important issue relates to the Board's compliance and enforcement function. At the time of our audit work, compliance and enforcement was primarily complaint driven. While complaints are an important aspect of compliance and enforcement, the Board's inspectors spent 80% to 90% of their time responding to complaints. This left few resources to perform the following tasks that the Board has identified as critical to a successful compliance and enforcement function.

- **Post-construction audits**—a Board inspector should verify that a CFO has met the construction conditions specified in its approval before the producer populates the CFO with animals. As of July 2003, there were approximately 100 post-construction audits waiting to be completed.
- **Compliance audits**—approvals, whether issued by municipalities or by the Board, include conditions that may require annual or periodic auditing by Board inspectors. Few of these audits had been undertaken because complaints and post-construction audits took priority.
- **Special projects**—when we audited, the backlog of projects included the review of twelve possibly leaking lagoons, two abandoned livestock operations, and the redevelopment of previous CFOs for residential areas.

Risk analysis

The Board had not done a risk analysis to identify where is should focus its compliance and enforcement activities. The risk analysis would then drive the Board's resource assignments accordingly. Since our audit, the Board has hired an external consultant to help develop a risk focused approach to planning and resource allocation for all its business.

Complaints could be handled more efficiently

The Board could free up more inspection time if complaint inspections were more efficient. Each year, there are more than 1,000 complaints, 62% of which relate to odour and nuisance. For each complaint, Board inspectors open an incident report, investigate the case, conclude, then phone the complainant back to report the status. The Board had not investigated alternatives to its labour-intensive communications with individual complainants. For example, the Board did not consider establishing a method of group communication, where all complainants linked to an operation can be updated at the same time. Initiatives like this can be useful because relatively few CFOs generate the majority of complaints. In these cases, the Board might be able to reduce the cost to contact every complainant.

Two other criteria partially met

The Board's divisions did not prepare operational plans. Operational plans will link key tasks in each division to the resources required to implement them and will set performance expectations for the year. Finding appropriate staff also impacted performance. The approvals officer position in Barrhead had not been filled for much of 2003. By the time the approvals workload had been redistributed, application processing at that office was a year behind schedule.

Implications and risks if recommendation not implemented

If post-construction audits, compliance audits, and special projects are not completed, the Board may not minimize health and environmental risks. It may also misallocate scarce resources by addressing all complaints with labour-intensive practices.

4.2 Financial statement audits of entities that report to the Minister

The 2003–2004 financial statements of the Natural Resources Conservation Board received an unqualified auditor's opinion.

Transportation

Summary: what we found in our audits

Systems
The Ministry should strengthen its monitoring and licensing processes for its commercial and motor vehicle inspection programs by:
- documenting policies, procedures and management's expectations to ensure staff perform their functions appropriately and consistently—see page 301.
- improving its processes to license inspection facilities and technicians—see page 303.

Financial statements
We issued an unqualified auditor's opinion on the Ministry's financial statements—see page 307.

Specified auditing procedures
We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures—see page 307.

Other audit
We issued an unqualified auditor's opinion on the annual summary of eligible expenditures of the Canada-Alberta Strategic Highway Infrastructure Program—see page 307.

Overview of the Ministry

Four core businesses

The Ministry's 2003–2006 business plan describes four core businesses:
- Manage transportation safety programs
- Manage the provincial highway network
- Support economic development
- Represent Alberta's interest in transportation policy

Ministry spent $842 million

In 2003–2004, the Ministry spent $842 million, mainly on the following programs:

	(millions of dollars)
Highway systems operating costs	507
Municipal infrastructure grants	245
Transportation safety services	29

Ministry received $28 million from external sources

The Ministry’s revenue from sources external to the government was $28 million in 2003–2004.

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

Scope: what we did in our audits

Four parts to our audit

1. We audited the business case and processes the Ministry used in determining if a public-private-partnership is the most cost-effective way to build and operate the Southeast Edmonton Ring Road—the results of this work are in a separate section on page 58.

   We also audited the Ministry’s systems for licensing and monitoring in the commercial vehicle inspection program and motor vehicle inspection program.

   Further, we followed up our previous recommendations on driver examiner systems and deferred maintenance.

2. We audited the Ministry’s financial statements for the year ended March 31, 2004.

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

4. We audited the annual summary of eligible expenditures of the Canada-Alberta Strategic Highway Program for the year ended March 31, 2004.

Our audit findings and recommendations

1. Systems findings

1.1 Commercial Vehicle and Motor Vehicle Inspection Programs (Inspection Programs)

1.1.1 Monitoring process for inspection programs

Recommendation No. 29

We recommend that the Ministry of Transportation strengthen its monitoring processes for Commercial Vehicle Inspection Program and Motor Vehicle Inspection Program by:

- **documenting policies, procedures and management's expectations of the Vehicle Safety Investigators to ensure that they perform their functions appropriately and consistently;**
- **developing a reporting process to allow senior management to enhance the assessment of the effectiveness of the programs.**

Background

The Ministry's Vehicle Safety Services Branch (the Branch) manages the inspection of commercial vehicles, all out-of-province motor vehicles and previously written-off motor vehicles, buses, and trucks through outsourced inspection technicians and inspection stations. Licensed technicians conduct the inspections at the inspection stations. The inspection stations certify commercial and motor vehicles, and report information to the Branch. Both technicians and inspection stations must be licensed by the Branch.

To be certified by the Branch, an inspection station's premises must have sufficient internal hard surface space adequate for the inspection, be equipped with necessary inspection tools, and be maintained in a clean and safe condition. The technician must hold a valid certificate of qualification under the *Apprenticeship and Industry Training Act* to be certified by the Branch. In 2003–2004, the Ministry spent approximately $1 million on the Commercial Vehicle Inspection Program and $500,000 on the Motor Vehicle Inspection Program.

The Branch manages the Inspection Programs under the *Traffic Safety Act*. Under the Act, both commercial and other vehicles are subject to monitoring and auditing procedures. Details on these procedures are laid out in the related regulations, namely the *Commercial Vehicle Inspection Regulation* for the Commercial Vehicle Inspection Program and the *Motor Vehicle Inspection Regulation* for the Motor Vehicle Inspection Program.

Currently, five Vehicle Safety Investigators (the Investigator) license and monitor approximately 2,750 inspection stations and 6,000 technicians for both programs. As well, the Ministry has outsourced the responsibility to conduct regular audits of licensed inspection stations and technicians to contract auditors.

Criteria

1. The Ministry should have processes to ensure inspection stations and technicians comply with the terms and conditions of their licences.
2. The Ministry should have processes to ensure contracted auditors comply with the terms and conditions of their contracts.
3. Senior Ministry management should have appropriate reports on monitoring and audit activities to assess the effectiveness of both programs.

Findings

Licensing and monitoring policies and procedures are not yet provided to staff

The Ministry has not finalized its policies and procedures and expectations to ensure consistent application across all the Investigators. The Investigators currently work independently and use their own methods to validate applicants, detect issues and rank their work. Program management advised us that policies for both programs have been documented but not formally released to the Investigators.

Inconsistent licensing and monitoring

The Ministry does not handle licensed inspection stations, technicians and applicants consistently in accordance with the regulations. The Investigators use their own judgment to decide when information in a licence application will be verified and they are not consistent in ranking their work on the basis of common risk assessments. Also, the Branch currently relies on the reports of the contract auditors, complaints, industry knowledge and issues identified from other sources (for example, city police and on-highway inspectors) to determine higher risk stations and technicians. This is because the Branch does have the systems to determine high risk stations and technicians; however, it has not established key performance indicators on inspection stations and technicians to enhance the risk assessment process.

Published statistics from police collision reports note that a relatively small number of collisions are attributable to vehicle equipment failure (less than 2%), but various other international studies show that equipment failure is a contributing factor to a much higher percentage of accidents. The Ministry plans to develop performance indicators based on analysis of the information that exists from various sources and its objectives.

Current computer systems are not capable of generating useful performance statistic information

The current computer system needs upgrading because it is not capable of generating useful performance statistic information. The Ministry advised us that they are in the final stages of developing a system that will improve technician and inspection station monitoring and will serve as a repository for the raw data collected. The system will also provide reports based on key performance indicators once the indicators are determined and when the system is fully implemented.

There is no formal system to evaluate contract auditors based on performance

The Ministry currently has no formal system to ensure that the auditors are completing audits in accordance with their agreement, although the Branch meets with the contract auditors occasionally. Also, the Ministry does not have performance statistics to evaluate the performance of the inspection stations and technicians, as well as the contract auditors, to ensure all parties are fulfilling their responsibilities. For example, under the terms of the contract, the contract auditor is to provide a summary of monthly activity in a form prescribed by the Ministry and may propose additional reports that would illustrate the effectiveness and performance of the programs. The contract came into effect in June 2003. The Ministry has not yet designed the activity reports and no additional performance reports have been implemented.

Management needs reports to assess programs

The Branch does not currently prepare reports to senior Ministry management to assess the performance of the Inspection Programs. Reports could contain, for example, information such as pressure points or backlogs of inspection or audits.

Implications and risks

Until better information is available, the Ministry may have more instances where it does not identify non-qualified inspection stations and technicians. This could result in unsafe vehicles being certified, reducing the safety of the public.

1.1.2 Licensing of inspection stations and technicians

Recommendation No. 30

We recommend that the Ministry of Transportation improve the process to license inspection facilities and technicians.

Background

The Vehicle Safety Services Branch licenses private inspection technicians and inspection stations. The inspection technicians for both Inspection Programs are required to complete an application form and to purchase an inspection manual outlining inspection methods and standards. The manuals refer to the regulations that applicants must follow. The application also requires information on the applicant's trade qualifications and years of experience, and contains a statement that the applicant must have the tools required for the types of vehicles to be inspected. On renewal, the applicant is asked for details of any changes to the previous information submitted.

Criteria

1. The framework should ensure that:
   - applicants have to agree to comply with terms and conditions in the agreement.
   - applicants have to agree that they follow a code of conduct.
2. As well the Ministry should:
   - determine when criminal checks are required.
   - define when audits are required for new and renewing applicants based on risk.
   - define when applicants need to take an examination to prove competency.

Findings

Ministry does not document terms and conditions of licence and require applicants to accept them

The Ministry does not document the terms and conditions under which the licence is granted and outline what constitutes a breach under the regulations. Also, applicants are not required to agree to comply with the terms and conditions, including the regulations and the standards in the inspection manuals.

Code of conduct for applicants has not been developed

The Ministry has not developed a code of conduct for technicians and owners of inspection stations. The purpose of a code of conduct is to document expected standards of behaviour that include discussions on conflict of interest, and how to handle bribery or instances of pressure on technicians to disregard the regulations. With the code of conduct, the Ministry can require the applicants, on initial application and renewal, to indicate that they will follow the code of conduct.

Ministry has not determined when criminal checks are required

The Ministry does not regularly perform criminal records checks on applicants and does not have a process to determine which new applicants or renewals might be considered high risk. Currently, the Ministry has not defined the factors that would make an applicant high risk nor developed a policy on the relative seriousness of criminal charges so that it knows how to apply the results of the criminal checks.

Ministry has not developed an audit process based on risk

Under the Motor Vehicle Inspection Program, an inspection station applicant pays for a pre-licensing audit, which is performed by a contracted auditor. Therefore, the suitability of the applicant is verified before issuing the licence. In contrast, under the Commercial Vehicle Inspection Program an inspection station applicant may not be inspected before approving the licence. The Ministry has not defined what constitutes higher risk applicants for both programs and adjusted the licence renewal process accordingly.

Ministry has not defined when examinations to prove competency are needed

Under the regulations, the Ministry can require applicants to take an examination to prove competency. The Ministry has not required any examinations under the Commercial Vehicle Inspection Program, nor has it documented when such examinations are required. The Ministry has considered the examination requirements under the Motor Vehicle Inspection Program, but implementation has been delayed due to resistance from existing technicians. Management has advised us that the examination process will be implemented for all new applicants and renewals in the near future.

Implications and risks

The Ministry may not identify inspection facilities and technicians who are not, or are no longer, qualified to conduct inspections in accordance with legislation and policy. This could result in unsafe vehicles being certified, reducing the safety of the public. It is also possible that inspection stations or technicians could use their licences to carry out illegal operations.

1.2 Driver examiner program

1.2.1 Monitoring and auditing—implemented

Recommendation implemented

On pages 282 to 284 in our *2002–2003 Annual Report*, we recommended (No.41) that the Ministry strengthen its monitoring and audit processes for driver examiners. This year, the Ministry implemented the recommendation by:

- using a risk assessment model to develop the formal annual audit plan. Key performance statistics such as the examiners' pass/fail rate are used when determining the examiners' performance rating. The Ministry has finalized the plan and is phasing it in as examiners come due for monitoring.
- reducing overdue audits and having a plan in place to complete the remaining overdue audits.
- giving senior management a quarterly report sufficient to identify backlogs of monitoring or auditing.
- revising the training program to include identification of risk factors of unethical behaviour and investigative techniques, and then using

these risk factors in the new audit plan and program.
- developing a revised licence renewal notice and application form to require renewal applicants to confirm that they will follow the Ministry's regulations and code of conduct, and submit a criminal check.

1.2.2 Code of conduct—implemented

On pages 285 and 286 in our *2002–2003 Annual Report*, we recommended that the Ministry implement a process to mitigate the risk of examiners being affiliated with driver training schools or registry agents. We also recommended that the Ministry enhance its code of conduct and require examiners to reconfirm compliance with the code of conduct and conflict-of- interest requirements.

Recommendation implemented

This year, the Ministry implemented our recommendation by:
- requiring the examiners to reconfirm compliance with the conflict-of-interest requirements
- revising its code-of-conduct policy to clarify the principles of honesty and integrity and outlining its expectations for these principles
- working with the Ministry of Government Services to pursue changes in policy relating to registry agents. The Ministry of Government Services is considering prohibiting new registry agents or owners of registry agencies to become driver examiners. This would reduce the conflict of interest relating to the two roles of driver examiner and registry agent. Combining the roles of testing competency and issuing licences could provide an incentive to an agency to issue licences to unqualified drivers.

  As well, the Industrial Certification Program is being phased out. This eliminates the potential conflict of interest where an examiner and an applicant are fellow employees.

1.3 Disclosure of deferred maintenance—implemented

In 2000–2001 (No. 24), we recommended that the Ministry ensure that its spending decisions are based on adequate information on deferred maintenance.

The Ministry implemented our recommendation by:
1. working with a cross-ministry committee to fine tune the definition of deferred maintenance. The committee developed guiding principles and evaluation criteria of deferred maintenance to provide consistency both within and between ministries.

2. documenting the current business process of reporting and monitoring deferred maintenance backlogs.

3. developing an asset management process that includes:
   - identifying capital maintenance activities by types;
   - reviewing total asset value, replacement costs and quantities of the assets;
   - adopting standards and guidelines for what is an acceptable asset condition and cost estimates of maintenance needs to return assets to this condition.

4. disclosing the extent and cost of deferred maintenance in its annual report.

2. Financial statement audit

Our auditor's report contains an unqualified auditor's opinion on the Ministry's financial statements for the year ended March 31, 2004.

3. Specified auditing procedures

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

4. Other audit

We issued an unqualified opinion on the annual summary of eligible expenditures for the Canada-Alberta Infrastructure Program for the year ended March 31, 2004. We performed the audit because the agreement with the federal government requires that eligible expenditures under the program be audited annually.

Members of the Legislative Assembly (MLAs) expense reimbursements

MLA expense reimbursements reviewed

In 2002, we examined the system used to produce the Report[1] that provides information on payments to MLAs and the systems used to reimburse MLAs for expenses incurred in their work.

No evidence of inappropriate payments

We did not find any evidence of inappropriate MLA expense reimbursement and we concluded that the systems in place would generally prevent inappropriate payments.

Improvements could be made

However, we noted that improvements could be made in the system that produces the Report and the systems used to reimburse MLA expenses. Therefore, in December 2002, we made recommendations to the Ministry of Finance, the Legislative Assembly Office (LAO), and the Ministry of Executive Council. The following is the status of the recommendations that were not fully implemented last year.

1. MLA expense reimbursement

Background

In our *2002–2003 Annual Report* (page 290), we recommended that LAO strengthen its internal control systems for MLA expense reimbursement by:

- communicating to the Members' Services Committee the need to require appropriate documentation to support claims
- performing prompt reasonability checks of MLAs' travel claims.

Our audit findings

Satisfactory progress

LAO has made satisfactory progress on this recommendation. The Speaker of the Legislative Assembly communicated to all MLAs the rules regarding hosting expenses and the need for appropriate detailed receipts to support these claims in a memo dated January 5, 2004. The Speaker communicated to all MLAs rather than LAO communicating to the Members' Services

[1] Under the *Legislative Assembly Act* (LAA), the Minister of Finance is required to publish an annual report detailing payments made to Members. Section 37 (4) of the LAA requires the report to include amounts paid by the government as fees and as travelling and living expenses to MLAs appointed to boards, commissions or committees. The report is combined with information required under Section 16 of the *Conflict of Interests Act* to produce the *Report of Selected Payments to Members and Former Members of the Legislative Assembly and Persons Directly Associated with Members of the Legislative Assembly* (the Report). The Ministry of Finance has also included information on remuneration to MLAs in this Report under Section 10(2)(e) of the *Government Accountability Act*. Our audit was concerned with only a portion of the Report, specifically expense reimbursement.

Committee. This occurred because the role of the Members' Services Committee is to make changes to the Members' Services Committee Orders on policy and the nature of allowable expenses. Changes to administrative practices within LAO and the requirements for supporting documentation can be made by the Speaker of the Legislative Assembly. We will examine claims in the 2004–2005 fiscal year to assess the impact of the communication to members.

LAO has completed the reasonability checks on MLAs travel claims promptly. The reasonability check compares the kilometres claimed against the fuel purchased by MLAs on their fuel purchase card. LAO sets a range of reasonable fuel consumption rates and follows up with members when fuel consumption exceeds the acceptable maximum. The reasonability check for the 2002–2003 fiscal year was completed in July of 2003 and the reasonability check for the 2003–2004 fiscal year was completed in July of 2004. We examined a sample of travel claims and found no exceptions.

2. Report of payments to MLAs

Recommendation No. 31

We again recommend that the Minister of Finance improve the timeliness of the annual Report of payments to MLAs (2003—page 290).

Background

In our *2002–2003 Annual Report* (page 290), we reported that the Ministry of Finance has made satisfactory progress in implementing this recommendation by committing to have a final draft of the Report available earlier for review by MLAs.

Our audit findings

Report detailing payments to MLAs must be issued promptly

The Ministry agreed to provide a draft Report to MLAs for review by August. However, the 2002–2003 draft Report was made available for MLA review in October 2003, and the report was tabled in the Legislature in March 2004, 12 months after the fiscal year-end of March 31, 2003. The 2001–2002 Report was tabled in the Legislature in May 2003, 14 months after the fiscal year end of March 31, 2002. A reasonable target would be to table the Report about six months after the fiscal year-end. For the 2004 fiscal year, the Ministry of Finance plans to have the 2003–2004 draft Report available for distribution to MLAs by September 2004.

Implications and risks if recommendation not implemented

MLAs are accountable to Albertans. Without a timely report, this accountability is delayed and can be questioned.

Offices of the Legislative Assembly

Summary: what we found in our audits

Financial statements
We audited the financial statements of all the Offices of the Legislative Assembly, except our own. A private sector firm of chartered accountants appointed by the Standing Committee on Legislative Offices audited our financial statements.

Qualified auditor's report on Ombudsman's financial statements

Our auditor's reports for all Offices' financial statements, except for the Office of the Ombudsman, contained an unqualified opinion for the year ended March 31, 2004. We qualified our auditor's report for the Ombudsman's financial statements for the year ended March 31, 2004, because they understate capital assets. If the Ombudsman implements a change in capitalization threshold, the qualification may be removed from the 2004–2005 financial statements.

Overview of the Offices of the Legislative Assembly

There are six Offices of the Legislative Assembly. They, and their expenses, are:

	(millions of dollars)
Legislative Assembly Office	32.8
Office of the Auditor General	16.3
Office of the Information and Privacy Commissioner	3.7
Office of the Ombudsman	1.6
Office of the Chief Electoral Officer	1.6
Office of the Ethics Commissioner	0.4

For more detail on the Legislative Assembly Office, visit its website at www.assembly.ab.ca. This website also contains links to the other five Offices of the Legislative Assembly.

Supplementary information

Section 11(b) Audits

Under section 11(b) of the *Auditor General Act*, the Auditor General may, with the approval of the Standing Committee on Legislative Offices, be appointed auditor of organizations other than Provincial departments, funds and agencies. For accounting periods ended within the 2003–2004 fiscal year, the Auditor General acted as auditor of the following organizations:

- Alberta Hospital Edmonton Foundation
- Calgary Health Region
- Carewest
- Capital Health
- Capital Care Group Inc.
- Chinook Regional Health Authority
- East Central Health
- Fairview College Foundation
- Grande Prairie Regional College Foundation
- Lethbridge Community College Foundation
- Mount Royal College Day-Care Society
- Northern Lights Health Region
- Olds College Foundation
- Peace Country Health
- PENCE Inc.
- Students' Association of Mount Royal College
- The University of Calgary Foundation (1999)

Reporting the status of recommendations

We follow up all recommendations and report their status in our annual report. We require the government to agree to an implementation date for each recommendation it accepts. We wait until that date to report the status of the recommendation. However, we still have some outstanding recommendations without a set implementation date. In those cases, we report the status of the recommendation each year. Within each chapter, the section titled, *Our audit findings and recommendations*, reports the status as follows:

Status of recommendation	**What we say in the report**
Implemented	We briefly explain how the government implemented the recommendation.
Satisfactory progress	We describe the progress and what the government must still do to implement the recommendation. (This category is transitional—when every recommendation has a set implementation date, we won't report satisfactory progress.)
Unsatisfactory progress	We explain why progress is unsatisfactory and what the government must still do to implement the recommendation. We also repeat the recommendation.

Issues more than 3 years old are shown on page 319.

	Total numbered recommendations [1]	Fully Implemented [2]	Not yet implemented: Progress Satisfactory [3]	Not yet implemented: Repeated in this report
1996–1997	26	25	1	-
1997–1998	47	42	3	1
1998–1999	28	20	6	1
1999–2000	33	22	8	1
Issues more than 3 years old			18	3

Recommendations repeated in this report (2003–2004)

Health and Wellness
2004 Recommendation No. 21—Control over health care registration (1999—No. 40)

2004 Recommendation No. 23—Accountability of the Health Regions (1998—No. 26)

Finance
2004 Recommendation No. 18—ATB: Key internal controls at Branches (2000—No. 49)

[1] Excludes repeated recommendations
[2] Includes not repeated due to changed circumstances
[3] If a recommendation has not been followed up, its progress is treated as satisfactory

Government's response to 2002–2003 recommendations

The following are the numbered recommendations in the Auditor General's 2002–2003 Annual Report and the government's response to each of them.

Auditor General's recommendations	Government's response
Cross-Ministry	
1. Governance of audit committees We recommend that the Deputy Minister of Executive Council, working through other deputy ministers, take steps to improve audit committee practices in the Alberta Public Sector.	Accepted. The Deputy Minister of Executive Council, working with the Deputy Ministers' Committee, will determine how best to implement this recommendation.
Government of Alberta Annual Report	
2. Corporate government accounting policies We again recommend the Department of Finance change corporate government accounting policies to improve accountability (2002–No. 15).	Accepted in principle. The government's corporate accounting policies continue to be reviewed on an ongoing basis, in consultation with ministries and the Office of the Auditor General.
Agriculture, Food and Rural Development	
3. Performance measurement We recommend that the Ministry of Agriculture, Food and Rural Development improve its performance measurement system by: • Reviewing its goals and performance measures to ensure that they reflect the results that the Ministry wants to achieve. • Strengthening the process that the Ministry uses to compile its performance measures.	Accepted. Responsibility for developing a process for assembling complete, accurate and timely performance measurement documentation has now been assigned. A strong process will provide management with the information needed to support performance measurement discussion and decision making. Management expects that as the Ministry's business plan continues to evolve over time, so too will the associated performance measurement framework.
4. Lack of moisture insurance contracts We recommend the Agriculture Financial Services Corporation award insurance benefits in accordance with its lack of moisture insurance contracts.	Accepted. Agriculture Financial Services Corporation (AFSC) announced on November 5, 2003, that lack of moisture pasture insurance has been cancelled. Effective for the 2004 crop year, AFSC's satellite imagery insurance for pasture will be suspended, pending a solution that can be offered on a province-wide basis.
Children's Services	
5. Strategic management information We recommend that the Ministry of Children's Services improve the Authorities' strategic management information systems.	Accepted. The Ministry continues to strive towards best practices in the areas of information management, forecasting and reporting.

Auditor General's recommendations	Government's response
6. First Nation Agency accountability We recommend that the Department of Children's Services improve monitoring of services provided by the Delegated First Nation Agencies.	Accepted. Management is reviewing this area. Strategies that will lead to a common set of criteria used for monitoring and reporting the progress made in providing services to Alberta's children on-reserve will be implemented.
7. First Nation expense recoveries We again recommend that the Ministry of Children's Services improve its systems to recover expenses from providing services to children and families ordinarily resident-on-reserve (2002–No. 7).	Accepted. With the recent transfer of the billing function from the Alberta Corporate Service Centre to the Ministry, this function will be examined with a view to improving the system to ensure full and timely cost recoveries.
Community Development	
8. Service delivery alternatives We recommend that the Ministry of Community Development evaluate the cost-effectiveness of the service delivery alternatives for operating parks and protected areas.	Accepted. Beginning in 2003–04, the Ministry will conduct periodic reviews of its overall approaches to private sector involvement in park operations, in order to assess the costs and benefits of a range of options.
9. Excluded operations We again recommend that the Ministry of Community Development record in its financial statements all revenues, expenses and surpluses generated through the operation of provincially-owned facilities (2002–No. 11).	Accepted. The Ministry is developing an action plan to implement this recommendation in 2005–06.
Economic Development	
10. Defining and assessing core businesses We recommend that the Ministry of Economic Development revise its business plan to clearly demonstrate the desired results each core business is to achieve, and ensure its performance measures demonstrate the Ministry's contribution to results.	Accepted. The 2004–07 business plan will be revised to clearly link core businesses to goals. Goals will be more focused on the desired results of the Ministry's activities, and performance measures will be aligned to the goals. By ensuring a clear linkage between core businesses, goals and performance measures, the Ministry's contribution to results will be demonstrated.
Energy	
11. Alberta Royalty Tax Credit (ARTC) program We recommend that the Department of Energy document and communicate the objectives of the *Alberta Royalty Tax Credit* program and develop measures to assess whether the program is meeting its objectives.	Accepted. The ARTC program was introduced as part of the response to the federal government making Crown royalties a non-deductible expense for federal tax purposes. In light of the recent federal tax change that reverses the original 1974 tax change that prompted the creation of the ARTC, the Department, in conjunction with the Finance and Revenue Departments, is reviewing the effect of the tax change on the value of the ARTC program. Any changes to the ARTC program as a result of this review will be introduced as the legislative schedule permits.

Auditor General’s recommendations	Government’s response
Environment	
12. Contaminated sites information systems We recommend that the Ministry of Environment implement an integrated information system to track contaminated sites in Alberta.	Accepted. A coordinated database for contaminated sites will be developed across all areas of the Department. The initial focus will be on Alberta Environment owned or managed sites. Implementation recommendations are expected in 2003–04.
13. Integrated Resource Management (IRM) We recommend that the Deputy Minister of Environment, working with the Sustainable Resource Development Coordinating Council: • plan and report against Alberta’s Commitment to Sustainable Resource and Environment Management annually to Standing Policy Committee; and • complete the legislative and regulatory regime review required by the Commitment.	Accepted. The Sustainable Development Coordinating Council (SDCC) will discuss this recommendation. The SDCC co-chairs will also be addressing recommendations from the review of Alberta’s energy, environmental and resource management regulatory system that has recently been presented to Government. Based on Government recommendations, an implementation plan is expected in 2004–05. There is an opportunity to address several additional deliverables in the Commitment document through this implementation plan.
Finance	
14. Loan concentration limits We recommend that Alberta Treasury Branches provide support for its loan portfolio industry concentration limits.	Accepted. Action is being taken this year to document, in more detail, the rationale behind how each concentration limit recommendation is determined.
15. Lending policy compliance We recommend that Alberta Treasury Branches ensure its lenders comply with corporate lending policies.	Accepted. A number of actions are being taken this year to improve compliance with lending policies. Although this issue is not expected to be fully resolved this year, progress should be evident by the end of this fiscal year.
16. Risk management We again recommend that Alberta Treasury Branches implement an enterprise risk management framework to assist in managing significant risks (2002–No. 16).	Accepted. Alberta Treasury Branches continues to be committed to having the framework completed for an operative enterprise risk management process before the end of this fiscal year.
Gaming	
17. Gaming products and services We recommend the Alberta Gaming and Liquor Commission (AGLC) implement processes to ensure: • gaming operators buy gaming supplies from registered suppliers. • AGLC buys gaming terminals and gaming supplies only from registered suppliers.	Accepted. The Alberta Gaming and Liquor Commission has reviewed the list of current gaming terminal suppliers to ensure they are all registered and will put in place processes to ensure that gaming supplies are purchased through a registered or approved manufacturer, supplier or distributor.

Auditor General's recommendations	Government's response
18. Use of proceeds We recommend AGLC implement a process for timely monitoring of licensed groups' use of gaming proceeds.	Accepted. The Alberta Gaming and Liquor Commission will continue to implement its plan to achieve the timely review of licensed groups' use of gaming proceeds reports.
Government Services	
19. Project management plan for Registry Renewal Initiative We recommend that the Department of Government Services complete and approve a project management plan for the Registry Renewal Initiative.	Accepted. During 2003–04, the Department will expand and integrate existing project plans into one comprehensive overall plan that will be formally approved and refreshed throughout the life of the project.
20. Performance measures We again recommend that the Alberta Corporate Service Centre clearly define its performance measures and improve its processes to track and report results (2002–No. 22).	Accepted. Work on performance measures was delayed pending collection of additional baseline metrics but can now proceed.
Health and Wellness	
21. Performance agreements and business plans We again recommend the Department of Health and Wellness ensure performance agreements are in place at the start of the period to which they apply (2002–No. 23).	Accepted. The Department and the health authorities are continuing to refine specific performance expectations. The Department has made considerable progress in implementing Multi-Year Performance Agreements and expects the agreements to be signed once remaining issues are resolved. This year represents the initial cycle for the Performance Agreement initiative designed to facilitate health reforms and enhance the accountability over the use of public funds. The Department does not expect delays in signing Multi-Year Performance Agreements in the future.
22. Control of, and accountability for, conditional grants We again recommend the Department of Health and Wellness improve its control processes for ensuring accountability for conditional grants (2002–page 134).	Accepted. The Department will review its current policies and procedures to ensure there are adequate controls and accountability for restricted funding. This review has begun for 2003–04.
23. Province Wide Services We recommend that the Department of Health and Wellness and the Province Wide Services Working Group clarify the mandate of the Working Group and improve processes to achieve that mandate.	Accepted. The Department will work with the Province Wide Services Working Group to develop an agreed upon and more detailed terms of reference describing responsibilities and processes for the working group. This process is underway for 2003–04.

Auditor General's recommendations	Government's response
Human Resources and Employment	
24. Meeting system user needs We recommend that the Department of Human Resources and Employment ensure the Contract Management Administration System meets user requirements.	Accepted. An Issues Management Committee and an Issues Co-ordinator role have been established to address the concerns and weaknesses identified. A post-implementation review of the Contract Management Administration System (CMAS) project has commenced, which will assess the implementation and make recommendations to future users of the system. A new version of the CMAS, which will address most of the items identified in the report, is scheduled for implementation in spring 2004.
25. Economic loss payments We recommend that the Workers' Compensation Board (WCB) strengthen controls in its claim management system for economic loss payments.	Accepted. The Worker's Compensation Board has been implementing changes to its policy and procedures relating to Economic Loss Payments (ELP) to ensure benefit levels are appropriate. Additional staff training and quality assurance controls also have been implemented to improve the quality and outcome of ELP adjudication. The cumulative impact of these changes has strengthened the management controls of ELP benefit decisions throughout 2003.
Infrastructure	
26. Terms and conditions of construction grants We recommend that the Ministry of Infrastructure communicate, and require grant recipients to formally accept, the terms and conditions of construction grants. The terms and conditions should include: • an accountability framework, including roles and responsibilities • the consequences of failing to adhere to the terms and conditions • reporting requirements • the Ministry's right to audit.	Accepted. The Ministry does have grant agreements in place for grant funding for lodges. The Ministry will look at implementing similar agreements for all grant programs for 2004–05. The Ministry will also look towards harmonizing its reporting requirements across all programs, recognizing that varying levels of reporting currently exist. Management will consider implementing an audit requirement for major projects where this requirement does not already exist.
27. Monitoring of construction grants We recommend that the Ministry of Infrastructure strengthen is monitoring processes for construction grants. We also recommend that the Ministry make all construction grant payments through the Consolidated Cash Investment Trust Fund (CCITF) bank account.	Accepted. The Ministry has some opportunity to enhance the monitoring function and will also look towards harmonizing its reporting requirements across all programs. A final statement of funding and expenditures, authorized by a senior official of the school board or health authority, is already required for all projects. The Ministry is also currently assessing the use of CCITF accounts to develop a more consistent approach across all programs.

Auditor General's recommendations	Government's response
28. Physical security of government buildings We recommend that the Ministry of Infrastructure, working with other ministries, improve the security of government buildings and the safety of people who use them by: • identifying resources to lead and coordinate security related activities for and between various ministries • establishing and communicating a minimum standard of security for all buildings • implementing increased levels of security on buildings determined by risk and security assessments to require enhanced protection • monitoring compliance with recommendations made in risk and security assessments.	Accepted. The Ministry will retain a dedicated Head of Security in 2003–04 to work with Alberta Solicitor General, Security Services, to review present practices and to develop and confirm appropriate minimum security standards for various facility categories. Once appropriate practices and standards have been determined, the Ministry will develop a priorization and action plan in 2004–05 to implement achievable, cost-effective improvements to facility security as required to meet these minimum standards. Where security assessments indicate that enhanced security levels are required at specific sites, the Ministry will coordinate specific priorities and requirements with client ministries.
Innovation and Science	
29. IMAGIS governance We again recommend that the Ministry of Innovation and Science formalize and implement an effective accountability framework for IMAGIS (2002—No. 32).	Accepted. The Deputy Minister intends to make a recommendation in 2003–04 to the Alberta Corporate Service Centre Deputy Minister Committee on the governance and decision making process to address the concerns raised regarding the accountability framework.
30. Systems development We again recommend that the Ministry of Innovation and Science, with the cooperation of other ministries, implement a systems development methodology (2002–No. 33).	Accepted. Management plans to work with the other ministries to develop and phase in a common set of systems development criteria over the two-year period 2003–05.
Learning	
31. Affordability of the Learning system We recommend that the Department of Learning improve one of the core performance measures (public satisfaction with the affordability of the learning system) that reports its progress in delivering high quality learning opportunities.	Accepted. The Ministry will continue to monitor the public's satisfaction with affordability. Also, the Ministry will consider additional measures to support its information base associated with affordability and accessibility by the 2006–07 business plan cycle.
32. Measurement of results We recommend that the Department of Learning periodically measure whether the tuition fee policy and its related programs are effective in making post-secondary education affordable to students.	Accepted in principle. The Ministry uses a variety of indicators including tuition, student assistance, graduating debt and survey instruments to measure the effectiveness of the Tuition Fee Policy and its related programs. The Ministry will continue to update these indicators. By 2005–06, the Ministry will enhance its systems and information base.

Auditor General's recommendations	Government's response
33. Tuition Fee Policy compliance We recommend that the Department of Learning require public post-secondary institutions to comply with the Tuition Fee Policy. We also recommend that the Department clarify the methodology for applying the Policy.	Accepted. The Tuition Fee Policy is being reviewed under proposed new legislation in 2003–04. The Ministry will work with post-secondary institutions to ensure they have a clear understanding of any changes to this policy. New review procedures will be implemented to ensure institutions comply with the policy when determining tuition fees for 2004–05.
34. Internal control systems We again recommend that the University of Alberta improve its system of internal control (2000–No. 35, 2001–No. 37 and 2002–No. 40).	Accepted. The target date for fully implementing this recommendation is 2005–06. To improve its internal control systems, the University has initiated work in the research area by amalgamating it into a single office. The University is working on an expanded business support model to address other internal control issues through eight initiatives, of which three have been fully implemented.
35. Internal control systems We again recommend that the University of Calgary improve its internal control systems (2001–No. 38 and 2002–No. 43).	Accepted. The target date for achieving this recommendation is 2006–07. Improvement of controls will ultimately require the replacement of core legacy systems along with changes to administrative structures, policies and processes. The University has responded to many of the specific items mentioned in this audit recommendation by making changes to existing procedures and access privileges.
36. Business case analysis We again recommend that the Southern Alberta Institute of Technology improve the business case analysis for major projects (2001–No. 40).	Accepted. The Institute is committed to maintain additional documentation on future projects.
Municipal Affairs	
37. Acquisition and accounting for capital assets We recommend that the Ministry of Municipal Affairs not record the acquisition of its assets as grant expense. We further recommend that the Ministry not disburse funds for the development of its systems before any development occurs.	Accepted. The recommendations on recording assets and development funding will be implemented in 2003–04.
Revenue	
38. Amount of audit work We recommend that Tax and Revenue Administration of the Ministry of Revenue decide how much more audit work it should do to minimize the risk of revenue loss from taxpayers and claimants not complying with tax legislation.	Accepted. Tax and Revenue Administration is in the process of updating its assessment of risk of loss in each tax program. Recommendations arising from that assessment will include audit coverage requirements. This will then be considered as input to the 2004–05 audit plan, taking into account the level of resources available to conduct audits.

Auditor General's recommendations	Government's response
Seniors	
39. Accountability of management organizations We recommend that the Ministry of Seniors improve its system for monitoring the performance of management organizations that deliver social housing programs for the Ministry.	Accepted. The risk assessment model for selecting management organizations for operational reviews is being adjusted. Documentation from these organizations will be enhanced where needed. Financial accountability of management organizations was maintained at all times.
Solicitor General	
40. Contracting of police services We again recommend that the Department of the Solicitor General implement the plan for provincial policing standards (1998–No. 34).	Accepted. The Ministry is working towards having Policing Standards implemented by the end of 2003–04.
Transportation	
41. Monitoring and auditing We recommend that the Ministry of Transportation strengthen its monitoring of and audit processes for driver examiners by: • preparing annual plans for monitoring and auditing examiners • promptly monitoring and auditing driver examiners, and reporting the results to senior management • training driver program administrators to identify the risk factors of unethical behaviour and to investigate problem examiners • making the licence renewal process as rigorous as the application process.	Accepted. The Department is addressing these concerns in 2003–04.

Results Analysis

March 31, 2004

Mission

"To identify opportunities and propose solutions for the improved use of public resources, and to improve and add credibility to performance reporting, including financial reporting, to Albertans."

Accountable to the members of the Legislative Assembly, the Office of the Auditor General (OAG) is ultimately responsible to the public. Under the *Auditor General Act*, the Auditor General and the staff of the OAG fulfil the Auditor General's statutory duties.

The purpose of the OAG is to examine and provide independent reporting on government's management of, and accountability practices for, the public resources entrusted to it.

The Auditor General is well positioned to fulfil this mission because both he and his Office:

- are independent of government
- have a working knowledge of government structures and information systems, relevant legislation, and the risks and issues facing government
- are familiar with and adhere to accounting and assurance standards recommended by the Canadian Institute of Chartered Accountants
- possess a wealth of practical experience

Core Businesses

The OAG fulfils its mission through the operation of two separate but complementary core businesses.

1. Assurance Auditing

Assurance Auditing provides credibility to performance reporting of government organizations. We provide audit opinions on the financial statements of government organizations as to whether the financial statements are fairly presented, and identify any reservation of opinion. Assurance audits also include examining transactions for legislative compliance. In addition, we provide credibility to performance measures included in annual reports.

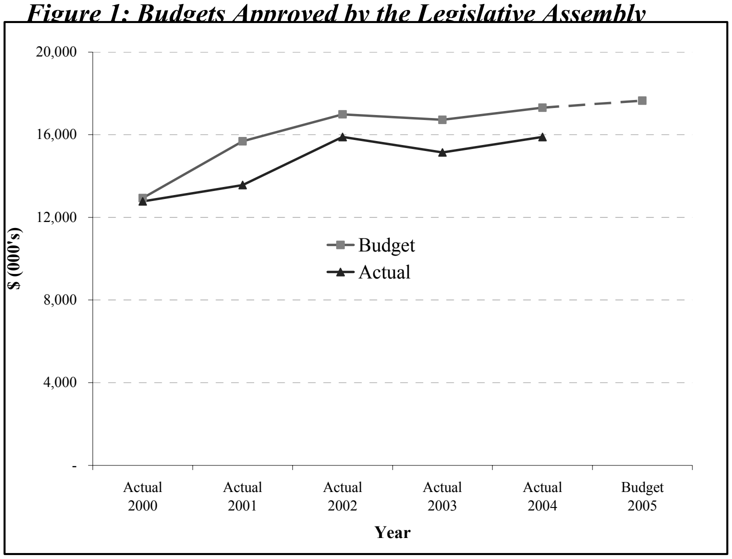
2. Systems Auditing

Systems Auditing, also referred to as value-for-money or performance auditing, focuses on examining accounting and management control systems of government organizations and results in recommendations for improved cost effectiveness in the management of, and accountability for, public resources. Examples include recommendations on succession management, contract management, management's decision-making processes, systems to support the province's regulatory responsibilities, and controls and accountability over health care services provided by the province.

Office performance

In comparison to budget

Figure 1: Budgets Approved by the Legislative Assembly



Our operations are funded from an annual appropriation by the Legislative Assembly. For 2003–2004, the funding approved was $17,200,000 for operating purposes, and $105,000 for capital purposes.

The Office is returning $1,415,000 to the Legislative Assembly for the 2003–2004 fiscal year. Similar to prior years, the variance from budget arises in both personnel, and supplies and service costs. In terms of the two core businesses, the variance relates almost entirely to Systems Audits where the shortfall in the cost of outputs amounts to $1,305,000. This shortfall results mainly from decisions to move the timing of some audit work until the ensuing fiscal year and, in some instances, to reduce the scope of or not proceed with an audit. However, the effect of these decisions is partly offset by additional costs incurred on audits completed during the fiscal year. The timing shifts were necessary in many cases because of the departure of senior management personnel at key times during the year. These departures translated into four fewer full-time equivalent staff members than we budgeted for and Systems Audit time was, correspondingly, 5,000 hours less than budget. The variance from budget on agent professional services of $634,000 is substantially attributable to timing shifts or to reduced or cancelled Systems Audits but a significant portion of audits budgeted as requiring agent services were performed with in-house staff. The replacement of senior and long-service personnel with staff at lower remuneration rates and lower supplies and service costs than budget also contributed to the reduced output cost of Systems Audits.

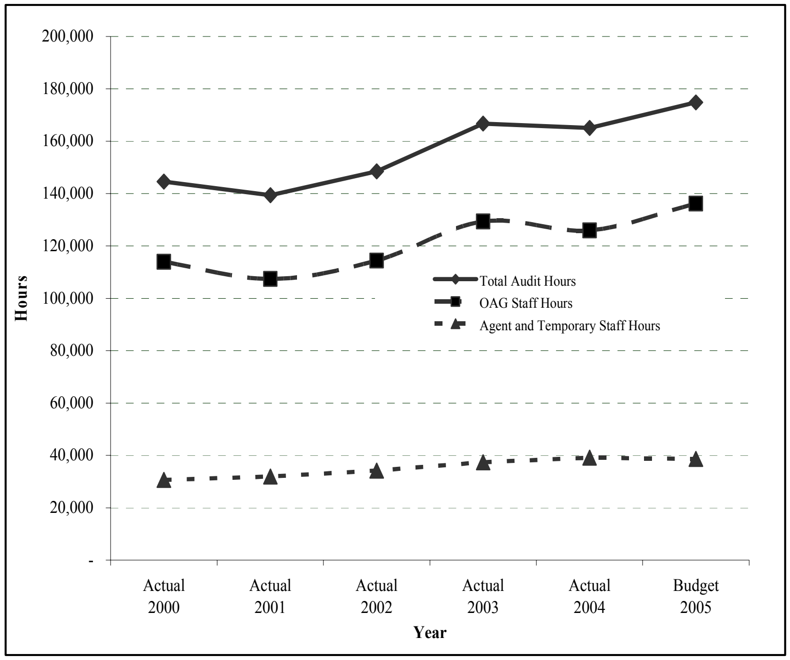
Figure 1 shows the budgets approved and actual spending of the Office for the last 5 years.

Operating Variances

Salaries and wages

Personnel costs continue to approximate 85% of current operating expenses. Salaries and wages decreased marginally from 2002–2003. The actual staff complement for the 2003–2004 year fell marginally from 119 (2002–2003) to 117 full-time equivalent positions (FTEs). Individual salary rate increases were more than offset by the reduction in average salary rates from the departure of several senior officers (2 Assistant Auditors General, 6 Principals, the Chief Administrative Officer and the Human Resources Director).

Figure 2: Hours by Resource Type



121 FTEs were budgeted for in 2003–2004 and the decrease from budgeted cost amounted to $514,000 or 6%. The decrease is due to the replacement of senior officers with staff at lower renumeration rates as well as the shortfall in budgeted full-time positions.

Despite the fall in staff numbers and costs in 2003–2004, part of which we can relate to audit efficiencies, there is an increase in the need for audit services. We plan to increase our audit activities to meet this need and are further developing specialized skills to match the growing complexity of government systems. There is an expectation that this Office will provide advice on how to improve corporate governance, risk management and the design of systems of control. The proliferation of subsidiaries of government agencies has added further assurance audit work requirements and this trend may continue. Also, the scope of our performance reporting responsibilities continues to expand. We have therefore budgeted for 130 FTEs for 2004–2005.

Temporary staff

The Office contracts with accounting firms to supply qualified audit staff during our peak work periods. In the past year, the cost of such temporary staff exceeded budget by $208,800 or 17% of the budgeted amount and 2002–2003 spending by $257,800 or 22%. The excess over budget was a direct result of the decline in Office staff numbers referred to under salaries and wages and the audit work performed in-house that had been budgeted for as part of agent fees (see page 330).

The increase in planned Office audit staff numbers to 130 and a planned greater use of agents in 2004–2005 will enable us to reduce our previous dependency on temporary staff sources. Thus, it is our plan to increase the number of audit hours while using less temporary staff resources. 11,000 hours have been budgeted for temporary staff for 2004–2005 compared to 14,600 actual hours in 2003–2004.

Agent and other professional services

The Office employs agents as a strategy to meet work demands and special skills and experience needs.

In the past year, 19 public accounting firms in Edmonton, Calgary, Lethbridge, Red Deer and other centres across the Province have assisted us as agents of our Office. When using agents, OAG staff continue to oversee the work, but our practice gains an additional skilled resource to meet peak work demands, acquires cost-effective specialist skills, gains a point of reference for comparing our methodology and costs, and saves on travel costs.

The variance of actual costs for agents for 2003–2004 from budget of $634,000 or 11% resulted from:

- timing shifts of certain projects due to priority demands;
- greater use of internal resources for completing projects, reducing agent time and costs on certain projects; and
- audit efficiencies gained through OAG and agent efforts and the cooperation of management of audited organizations.

Although our use of agents during 2003–2004 fell slightly from 2002–2003 levels, we nevertheless intend to make greater use of this resource during 2004–2005. 27,000 hours are budgeted compared to actual hours of 24,600 in 2003–2004.

Supplies and Services Expense

In the Supplies and Services category, our Office was under budget by 9% or $235,000. This was primarily the result of:

- Training and development not taken to the extent planned; this is largely the effect of high work demands, and the reduced time available for formal training.
- Travel expenses being lower than expected due to less out-of-town training and development, and to greater use of local agents to perform audits.

Capital Investment

In 2003–2004, our Office postponed for one year making capital purchases to replace aging computer hardware and office equipment and, as a result, underspent the capital budget by approximately $30,000.

In 2004–2005, we intend to replace certain printers as they are becoming less reliable but more importantly, we plan to replace our entire fleet of laptops, about 140 in number, which are approximately 4 years old and are becoming expensive to maintain. We have budgeted $450,000 to meet these planned capital costs.

Output costs

Schedule 1 of the Office's financial statements summarizes the costs by ministry for Assurance and Systems Audits. The costs relate to the fiscal year ended March 31, 2004 and therefore the results of a significant portion of the corresponding audit work were reported in the Auditor General's Annual Report for 2002–2003.

While there is little variance in 2003–2004 between budget and actual for the total cost of Assurance Auditing, there are significant variances at the individual ministry level. For instance, $1,830,000 was budgeted for Finance whereas only $1,360,000 was incurred. Conversely, $118,000 was budgeted for Government Services however, $470,000 was incurred. These variances are offsetting and result from a decision to allocate certain audit costs differently from the way they were allocated in the budget. Other significant offsetting variances between budget and actual for the cost of Assurance Auditing include $592,000 (positive variance) for Innovation and Science because the budget included an amount of $700,000 for work to be performed by our Information Systems Audit team and the costs incurred were allocated across a number of ministries. The performance of additional unbudgeted work (negative variances) or audit efficiencies (positive variances) explain in large measure the budget variances for the remainder of the ministries.

As mentioned above under Office Performance, underspending our budget on Systems Auditing amounts to $1,305,000 and accounts for almost all the underspending of the Office's operating expenses. Included in this underspending is approximately $190,000 of agent costs for certain Cross-Ministry audits which were moved to 2004–2005. As with Assurance Auditing, the positive variance for Innovation and Science of $354,000 relates to Information Systems audit work incurred but allocated to other ministries. Generally, the underspending results from time shifting or decisions not to proceed or proceed with a reduced scope for a number of Systems Audits.

Other performance information

(See Schedule 2 to the 2003–2004 audited financial statements. Because of the elapse of time since March 31, 2004, in some cases more recent performance results are available. These results and other results that relate to performance within the year ending March 31, 2005 will be reported in the financial statements of that year.)

The OAG measures its performance throughout the fiscal year as well as annually. For the 2003–2004 and forthcoming years, we have modified or refined some of our performance measures to better reflect our goals and core businesses. Where appropriate we have restated the comparative results for 2002–2003.

Issuance of reports

We issued our reports on the 2003 consolidated financial statements of the Province and on the 2003 results of the performance measures for the Province (Measuring Up) in June of 2003 and on target.

Our results indicate that we again did not meet all of our targets and our results with respect to progress since 2002–2003 are mixed. However, we are continuing our effort to have the public sector entities better prepared for audit and are retaining the same targets or have set more ambitious targets for our audit categories.

Acceptance of the Auditor General's primary recommendations

We met our revised higher target for 95% of our primary recommendations to be accepted by the government. Acceptance does not include "accepted in principle" which accounts for the remaining 5% of our numbered recommendations made. When the government or a ministry responds that a recommendation is "accepted in principle" it means the OAG has not been able to convince senior management that implementation of the recommendation should commence. OAG staff work with senior management to support the implementation of recommendations by suggesting alternative solutions, sharing our experience in dealing with problems, providing advice, and by assessing progress towards implementation.

Implementation of the Auditor General's primary recommendations

Nineteen issues raised prior to 2000 had not yet been implemented at the time of issue of the 2002–2003 Annual Report. The ministries concerned had not rejected these; rather, progress in implementation was slower that originally anticipated. The then status of these 19 recommendations can be found on page 299 of the 2002–2003 Annual Report of the Auditor General. Page 319 of the 2003–2004 Annual Report indicates that 21 recommendations have not been implemented, of which 12 relate to issues raised prior to 2000.

Audit staff resource capacity

This measure has been revised to track the utilization of each member of the Office staff separately as distinct from the previous method of measuring the utilization of the staff as a whole. Individuals failing to meet standards set for an aggregate of their time spent on audit, professional development and other core business functions are expressed as a percentage of the total staff complement. The target for this measure should be, and has been raised, to 100% for the current year and for 2004–2005.

After restating the comparative figures, equivalent results are shown for 2002–2003, but in both years the results fell short of our aggressive target.

Planning for resources

This was a new measure last year and this year we have refined the basis for determining when projects are completed and we have therefore restated the 2002–2003 result. Although the 2003–2004 result showed an improvement, we fell short of our target. To better understand the

2002–2003 results we have separately measured Assurance Auditing and Systems Auditing. This analysis demonstrates that budgeting for Systems Audits is challenging since such audits are by their nature indeterminate in scope and hours at the outset.

Costs by core business

We are pleased to report that we have made great strides since last year towards meeting our goal. A key strategy for the Office is to aggressively pursue our target for an increased proportion of Systems Audits.

Staff satisfaction

Staff surveys are conducted only biennially so the 2001–2002 measurement result from the December 2001 survey has been restated to compare to the 2003–2004 basis and is included as the performance measure comparative in the 2003–2004 financial statements.

Although our target was met and the results of the survey indicate increased satisfaction in other key areas compared to those shown by the previous survey, e.g. work/life balance, Office organization, timeliness of performance appraisals and work expectations, overall satisfaction working for the Office as a specific measure fell slightly.

We recognize the importance of staff morale and we will continue with initiatives developed during the previous audit year for improving the overall working environment of the Office.

Corporate costs

While adequate funds must be directed towards corporate functions such as human resource management including training and development; information technology; and accounting and administration, the cost of these functions must be kept to the minimum necessary.

We have fully met this need in 2003–2004. The cost of our corporate functions as a percentage of total costs met the target and showed an improvement over 2002–2003.

For the future

In summary, we believe we had a challenging and successful year. We also believe that there are additional opportunities for improvement. As part of our 2004–2007 Business Plan, we have established certain strategic priorities:

- Matching our resources to audit risk, a risk that has increased as a result of the increased complexity of government. With recent promotions in our Office, we have realigned audit portfolios so that our more experienced staff are responsible for the ministries that have the greater audit risk.

- Training and mentoring of staff continues to be a high priority. In addition, we plan to second CA student staff for up to 10 of the 30-month training period to those government departments that have obtained approval as a training office with the Alberta Institute of

Chartered Accountants. Such external training will deepen the experience of students and enhance their knowledge of government operations.

- Increasing efficiencies in Assurance work is also a high priority. Assurance Auditing takes the first demand on our resources and thus, the more efficient we are in performing this critical area of our work, the more time we will have available for Systems Auditing, from which the vast majority of our recommendations arise.

- Allocating more of our Assurance work to agents. We have agreed to professional hourly rates.

- Spreading more of our Assurance work over the year rather than performing the work immediately following the fiscal year end. Our reliance-on-controls approach to Assurance work enables us to continue to make this transition.

- Developing additional specialized skills to assist our Systems Auditing function. We have recruited a senior forensic audit specialist to assist us with fraud identification and follow up. We have hired an HR specialist. And we have redirected some of the time of our in-house legal counsel towards the identification of controls over the risk of legislative non-compliance and towards the identification of potential legal issues arising from agreements and other contracts, prior to their execution.

- Finally, positioning our Office to respond to the evolving new governance and professional standards is a priority.

Alberta Legislature

Office of the Auditor General

Management's Responsibility for Financial Reporting

The accompanying financial statements of the Office of the Auditor General are the responsibility of the management of the Office.

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Financial statements are not precise since they include certain amounts based on estimates and judgments. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances in order to ensure that the financial statements are presented fairly in all material respects.

The Office of the Auditor General maintains control systems designed to provide reasonable assurance as to the effectiveness and efficiency of operations, the relevance and reliability of internal and external reporting, and compliance with authorities. The costs of control are balanced against the benefits, including the risks that the control is designed to manage.

The financial statements have been audited by Kingston Ross Pasnak LLP, Chartered Accountants, on behalf of the members of the Legislative Assembly.

[Original signed by Fred J. Dunn, FCA]
Fred J. Dunn, FCA
Auditor General
June 23, 2004

Alberta Legislature

Office of the Auditor General

Financial Statements

March 31, 2004

KINGSTON · ROSS · PASNAK LLP

June 1, 2004
Edmonton, Alberta

AUDITORS' REPORT

To the Chair, Standing Committee on Legislative Offices:

We have audited the statement of financial position of the Office of the Auditor General as at March 31, 2004 and the statements of operations and cash flows for the year then ended. These financial statements are the responsibility of the Office's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Office of the Auditor General as at March 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original signed by Kingston Ross Pasnak LLP]

Kingston Ross Pasnak LLP
Chartered Accountants

Alberta Legislature
Office of the Auditor General
Statement of Financial Position
As at March 31, 2004

	2004	2003
Assets		
Audit fees receivable	$ 999,411	$ 981,171
Other receivables and advances	87,077	144,356
Capital assets (Note 3)	401,480	693,985
	$ 1,487,968	$ 1,819,512
Liabilities		
Accounts payable	$ 1,003,213	$ 926,722
Accrued vacation pay	820,555	884,079
Deferred contributions related to capital assets	401,480	693,985
	2,225,248	2,504,786
Net Assets (Liabilities)		
Net liabilities at beginning of year	(685,274)	(1,389,389)
Net cost of operations	(13,296,600)	(12,634,662)
Capital and operating contributions	13,316,770	13,190,536
Deferred contributions related to net recoveries (net additions) of capital assets	(72,176)	148,241
	(737,280)	(685,274)
	$ 1,487,968	$ 1,819,512

The accompanying notes and schedules are part of these financial statements.

Alberta Legislature
Office of the Auditor General
Statement of Operations
Year Ended March 31, 2004

	2004		2003
	Budget (Note 6)	**Actual**	**Actual**
Expenses:			
Personnel			
Salaries and wages (Note 7)	$ 8,457,000	$ 7,943,488	$ 8,094,840
Agent and other audit services fees	3,739,000	3,105,296	2,920,441
Temporary staff services	1,250,000	1,458,784	1,200,963
Employer contributions	1,303,000	1,149,955	1,162,386
Advisory services	257,000	309,968	115,790
	15,006,000	13,967,491	13,494,420
Supplies and services:			
Professional fees, training and development	699,000	522,829	450,879
Office leases	383,000	487,912	391,788
Technology services	357,000	368,834	311,750
Amortization of capital assets	404,000	364,681	357,780
Writedown of asset (Note 3)	-	-	90,008
Travel	396,000	302,396	282,232
Materials and supplies	136,000	112,785	151,261
Telephone and communications	105,000	76,046	82,002
Rental of office equipment	50,000	62,042	30,963
Repairs and maintenance	12,000	16,611	12,552
Miscellaneous	57,000	49,537	51,827
	2,599,000	2,363,673	2,213,043
Total office professional services	$ 17,605,000	16,331,164	15,707,463
Less: Audit fee revenue		(2,161,971)	(2,209,255)
Amortization of deferred contributions related to capital assets		(364,681)	(447,788)
Contribution of services provided at no charge		(507,912)	(415,758)
Net cost of operations for the year		$ 13,296,600	$ 12,634,662

The accompanying notes and schedules are part of these finanacial statements.

Alberta Legislature
Office of the Auditor General
Statement of Cash Flows
Year Ended March 31, 2004

	2004	2003
Operating transactions:		
Net cost of operations	$ (13,296,600)	$ (12,634,662)
Non-cash transactions:		
Amortization and write down of capital assets	364,681	447,788
Amortization of deferred contributions related to capital assets	(364,681)	(447,788)
	(13,296,600)	(12,634,662)
Increase in audit fees receivable	(18,240)	(100,006)
Decrease (increase) in other receivables and advances	57,278	(92,593)
Increase (decrease) in accounts payable	76,492	(545,993)
Increase (decrease) in accrued vacation pay	(63,524)	34,477
Net cash used by operating transactions	(13,244,594)	(13,338,778)
Investing transactions:		
Purchase of capital assets	(72,176)	(68,211)
Recovery of software costs previously capitalized (Note 3)	-	216,452
Net cash used (provided) by investing transactions	(72,176)	148,241
Financing transactions:		
Net transfer from general revenues	13,316,770	13,190,536
Net cash provided (used)	-	-
Cash, beginning of year	-	-
Cash, end of year	$ -	$ -

The accompanying notes and schedules are part of these financial statements.

Alberta Legislature
Office of the Auditor General
Notes to the Financial Statements
Year Ended March 31, 2004

Note 1 Authority and Purpose

The Auditor General is an officer of the Legislature operating under the authority of the Auditor General Act, Chapter A-46, Revised Statutes of Alberta 2000. General revenues of the Province of Alberta fund the net cost of operations of the Office of the Auditor General. The Standing Committee on Legislative Offices reviews the Office's annual operating and capital budgets.

The Office of the Auditor General exists to serve the Legislative Assembly and the people of Alberta. The Auditor General is the auditor of all government ministries, departments, funds, and Provincial agencies, including universities, public colleges, and technical institutes. With the approval of the Assembly's Select Standing Committee on Legislative Offices, the Auditor General may also be appointed auditor of a Crown controlled corporation or another organization. The results of our work are reported in the Annual Report of the Auditor General presented to the Legislative Assembly. The 2002–2003 Annual Report of the Auditor General was released in the 2004 fiscal year covered by these financial statements.

Note 2 Significant Accounting Policies and Reporting Practices

(a) Audit fees

Audit fee revenue is recognized when billable opinion work is performed. Audit fees are charged to organizations that are funded primarily from sources other than Provincial general revenues.

(b) Output costs

Schedule 1 provides detailed costs for two types of output:

- Assurance Auditing results in Auditor's Reports on financial statements and on performance measures.
- Systems Auditing is undertaken to produce recommendations for improved government management of and accountability for public resources in the Auditor General's Annual Report to the Legislative Assembly.

(c) Capital assets

Amortization is calculated on a straight-line basis, over the estimated useful lives of the assets, at the following rates:

Computer hardware	33%
Computer software	20%
Office equipment	10%
Leasehold improvements	term of the lease

(d) Deferred contributions related to capital assets

Contributions from general revenues received and expended for the acquisition of capital assets are deferred and amortized to the statement of operations as the capital assets are consumed.

(e) Pension expense

Pension costs included as part of these statements refer to employer contributions for current service of employees during the year and additional employer contributions for service relating to prior years.

(f) Contribution of services provided at no charge

Services contributed to the Office at no charge have been included as expenses and as revenue from contributions to meet the objective of disclosing the full cost of operations.

(g) Valuation of financial assets and liabilities

The amounts reported as audit fees receivable, other receivables and advances, accounts payable and accrued vacation pay approximate their fair values.

Note 3 Capital Assets

	2004			2003
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer hardware	$ 830,844	$ 793,866	$ 36,978	$ 228,983
Computer software	335,573	264,818	70,755	102,549
Office equipment	722,425	469,420	253,005	315,891
Leasehold improvements	191,748	151,006	40,742	46,562
	$ 2,080,590	$ 1,679,110	$ 401,480	$ 693,985

In fiscal 2002–2003, the OAG re-evaluated its prior year plans to implement certain project management software and decided to acquire less expensive technology. Following this decision, the Office reached an agreement with the original software provider to return the software and recover most of the software cost. The software costs not recovered, and associated implementation costs, have been written off in the amount of $90,008.

Note 4 Defined Benefit Plan

The Office participates in the multi-employer pension plans: Management Employees Pension Plan and Public Service Pension Plan. The Office also participates in the multi-employer Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equivalent to the annual contributions of $539,877 for the year ended March 31, 2004 (2003: $561,786).

At December 31, 2003, the Management Employees Pension Plan reported a deficiency of $290,014,000 (2002: $301,968,000) and the Public Service Pension Plan reported an actuarial deficiency of $596,213,000 (2002: $175,528,000). At December 31, 2003, the Supplementary Retirement Plan for Public Service Managers had an actuarial surplus of $9,312,000 (2002: $6,472,000).

The Office also participates in a multi-employer Long Term Disability Income Continuance Plan. At March 31, 2004, the Management, Opted Out and Excluded Plan reported an actuarial surplus of $1,298,000 (2003: actuarial deficiency of $3,053,000). The expense for this Plan is limited to the annual contributions for the year.

Note 5 Lease Commitments

Minimum rental commitments for leased accommodations and equipment are as follows:

Fiscal:

2005	$ 528,389
2006	550,047
2007	565,632
2008	589,029
2009	616,599

Note 6 Budget

The budget shown on the statement of operations is based on the budgeted expenses reviewed by the Standing Committee on Legislative Offices on January 16, 2003.

The following table reconciles the budget shown on the Statement of Operations to the voted budget for operating items, and compares the voted budget to the Office's actual expenditures for both operating and capital items:

Operating expenses:

	2004	2003
Budget shown on Statement of Operations	$ 17,605,000	$ 16,995,000
Less amounts to be paid by government departments	(405,000)	(424,000)
Voted budget	17,200,000	16,571,000
Actual expenses shown on Statement of Operations	16,331,164	15,707,463
Less amounts paid by government departments	(513,732)	(415,758)
Actual expenses for comparison with voted budget	15,817,432	15,291,705
Unexpended	$ 1,382,568	$ 1,279,295

Capital investment:

	2004	2003
Budget presented to Standing Committee	$ 105,000	$ 145,000
Less amounts to be paid by government departments	-	-
Voted budget	105,000	145,000
Actual purchases (net recoveries) of capital assets	72,176	(148,241)
Less amounts paid by government departments	-	-
Actual expenditure (net recovery of expenditure) for comparison with voted budget	72,176	(148,241)
Unexpended	$ 32,824	$ 293,241

Note 7 Salaries and Benefits

Salaries and benefits of the Auditor General and his five Assistants comprise:

2004	Base Salary(1)	Other Cash Benefits(2)	Other Non-cash Benefits(3)	Total
Auditor General(4)	$ 166,344	$ 2,828	$ 36,033	$ 205,205
Assistant Auditor General(5)	30,600	8,910	8,101	47,612
Assistant Auditor General(6)	129,720	27,526	28,083	185,329
Assistant Auditor General(7)	136,620	15,000	29,486	181,106
Assistant Auditor General(8)	136,620	25,115	29,770	191,505
Assistant Auditor General(9)	39,315	12,711	12,869	64,895
Assistant Auditor General(10)	74,975	16,866	13,324	105,166
Assistant Auditor General(11)	74,975	8,667	13,222	96,864
	$ 789,169	$ 117,623	$ 170,888	$ 1,077,682

2003	Base Salary(1)	Other Cash Benefits (2)	Other Non-cash Benefits(3)	Total
Auditor General(4)	$ 127,760	$ 16,198	$ 48,552	$ 192,510
Assistant Auditor General(5)	122,400	18,379	31,646	172,426
Assistant Auditor General(6)	114,500	31,211	33,795	179,506
Assistant Auditor General(7)	134,600	21,000	42,389	197,989
Assistant Auditor General(8)	132,000	30,115	38,119	200,234
Assistant Auditor General(9)	132,700	17,000	38,246	187,946
Assistant Auditor General(10)	-	-	-	-
Assistant Auditor General(11)	-	-	-	-
	$ 763,960	$ 133,903	$ 232,747	$ 1,130,611

(1) Base salary comprises pensionable base pay.

(2) Other cash benefits include bonuses, vacation payments, and any payments to contract personnel in lieu of employer contributions towards employee non-cash benefits. The vacation payments are as follows:

	2004	2003
Auditor General(4)	$ -	$ -
Assistant Auditor General(5)	8,910	9,379
Assistant Auditor General(6)	12,526	15,211
Assistant Auditor General(7)	-	-
Assistant Auditor General(8)	10,115	10,115
Assistant Auditor General(9)	12,711	-
Assistant Auditor General(10)	8,199	-
Assistant Auditor General(11)	-	-
	$ 52,461	$ 34,705

(3) Other non-cash benefits include the Office's share of all employee benefits, and contributions or payments made on behalf of employees, including pension, health care, dental coverage, group life insurance, short and long-term disability plans, WCB premiums, professional memberships and tuition.

(4) Automobile provided, no dollar amount included in benefits and allowances. Appointed Auditor General June 1, 2002.

(5) Responsibilities – until June 30, 2003, Systems Auditing

(6) Responsibilities –Cross-Ministry, Executive Council, Gaming, Learning, and Systems Auditing

(7) Responsibilities – Agriculture, Food & Rural Development, Health & Wellness, Innovation & Science, and Revenue. Served as Acting Auditor General for the period February 1, 2002 through May 31, 2002.

(8) Responsibilities – Professional Practice and Quality Assurance

(9) Responsibilities – until July 14, 2003, Community Development, Health & Wellness, and Learning

(10) Responsibilities – with effect from August 1, 2003, Community Development, Environment, Finance, Government Services, Justice and Attorney General, Seniors, Solicitor General and Sustainable Resource Development

(11) Responsibilities – with effect from August 1, 2003, Aboriginal Affairs & Northern Development, Children's Services, Economic Development, Energy, Human Resources and Employment, Infrastructure, International and Intergovernmental Relations, Legislative Assembly, Municipal Affairs, and Transportation

Note 8 Comparative Figures

Certain 2003 figures have been reclassified to conform to the 2004 presentation.

Schedule 1

Alberta Legislature
Office of the Auditor General
Schedule of Output Costs by Ministry
Year ended March 31, 2004

	2004 Budget			2004 Actual			2003 Actual		
	Assurance Auditing	Systems Auditing	Total	Assurance Auditing	Systems Auditing	Total	Assurance Auditing	Systems Auditing	Total
Work performed by Sector:									
Aboriginal Affairs and Northern Development	$ 49,000	$ 12,000	$ 61,000	$ 44,205	$ 3,866	$ 48,071	$ 94,772	$ 21,015	$ 115,787
Agriculture, Food and Rural Development	317,000	51,000	368,000	334,344	43,433	377,777	396,039	47,062	443,101
Children's Services	906,000	298,000	1,204,000	906,143	207,126	1,113,268	788,281	309,321	1,097,602
Community Development	516,000	122,000	638,000	572,511	120,967	693,477	678,482	8,836	687,318
Cross-Government Issues	296,000	1,622,000	1,918,000	241,871	1,373,525	1,615,396	174,082	712,221	886,303
Economic Development	68,000	32,000	100,000	90,202	658	90,860	73,237	-	73,237
Energy	358,000	157,000	515,000	342,991	109,379	452,370	315,957	39,414	355,370
Environment	84,000	240,000	324,000	109,999	8,895	118,894	89,585	81,580	171,165
Executive Council	48,000	-	48,000	44,708	11,432	56,140	66,947	-	66,947
Finance	1,830,000	175,000	2,005,000	1,360,254	327,301	1,687,555	1,444,264	247,617	1,691,880
Gaming	236,000	172,000	408,000	234,240	135,730	369,970	248,217	40,594	288,811
Government Services	118,000	273,000	391,000	470,332	143,161	613,494	717,431	121,285	838,716
Health & Wellness	1,582,000	596,000	2,178,000	1,532,160	516,263	2,048,423	1,702,277	293,356	1,995,634
Human Resources and	453,000	45,000	498,000	449,113	21,394	470,508	478,984	52,946	531,931
Infrastructure	167,000	245,000	412,000	241,097	124,625	365,723	184,512	103,340	287,852
Innovation and Science	930,000	429,000	1,359,000	337,837	74,864	412,701	441,865	282,832	724,696
International and	41,000	2,000	43,000	33,834	1,316	35,150	44,473	7,567	52,040
Justice	155,000	32,000	187,000	161,538	36,555	198,093	178,475	31,504	209,979
Learning	2,686,000	501,000	3,187,000	3,143,169	474,072	3,617,242	3,055,242	396,041	3,451,283
Legislative Assembly	66,000	16,000	82,000	78,877	48,832	127,710	82,786	67,163	149,949
Municipal Affairs	198,000	52,000	250,000	266,117	54,689	320,806	210,991	73,992	284,983
Revenue	467,000	76,000	543,000	514,875	81,455	596,330	516,479	31,965	548,444
Seniors	129,000	54,000	183,000	167,244	32,693	199,938	169,361	40,822	210,183
Solicitor General	90,000	23,000	113,000	57,120	50,148	107,268	69,283	39,275	108,558
Sustainable Resource	147,000	135,000	282,000	189,700	72,449	262,149	185,250	4,130	189,380
Transportation	179,000	129,000	308,000	222,689	109,163	331,852	144,611	101,701	246,312
	$ 12,116,000	$ 5,489,000	$ 17,605,000	$ 12,147,172	$ 4,183,992	$ 16,331,164	$ 12,551,885	$ 3,155,578	$ 15,707,463

Schedule 2

Alberta Legislature
Office of the Auditor General
Other Performance Information

	2002 – 2003 Actual	2003 – 2004 Target	2003 – 2004 Actual	2004 – 2005 Target
Performance Measure: Issuance of reports				
Consolidated F/S	June 2002	June 2003	June 2003	June 2004
Measuring up	June 2002	June 2003	June 2003	June 2004
Ministry performance measures	96% by September 15, 2002	100% by September 15, 2003	91% by September 15, 2003	100% by September 15, 2004
Ministries and departments	62% by July 15, 2002	85% by July 15, 2003	78% by July 15, 2003	80% by July 15, 2004
Entities for consolidation with March 31 year ends	89% by July 15, 2002	85% by July 15, 2003	67% by July 15, 2003	90% by July 15, 2004
Other entities	71% within 120 days of entity year end	70% within 120 days of entity year end	60% within 120 days of entity year end	70% within 120 days of entity year end
Performance Measure: Acceptance of the Auditor General's primary recommendations				
Accepted primary recommendations	90%	95%	95%	95%
Performance Measure: Implementation of the Auditor General's primary recommendations				
Primary recommendations implemented within 3 years of acceptance	17 issues not implemented	All	19 issues not implemented	All
Performance Measure: Release of the Auditor General's Annual Report				
Release date	October 2002	October 2003	October 2003	October 2004
Performance Measure: Audit staff resource capacity				
Percentage of staff meeting their goal for available time[1] spent on core business functions[2]	95%	100%	95%	100%
Performance Measure: Planning for resources				
Percentage of audit projects completed within budgeted costs:				
Assurance Auditing			80%	
Systems Auditing			20%	
Combined	51%	70%	65%	70%
Performance Measure: Costs by core business				
Assurance Auditing	80%	70%	76%	70%
Systems Auditing	20%	30%	24%	30%
Performance Measure: Staff satisfaction survey[3]				
Percentage of staff expressing satisfaction working for the Office	84%	75%	80%	N/A
Performance Measure: Corporate costs				
Corporate operating costs as a percentage of total Office costs	23%	Less than 25%	19%	Less than 25%

Certain 2002–2003 figures have been restated to conform to 2003–2004 presentation.

[1] Available time recorded by staff after deducting vacation and sick leave, and statutory holidays.
[2] Core business functions are the OAG's core businesses, and include professional development and other functions specifically related to OAG's core businesses.
[3] Conducted every 2 years. Last survey conducted in March, 2004. For purpose of comparison, the 2001–2002 survey result is shown under 2002–2003 Actual.

Committees and Agents

Standing Committee on Legislative Offices

Reports issued under section 19 of the *Auditor General Act* are tabled in the Legislative Assembly by the Chairman of the Standing Committee on Legislative Offices. Members of the Committee on May 4, 2004, the day the Assembly last adjourned were:

Janis Tarchuk, Chair	Denis Ducharme, Deputy Chair
Laurie Blakeman	Gary Friedel
Yvonne Fritz	Marlene Graham
Mark Hlady	Mary O'Neill
Raj Pannu	Kevin Taft
Don Tannas	

Public Accounts Committee

The Public Accounts Committee acts on behalf of the Members of the Assembly in examining the government's management and control of public resources. Our *Annual Report* and the ministry annual reports are used by the Committee in its examination of the use and control of public resources. The members are:

Hugh MacDonald, Chair	Shiraz Shariff, Deputy Chair
Cindy Ady	Laurie Blakeman
Dave Broda	Wayne Cao
Harvey Cenaiko	Alana Delong
Hector Goudreau	Drew Hutton
Mary Anne Jablonski	Thomas Lukaszuk
Richard Marz	Brian Mason
Gary Masyk	Luke Ouellette
Kevin Taft	

Audit Committee

Before being tabled, annual reports are made available to an Audit Committee in accordance with section 24 of the Act. The members of the Audit Committee as at the date of this report, all of whom were appointed by Order in Council, are:

Peter Watson, Chair	The Hon. Patricia Nelson
George Cornish	Franklin L. Kobie
Harry Schaefer	John Watson
Don Wilson	

Agents

The Auditor General's Office has continued the policy of utilizing the services of firms of private sector chartered accountants. These firms act as our agent under section 9 of the *Auditor General Act*, and their contributions in supplementing the staff resources of the Auditor General's Office are gratefully acknowledged. Agents acting in respect of the fiscal year ended March 31, 2004, were as follows:

BDO Dunwoody LLP
Clews & Shoemaker
Collins Barrow
Deloitte & Touche LLP
Ernst & Young LLP
Feddema & Company
Grant Thornton LLP
Gregory, Harriman & Associates
Hawkings Epp Dumont LLP
Heywood Holmes & Partners
Hudson & Company LLP
Johnston, Morrison, Hunter & Co. LLP
Joly, McCarthy & Dion
King & Company
KPMG LLP
Meyers Norris Penny LLP
PricewaterhouseCoopers LLP
Tien Rostad LLP
Young Parkyn McNab LLP

The employees of the Office of the Auditor General as of the date of this report, and students who worked over the summer or completed a co-op term, are:

Alishah Janmohamed
Alison Shi
Ann Roberts
Annie Shiu, CHRP
Arlene Sideroff
Audrey Hayward
Aynour Salama
Barb McEwen, BASc, MSc
Barbara Harasimiuk
Bob Ballachay, CA
Brad Ireland, CA
Brad Klaiber
Brad Weiland, CA
Bruce Laycock, LLB
Burt Koldewey, CMA
Carrie Lorenz, MCP
Cathy Ludwig, CA
Charlotte Barry
Cornell Dover, CA·IT/CISA
Cory Goodale, CMA
Curtis Mah
Cynthia Hyslop, MBA
Dale Borrmann, CHRP
Dan Balderston, CA
Darlene Orsten, CMA
Darrell Pidner, MBA
David Allan, CA
David Luu
Debbie Bryant
Deborah Herron
Debra Bereska
Donna Banasch, CMA, CA
Donna Chapman
Doug McKenzie, CA
Doug Wylie, CMA
Ed Ryan, CFE
Eric Leonty
Eric Wagner
Fred J. Dunn, FCA
Gina Fowler
Graeme Arklie, CA
Harmeet Kaur
Holly Opalinsky
Ian Sneddon, CA
Jackie DiLullo
Jane Staples, CA
Janine Mryglod, CA
Jason Song
Jeff Dumont, CA
Jeff Sittler, CA
Jeff Urbanowski
Jim Hug, CA
Jocelyn Doucette
John Margitich
Judyanna Yu
Karen Chan, CA
Karen Hunder, CA
Karen Schmidt
Karen Tran
Karim Pradhan, CA
Kathryn Pringle
Kathy Anderson
Ken Hoffman, CA
Kristy Heard
Levy Castillo
Linette Hawkins
Linus Lau
Lisa Kraut
Lisa Peterson, CHRP
Lori Trudgeon
Loulou Eng, CMA
Marcela Gagnon, CA
Mary-Jane Dawson, CA
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Michael Sendyk, CA
Michael Stratford, CA
Michelle Fleming, CA
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Nadia Potochniak, MCP, MCSE
Nisha Sachedina
Pablo Binas
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Patrick Doyle
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Peter Zuidhof, CGA
Phil Minnaar, CA
Rahim Murji
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Rattan Preet Bhullar
Robert Drotar, CA
Roger Elvina
Ronda White, CA
Rosina Rosales, CA
Rupert Cass, CA
Russel Lesyk, CMA
Salima Mawani, CA
Selina Bhanji
Shailen Patel
Shawn Dineen, MCP
Sherry Armstrong, CA
Shirley Yap
Stanko Magdic
Stephen Johnson, CA
Stu Orr
Sukh Johal, CA
Sunil Khurana
Tabreez Lila, CA
Tamara Loewen
Tammy Lunz, CMA
Tara Poole
Teresa Wong, CA
Theresa Politylo
Thomas Wong, CA
Tim Lamb, CA
Tina Hanson
Todd Wellington, CGA
Verde Pineda
Vivek Dharap, CA·IT/CISA
Wendy Popowich, CA
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Students
Benjamin So
Bertha Lau
Elisa Hung
Gail Lai, CA
Jennifer Yeung
Manfred Pade
Michael Chorley
Randy Yu
Sabeeh Faroqui
Susan Nyguen
Vincent Cheng
Violet En
Ying Kuang

Auditor General Act

Chapter A–46

Key sections

HER MAJESTY, by and with the advice and consent of the Legislative Assembly of Alberta, enacts as follows:

Auditor General as auditor

11 The Auditor General

(a) is the auditor of every ministry, department, regulated fund and Provincial agency, and

(b) may with the approval of the Select Standing Committee be appointed by a Crown-controlled organization or any other organization or body as the auditor of that Crown-controlled organization or other organization or body.

RSA 1980 cA-49 s12;1995 cG-5.5 s17; 2003 c2 s1(23)

Access to information

14(1) The Auditor General is at all reasonable times and for any purpose related to the exercise or performance of the Auditor General's powers and duties under this or any other Act entitled to access to the records of, and electronic data processing equipment owned or leased by

(a) a department, fund administrator or Provincial agency, or

(b) a Crown-controlled organization or other organization or body of which the Auditor General is the auditor.

(2) The following persons shall give to the Auditor General any information, records or explanations that the Auditor General considers necessary to enable the Auditor General to exercise or perform the Auditor General's powers and duties under this or any other Act:

(a) present or former public employees, public officials or personal service contractors;

(b) present or former employees, officers, directors or agents of a Crown-controlled organization or other organization or body of which the Auditor General is the auditor.

(3) The Auditor General may station any employee of the Office of the Auditor General in the offices of

(a) a department, fund administrator or Provincial agency, or

(b) a Crown-controlled organization or other organization or body of which the Auditor General is the auditor,

for the purpose of enabling the Auditor General to exercise or perform the Auditor General's powers and duties under this or any other Act more effectively, and the department, fund administrator, Provincial agency, Crown-controlled organization or other organization or body shall provide the necessary office accommodation for an employee so stationed.

(4) The Auditor General or an employee of the Office of the Auditor General who receives information from a person whose right to disclose that information is restricted by law, holds that information under the same restrictions respecting disclosure as governed the person from whom the information was obtained.

RSA 1980 cA-49 s15; 2003 c15 s5

Evidence under oath

14.1(1) In conducting an audit or examination or performing any other duty or function under this or any other Act, the Auditor General may by a notice require any person

(a) to attend before the Auditor General to give evidence under oath with respect to any matter related to the audit, examination or other duty or function, and

(b) to produce any records respecting the matter referred to in the notice.

(2) If a person fails or refuses to comply with a notice under subsection (1), the Court of Queen's Bench, on the application of the Auditor General, may issue a bench warrant requiring the person to attend before the Auditor General in compliance with the notice.

(3) If a witness refuses

(a) to give evidence in compliance with a notice under subsection (1),

(b) to answer any questions before the Auditor General pursuant to the notice, or

(c) to produce any records referred to in the notice, the Court of Queen's Bench, on the application of the Auditor General, may commit the witness for contempt.

(4) A person who is given a notice under subsection (1) shall not be excused from giving evidence or from producing records on the ground that the evidence or records might tend to incriminate the person or subject the person to a penalty or forfeiture.

(5) A witness who gives evidence or produces records pursuant to subsection (1) has the right not to have any incriminating evidence so given used to incriminate that witness in any other proceedings, except in a prosecution for or proceedings in respect of perjury or the giving of contradictory evidence.

2003 c15 s6

Reliance on auditor

16(1) In this section, "regional authority" means a board under the *School Act* or a regional health authority, subsidiary health corporation, community health council or provincial health board under the *Regional Health Authorities Act*.

(2) If the Auditor General is not the auditor of a regional authority, the person appointed as auditor

(a) must give the Auditor General, as soon as practicable after completing the audit of the regional authority, a copy of the person's findings and recommendations and a copy of the audited financial statements and all other audited information respecting the regional authority,

(b) may conduct such additional work at the direction and expense of the Auditor General as the Auditor General considers necessary, and

(c) must co-operate with the Auditor General when the Auditor General performs work for a report to the Legislative Assembly under section 19.

(3) A regional authority must give a person appointed as auditor of the regional authority any information the person requires for the purposes of subsection (2).

(4) If the Auditor General is not the auditor of a regional authority, the Auditor General may rely on the report and work of the person appointed as auditor.

1995 cG-5.5 s17

Special duties of Auditor General

17(1) The Auditor General shall perform such special duties as may be specified by the Assembly.

(2) The Auditor General shall perform such special duties as may be specified by the Executive Council, but only if those special duties do not conflict with or impair the exercise or performance of any of the Auditor General's powers and duties under this or any other Act.

(3) The Auditor General shall present any report prepared by the Auditor General under subsection (1) to the chair of the Select Standing Committee, who shall lay the report before the Assembly forthwith if it is then sitting or, if it is not sitting, within 15 days after the commencement of the next sitting.

(4) The Auditor General shall present any report prepared by the Auditor General under subsection (2) to the President of the Executive Council and afterwards the Auditor General may, on 3 days' notice to the Speaker of the Assembly, deliver copies of the report to the Speaker, who shall forthwith distribute the copies to the office of each Member of the Assembly.

(5) After the Speaker has distributed copies of the report under subsection (4), the Auditor General may make the report public.

(6) Despite subsection (4), if there is no Speaker or if the Speaker is absent from Alberta, the Auditor General may give the notice under subsection (4) to the Clerk of the Assembly, who shall comply with subsection (4) as if the Clerk were the Speaker.

RSA 1980 cA-49 s17; 2003 c15 s7

Annual report on financial statements

18(1) After the end of each fiscal year of the Crown, the Auditor General shall report to the Assembly on the financial statements of the Crown for that fiscal year.

(2) A report of the Auditor General under subsection (1) shall

(a) include a statement as to whether, in the Auditor General's opinion, the financial statements present fairly the financial position, results of operations and changes in financial position of the Crown in accordance with the disclosed accounting principles,

(b) when the report contains a reservation of opinion by the Auditor General, state the Auditor General's reasons for that reservation and indicate the effect of any deficiency on the financial statements, and

(c) include any other comments related to the Auditor General's audit of the financial statements that the Auditor General considers appropriate.

RSA 1980 cA-49 s18;1995 c23 s3

Annual report of Auditor General

19(1) After the end of a fiscal year of the Crown, the Auditor General shall report to the Legislative Assembly

(a) on the work of the Office of the Auditor General, and

(b) on whether, in carrying on the work of that Office, the Auditor General received all the information, reports and explanations the Auditor General required.

(2) A report of the Auditor General under subsection (1) shall include the results of the Auditor General's examinations of the organizations of which the Auditor General is the auditor, giving details of any reservation of opinion made in an audit report, and shall call attention to every case in which the Auditor General has observed that

(a) collections of public money

(i) have not been effected as required under the various Acts and regulations, directives or orders under those Acts,

(ii) have not been fully accounted for, or

(iii) have not been properly reflected in the accounts,

(b) disbursements of public money

(i) have not been made in accordance with the authority of a supply vote or relevant Act,

(ii) have not complied with regulations, directives or orders applicable to those disbursements, or

(iii) have not been properly reflected in the accounts,

(c) assets acquired, administered or otherwise held have not been adequately safeguarded or accounted for,

(d) accounting systems and management control systems, including those systems designed to ensure economy and efficiency, that relate to revenue, disbursements, the preservation or use of assets or the determination of liabilities were not in existence, were inadequate or had not been complied with, or

(e) when appropriate and reasonable procedures could have been used to measure and report on the effectiveness of programs, those procedures were either not established or not being complied with,

and shall call attention to any other case that the Auditor General considers should be brought to the notice of the Assembly.

(3) In a report under subsection (1), the Auditor General may

(a) comment on the financial statements of the Crown, Provincial agencies, Crown-controlled organizations or any other organization or body of which the Auditor General is the auditor on any matter contained in them and on

(i) the accounting policies employed, and

(ii) whether the substance of any significant underlying financial matter that has come to the Auditor General's attention is adequately disclosed,

(b) include summarized information and the financial statements of an organization on which the Auditor General is reporting or summaries of those financial statements, and

(c) comment on the suitability of the form of the estimates as a basis for controlling disbursements for the fiscal year under review.

(4) After the end of a fiscal year of the Crown, the Auditor General shall report to the Legislative Assembly on the results of the examinations of the regional authorities referred to in section 16.

(5) A report under this section shall be presented by the Auditor General to the chair of the Select Standing Committee who shall lay the report before the Assembly forthwith if it is then sitting or, if it is not sitting, within 15 days after the commencement of the next sitting.

(6) The Auditor General need not report on deficiencies in systems or procedures otherwise subject to report under subsection (2)(d) or (e) which, in the Auditor General's opinion, have been or are being rectified.

RSA 1980 cA-49 s19;1995 cG-5.5 s17;1996 cA-27.01 s22

Special reports

20(1) The Auditor General may prepare a special report to the Assembly on any matter of importance or urgency that, in the Auditor General's opinion, should not be deferred until the presentation of the Auditor General's annual report under section 19.

(2) A report under this section must be presented by the Auditor General to the chair of the Select Standing Committee who shall lay the report before the Assembly forthwith if it is then sitting or, if it is not sitting, within 15 days after the commencement of the next sitting.

RSA 1980 cA-49 s20

Assembly not sitting

20.1(1) When the Assembly is not sitting and the Auditor General considers it important that a report presented to the chair of the Select Standing Committee under section 17(3), 19(5) or 20(2) be made available to the Members of the Assembly and to the public, the Auditor General may, on 3 days' notice to the Speaker of the Assembly, deliver copies of the report to the Speaker, who shall forthwith distribute the copies to the office of each Member of the Assembly.

(2) After the Speaker has distributed copies of the report under subsection (1), the Auditor General may make the report public.

(3) Despite subsection (1), if there is no Speaker or if the Speaker is absent from Alberta, the Auditor General may give the notice under subsection (1) to the Clerk of the Assembly, who shall comply with subsection (1) as if the Clerk were the Speaker.

(4) Nothing in this section dispenses with the requirement of the chair of the Select Standing Committee to lay a report before the Assembly pursuant to section 17(3), 19(5) or 20(2).

2003 c15 s8

Report after examination

28 The Auditor General shall as soon as practicable advise the appropriate officers or employees of a department, Provincial agency or Crown-controlled organization of any matter discovered in the Auditor General's examinations that, in the opinion of the Auditor General, is material to the operation of the department, Provincial agency or Crown-controlled organization, and shall as soon as practicable advise the Minister of Finance of any of those matters that, in the opinion of the Auditor General, are material to the exercise or performance of the Minister of Finance's powers and duties.

RSA 1980 cA-49 s28; 2003 c15 s9

Advice on organization, systems, etc.

29 The Auditor General may, at the request of a department, Provincial agency or Crown-controlled organization or any other organization or body of which the Auditor General is the auditor, provide advice relating to the organization, systems and proposed course of action of the department, Provincial agency or Crown-controlled or other organization or body.

RSA 1980 cA-49 s29

Reference

Glossary

This glossary explains key accounting terms and concepts in this report.

Accountability

Responsibility for the consequences of actions. In this report, *accountability* requires ministries, departments and other entities to:

- report their results (what they spent and what they achieved) and compare them to their goals
- explain any differences between their goals and results

Government accountability allows Albertans to decide whether the government is doing a good job. They can compare the costs and benefits of government action: what it spends, what it tries to do (goals), and what it actually does (results).

Accountability system

A system designed to ensure that the government is accountable for how it spends public money. The system requires the government to:

1. set measurable goals and responsibilities
2. plan the work to achieve the goals
3. do the work and monitor progress
4. report on results
5. evaluate results and provide feedback to refine or adjust plans

Accrual basis of accounting

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

Adverse auditor's opinion

An auditor's opinion that financial statements are not presented fairly and are not reliable.

Amortize

To reduce an amount of money to zero over a certain time.

Assurance

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

Attest work, attest audit

Work an auditor does to express an opinion on the reliability of financial statements.

Audit

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

Auditor

A person who examines systems and financial information.

Auditor's opinion

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

Auditor's report

An auditor's written communication on the results of an audit.

Capital asset

A long-term asset.

Capitalize

To charge an expense to a capital asset account rather than an expense account.

Capital planning	A process to: • identify the short- and long-term capital assets needed to carry out core businesses • rank capital projects • prepare business cases to support capital projects • determine the cost and method of financing capital projects
COBIT	Abbreviation for "Control Objectives for Information and Related Technology". COBIT was developed by the Information Systems Audit and Control Foundation and the IT Governance Institute. COBIT provides good practices for managing IT processes to meet the needs of enterprise management. It bridges the gaps between business risks, technical issues, control needs, and performance measurement requirements.
Core business	The essential thing that a ministry does.
Corporate government accounting policy	An accounting policy that the Ministry of Finance requires ministries and departments to use in preparing their financial statements. Accounting policies include both the specific accounting principles an organization uses and the ways it applies the principles.
Criteria	Reasonable and attainable standards of performance that auditors use to assess systems.
Cross-ministry	The section of this report covering systems and problems that affect several ministries or the whole government.
Crown	The Government of Alberta.
Deferred maintenance	Any maintenance work not performed when it should be. Maintenance work should be performed when necessary to ensure capital assets provide acceptable service over their expected lives.
Disclosed basis of accounting	Principles of accounting that differ from generally accepted accounting principles (GAAP); organizations use a disclosed basis of accounting whey they think that GAAP is not appropriate – when they do so, they identify (or disclose) that fact in their report.
Exception	Something that does not meet the criteria it should meet—see "Auditor's opinion".
Expense	The cost of a thing over a specific time.
GAAP	Abbreviation for "generally accepted accounting principles", which are established by the Canadian Institute of Chartered Accountants.
Governance	A process and structure that brings together capable people and relevant information to achieve goals. Governance defines an organization's accountability systems and ensures the effective use of public resources.
IMAGIS	Abbreviation for the government's Integrated Management Information System – a customized version of *PeopleSoft*. It is the main computer program that ministries use for financial and human resource information systems.
Internal audit	A group of auditors within a ministry (or an organization) that assesses and reports on the adequacy of the ministry's internal controls. The group reports its findings directly to the deputy minister. Internal auditors need an unrestricted scope to examine business strategies; internal control systems; compliance with policies, procedures, and legislation; economical and efficient use of resources; and the

effectiveness of operations.

Internal control A system designed to provide reasonable assurance that an organization will achieve its goals. Management is responsible for an effective internal control system in an organization, and the organization's governing body should ensure that the control system operates as intended. A control system is effective when the governing body and management have reasonable assurance that:

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

Management letter Our letter to the management of an entity that we have audited. In the letter, we explain:

1. our work
2. our findings
3. our recommendation of what the entity should improve and how it should do so
4. the risks if the entity does not implement the recommendation

We also ask the entity to explain specifically how and when it will implement the recommendation.

Material, materiality Something important to decision-makers.

Misstatement A misrepresentation of financial information due to mistake, fraud, or other irregularities.

Net realizable value Estimated selling price in the ordinary course of business minus estimated costs of completion and sale.

Outcomes The results an organization tries to achieve based on its goals.

Outputs The goods and services an organization actually delivers to achieve outcomes. They show "how much" or "how many".

Performance measure Indicator of progress in achieving a goal.

Performance target The desired level for a performance measure.

Public sector accounting standards Accounting principles, similar to GAAP, which apply to the public sector; established by the Public Sector Accounting Board.

Public sector comparator A benchmark to assess the value for money of two different ways of constructing facilities and providing services: by traditional government methods and by a public-private partnership. The private sector partner may design, build, finance, operate, maintain, and own the facility. In a traditional government model, the government would do all these things. Public sector comparators are typically used in long-term and construction projects.

Qualified auditor's opinion An auditor's opinion that things audited meet the criteria that apply to them, except for one or more specific areas – which cause the qualification.

Recommendation A solution we—the Office of the Auditor General of Alberta—propose to improve the use of public resources or to improve performance reporting to Albertans.

Reservation of opinion A generic term for an adverse auditor's opinion or a qualified auditor's opinion.

Risk Anything that impairs an organization's ability to achieve its goals.

Risk management	Identifying and then minimizing or eliminating risk and its effects.
Section 5900	Section 5900 of the Handbook of the Canadian Institute of Chartered Accountants identifies what an auditor should consider before expressing an opinion on the design, existence, effective operation, and continuity of control procedures at a service organization. Section 5900 is not specific to service providers of information technology. It does not list specific criteria and principles an auditor must verify. Accordingly, the scope of an auditor's review under section 5900 will vary, depending on which control objectives and procedures a service organization asks the auditor to review.
Shadow bid	A bid on a significant project that is a benchmark to ensure that the bids of eligible suppliers are reasonable. A project owner pays an expert to make a shadow bid estimating a reasonable amount for the project. By making the shadow bid, the expert becomes ineligible to bid on the project. A shadow bid is particularly important if there are no competing bids on a project.
Sole source contract	An agreement with just one supplier chosen without a competitive bidding process.
Specified auditing procedures	Actions an auditor performs to check certain qualities, such as reliability, of reported information that management asks the auditor to check. Specified auditing procedures are not extensive enough to allow the auditor to express an opinion on the information.
Systems (management)	A set of interrelated management control processes designed to achieve goals economically and efficiently.
Systems (accounting)	A set of interrelated accounting control processes for revenue, spending, the preservation or use of assets, and the determination of liabilities.
Systems audit	To help improve the use of public resources, we audit and recommend improvements to systems designed to ensure value for money.

Paragraphs (d) and (e) of subsection 19(2) of the *Auditor General Act* require us to report every case in which we observe that:

- an accounting system or management control system, including those designed to ensure economy and efficiency, was not in existence, or was inadequate or not complied with, or
- appropriate and reasonable procedures to measure and report on the effectiveness of programs were not established or complied with.

To meet this requirement, we do *systems audits*. First, we develop criteria (the standards) that a system or procedure should meet. We always discuss our proposed criteria with management and try to gain their agreement to them. Then we do our work to gather audit evidence.

Next, we match our evidence to the criteria. If the audit evidence matches all the criteria, we conclude the system or procedure is operating properly. But if the evidence doesn't match all the criteria, we have an audit finding that leads us to recommend what the ministry must do to ensure that the system or procedure will meet all the criteria.

For example, if we have 5 criteria and a system meets 3 of them, the 2 unmet criteria lead to the recommendation.

A *systems audit* should not be confused with assessing systems with a view to relying on them in an audit of financial statements.

SysTrust, SysTrust review	An assurance standard for assessing the reliability of an information system. SysTrust guidance includes five essential principles: security, availability, processing integrity, online privacy, and confidentiality. It identifies specific criteria for each principle. The Canadian Institute of Chartered Accountants and the American Institute of Certified Public Accountants jointly developed SysTrust.
Unqualified auditor's opinion	An auditor's opinion that things audited meet the criteria that apply to them.
Value for money	The concept underlying a systems audit is *value for money*. It is the "bottom line" for the public sector, analogous to profit in the private sector. The greater the value added by a government program, the more effective it is. The fewer resources that are used to create that value, the more economical or efficient the program is. "Value" in this context means the impact that the program is intended to achieve or promote on conditions such as public health, highway safety, crime, or farm incomes. To help improve the use of public resources, we audit and recommend improvements to systems designed to ensure value for money.

Other resources

The Canadian Institute of Chartered Accountants (CICA) produces a useful book called, *Terminology for Accountants*. They can be contacted at CICA, 277 Wellington Street West, Toronto, Ontario, Canada M5V 3H2 or www.cica.ca.