

Treasury Board and Finance

SUMMARY

DEPARTMENT

There are no new recommendations to the Department of Treasury Board and Finance in this report.

The department has implemented our recommendation related to disclosure of termination benefits paid—see below.

ALBERTA GAMING AND LIQUOR COMMISSION

There are no new recommendations to the Alberta Gaming and Liquor Commission in this report.

ALBERTA INVESTMENT MANAGEMENT CORPORATION

There are no new recommendations to the Alberta Investment Management Corporation in this report.

The Alberta Investment Management Corporation has implemented our recommendations related to valuing life settlement investments and client financial reporting requirements—see page 150.

ATB FINANCIAL

There are no new recommendations to ATB Financial in this report.

FINDINGS AND RECOMMENDATIONS

DEPARTMENT

Matters from prior audits

Disclosure of termination benefits paid—implemented

BACKGROUND

In 2009¹ we recommended that the Department of Treasury Board and Finance increase transparency of executive termination benefits expenses by adopting disclosure practices for Alberta public agencies.

OUR AUDIT FINDINGS

The department has implemented our recommendation by revising its guidance to Alberta public agencies on disclosure of executive termination benefits in their financial statements. We have reviewed the guidance and found that it now requires disclosure of executive termination benefits.

¹ *Report of the Auditor General of Alberta—October 2009, no. 2, page 29.*

ALBERTA INVESTMENT MANAGEMENT CORPORATION

Matters from prior audits

Valuing investments in life settlements—implemented

BACKGROUND

In 2014² we recommended that AIMCo ensure that its Statement of Investment Principles and Practices is applied when valuing and accounting for its life settlement investments. The initial value that AIMCo reported for a given life settlement was not the price AIMCo paid for it. Instead, the value was generated by a valuation model. At the time of purchase, the investments were recorded at an amount higher than the purchase price, therefore overvaluing the investment.

In December 2014³ AIMCo modified its method of valuing life settlements. In 2015 we reported that the new method was reasonable but that AIMCo should have a method to update its discount rates with changes in the market. AIMCo also needed to update the underwriting on a portion of its policies.

OUR AUDIT FINDINGS

AIMCo has implemented our recommendation by:

- updating its discount rate used in its valuations by engaging a data provider to value a sample of policies based on recent market data
- completing the underwriting for most of its policies and extrapolating the results to the remaining policies

We tested AIMCo's updated method to value the investments and concluded that it was reasonable.

Identify client financial reporting requirements—implemented

BACKGROUND

In 2010⁴ we recommended that AIMCo identify financial reporting requirements in its investment management agreements with clients and meet with clients to understand their financial accounting requirements and the investment related information they need to prepare financial statements.

OUR AUDIT FINDINGS

AIMCo has implemented our recommendation by meeting with clients periodically to discuss financial reporting needs and performing quarterly reviews of upcoming changes to accounting standards.

OUTSTANDING RECOMMENDATIONS

DEPARTMENT

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

Chief executive officer: Guidance—October 2008, no. 1, p. 27

We recommend that the deputy minister of the Department of Treasury Board and Finance, through the Agency Governance Secretariat, assist agencies and departments by providing guidance in the areas of chief executive officer selection, evaluation and compensation.

² *Report of the Auditor General of Alberta—October 2014*, no. 25, page 199.

³ *Report of the Auditor General of Alberta—October 2015*, page 158.

⁴ *Report of the Auditor General of Alberta—October 2010*, no. 17, page 156.

Chief executive officer: Accountability—October 2008, no. 2, p. 29

We recommend that the Agency Governance Secretariat, on behalf of ministers, annually obtain information from agencies on chief executive officer evaluation and compensation processes to assess if good practices are being consistently followed. The results of these systems assessments should be reported to ministers, who should then hold boards of directors accountable for their decisions.

Chief executive officer compensation disclosure—October 2008, no. 3, p. 32

We recommend that the Department of Treasury Board and Finance consider applying the new private-sector compensation disclosure requirement to the Alberta public sector.

Public agencies: Executive compensation practices—October 2009, no. 1, p. 23

We recommend that the deputy minister of the Department of Treasury Board and Finance, through the Agency Governance Secretariat, assist public agencies and departments by providing guidance on executive compensation practices for all public agency senior executives.

Improve ministry annual report processes—July 2012, no. 10, p. 65

We recommend that the Department of Treasury Board and Finance work with ministries to improve annual report:

- preparation processes for identifying significant performance measure variances and developing explanations for these variances for reporting
- approval processes, including senior management sign off of a summary of the year's performance measure variances and significant variance assessments

Improve performance measure reporting guidance and standards—July 2012, no. 11, p. 67

We recommend that the Department of Treasury Board and Finance improve its guidance for:

- performance measure target setting
- variance identification
- significant performance measure variance assessments and annual report explanation development
- preparing the results analysis

Policies designed to achieve plan objectives—February 2014, no. 1, p. 24

We recommend that the Department of Treasury Board and Finance set standards for the public sector pension plan boards to establish funding and benefit policies with:

- tolerances for the cost and funding components
- alignment between plan objectives and benefit, investment and funding policies
- pre-defined responses when tolerances are exceeded or objectives are not met

Risk management system—February 2014, no. 2, p. 26

We recommend that the Department of Treasury Board and Finance establish an Alberta public sector pension plan risk management system to support the minister in fulfilling his responsibilities for those plans.

Sustainability support processes—February 2014, no. 3, p. 28

We recommend that the Department of Treasury Board and Finance:

- validate the objectives for the pension plan sustainability review with stakeholders
- evaluate and report on how each proposed change meets the objectives for the review
- cost and stress test all proposed changes to assess the likely and possible future impacts on Alberta's public sector pension plans
- conduct or obtain further analysis of the impact of proposed pension plan design changes on employee attraction and retention
- prepare a detailed implementation plan for the changes

Results analysis reporting: Guidance, training and monitoring needed—July 2014, no. 1, p. 18

We recommend that the Department of Treasury Board and Finance, working with the Deputy Ministers' Council, improve:

- the guidance and training for ministry management to identify, analyze and report on results in ministry annual reports
- processes to monitor ministry compliance with results analysis reporting standards

Collection of outstanding corporate taxes: Maintain policies and train staff

—October 2014, no. 6, p. 51

We recommend that the Department of Treasury Board and Finance:

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

Enterprise risk management systems—October 2014, no. 22, p. 194

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

Compliance systems for unfiled corporate income tax returns—October 2015, no. 17, p. 156

We recommend that the Department of Treasury Board and Finance improve its compliance systems to deal with unfiled corporate income tax returns.

Evaluate cash management for efficiency and economy—February 2016, no. 8, p. 77

We recommend that the Department of Treasury Board and Finance:

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

Develop policies to prevent early payment of grants and an accumulation of large cash balances

—February 2016, no. 9, p. 79

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

Implement and use information technology to manage cash—February 2016, no. 10, p. 82

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

Use leading banking and related practices and evaluate cost benefits of bank accounts

—February 2016, no. 11, p. 85

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

Improve policies for payments—February 2016, no. 12, p. 86

We recommend that the Department of Treasury Board and Finance:

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

Management has identified these recommendations as implemented—to be confirmed with follow-up audits:

Oversight of premier's office expenses and use of government aircraft—August 2014, no. 1, p. 19

We recommend that the Treasury Board:

- establish a process to provide oversight through monitoring of the Office of the Premier's expenses and usage of government aircraft
- consider what type of oversight should be used for the expenses of ministers' offices

Collection of outstanding corporate taxes: Develop internal and external performance measures and targets—October 2014, no. 7, p. 52

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

Collection of outstanding corporate taxes: Improve management information and analyze data periodically—October 2014, no. 8, p. 54

We recommend that the Department of Treasury Board and Finance:

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

Improve access controls over the tax and revenue administration systems

—October 2014, no. 23, p. 195

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

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

Corporate tax refunds—October 2014, no. 24, p. 197

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

ATB FINANCIAL

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

Payment card industry—October 2012, no. 31, p. 149

We recommend that ATB Financial put in place processes to monitor its compliance with the Payment Card Industry's requirements.

Borrower risk ratings—October 2013, no. 14, p. 158

We recommend that ATB Financial fix the borrower risk ratings in the banking system.

Service auditor reports—October 2014, no. 26, p. 202 (originally October 2009, p. 227)

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

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