

8:30 a.m.

Wednesday, October 13, 1993

[Chairman: Mrs. Abdurahman]

MADAM CHAIRMAN: I'd like to call us to order, please. Could I have a motion for approval of the agenda as circulated? Moved by Mike Percy. Any discussion? If not, I'll call the question. All in favour?

HON. MEMBERS: Agreed.

MADAM CHAIRMAN: Any nays? It's carried unanimously.

Approval of the minutes of the October 6, 1993, committee meeting as circulated. Could I have a motion to accept them as circulated?

MR. VASSEUR: I so move.

MADAM CHAIRMAN: It's moved by Leo Vasseur. Any errors or omissions? If not, agreed?

HON. MEMBERS: Agreed.

MADAM CHAIRMAN: Any nays? It's carried unanimously.

I'd like now to once again welcome Mr. Salmon, our Auditor General, with two of his staff members that we have all met previously, Mr. Saher and Mr. Wingate.

At this time, before we proceed, has everyone got a coffee? Danny.

MR. DALLA-LONGA: I have a question. October 27 doesn't have any departments slotted in there. Is there a reason for that?

MADAM CHAIRMAN: Can we deal with that under Other Business, please?

MR. DALLA-LONGA: Okay.

MADAM CHAIRMAN: Mr. Salmon, would you wish to proceed with some opening remarks?

MR. SALMON: Madam Chairman, I was going to make a comment on the one item that we didn't answer last time, but the member isn't here. Do you want to wait to see if she's going to be here?

MADAM CHAIRMAN: Well, it would be more appropriate, if you don't mind doing that.

MR. SALMON: Sure. That's fine. We'll just wait. When she's here, we can make that comment. Otherwise, I'm open to whatever you'd like to do. Just open up for questions.

MADAM CHAIRMAN: Who wants to lead off with the first question? Too early in the morning is it? Harry?

MR. SOHAL: We're just talking.

MADAM CHAIRMAN: You're just speaking?
Debby Carlson.

MS CARLSON: I don't recall from the last date, but did we ever agree that the question was asked and answered that management letters should be available to the Public Accounts Committee?

MR. SALMON: I believe, Madam Chairman, that was where Danny was cut off twice.

MADAM CHAIRMAN: That's right, and I was going to carry over the list. So do you wish to add anything further to that question?

MR. SALMON: Well, if that's a question, I'll answer it.

MADAM CHAIRMAN: Do you wish to continue with your questions? Do you want to start with an original question and go into your two supplementaries?

MR. DALLA-LONGA: Sure.

MADAM CHAIRMAN: You have the floor.

MR. DALLA-LONGA: I guess just to understand what you do produce. You have your regular working papers, and you've got your 28 or 30 recommendations in the Auditor General's report. Would it be fair to say that you probably have a lot more recommendations in the course of each department and that these recommendations that are published are sort of the overall summary or the most important ones, the ones that you view to be most important?

MR. SALMON: Yes, definitely. That's the process that we follow. The ones that we include as the shaded recommendations are the more significant ones. The other comments that are in the annual report, recommendations that are not numbered and shaded, are those that are more directed to management, and we felt that they were not of significance. To put a hundred recommendations in an annual report would be almost too much. We sort of gear it down to provide an indication to the Assembly the work of the office. Those things that are not included in the report are recommendations of a more minor nature that in many instances management has already attended to subsequent to our audit. It's my decision to not include some of those things. Again, volume-wise it would become horrendous. If you were to have the chance to see our management letters, recognizing the number of audits that we do in a year, if you stacked them up, they could be like this. So, you know, you're dealing with a lot of paper that isn't necessarily of significance to the Assembly.

We feel that there has to be a process which is allowed by the Act to provide to the Assembly a report that would give a good cross overview of the work that the office has done as well as an indication of the more serious recommendations that we've made, and that's the basis on which we determine it. We have a process that we go through. It's not simple, but we have to work it down to the point where we feel like that's the report we're going to show.

MR. DALLA-LONGA: Well, I can assure you that since taking on this job, paper doesn't scare me anymore.

I think I might know the answer to this question, but maybe for purposes of clarification: what types of recommendations, comments would you be making in your management letters? What areas would you be covering, that sort of thing?

MR. SALMON: Other than what you see here?

MR. DALLA-LONGA: Yeah. Would there be any other areas? Let me put it that way.

MR. SALMON: No. I think we would have a fairly good cross section of things within the report itself that would also be in other letters. We would not leave out anything that would, say, be of very keen interest to the Assembly; we wouldn't leave that out. Many times it's internal control weaknesses. Some areas of systems where they've come along and made the improvements before we come to print time we will not necessarily include if we feel it's not that significant. I think our reports over the years have pretty well been a cross section of the kinds of things that we've come up with.

MR. DALLA-LONGA: Okay. Just to move into something a little bit more specific. Could you maybe describe to the members here your process for auditing the loan provision adjustment, loan loss reserve account or whatever it's called, and how you go about arriving at the figure, agreeing to the figure that's given to you?

MR. SALMON: In each case?

MR. DALLA-LONGA: Well, just on a general basis.

MR. SALMON: On a general basis. I think if one were to examine – by the way, I would like to mention just one thing. The Auditor General Act in section 27 states that the working papers of the . . . Auditor General shall not be tabled in the . . . Assembly or before a Committee of the Legislative Assembly.

MR. DALLA-LONGA: I'm aware of that.

MR. SALMON: So it's there, and therefore it gives a responsibility onto the Auditor General to provide his public report.

Back to the provision process. I believe that in reading the report anyone would recognize that we operate somewhat like a professional accounting firm in that we follow the generally accepted auditing standards and go through all processes in relationship to the recommendations of the CICA. In fact, we're very careful in that regard. Merwan here is a professional practice man who does some internal prereview within our own shop as well to ensure that we're staying on the straight.

As far as the provisions are concerned, it's just one of those processes that are followed in determining the full aspect of what management has come up with in the way of provisions and us then examining the transactions until we're satisfied, whether it be in the Treasury Branches or whether it be in one of the other areas that has fairly significant loans and does require extensive work in relationship to the provisions. As we work through the process, we work up the ladder if we're having resistance. Most of the time, particularly in the last number of years, we have found very excellent co-operation with management of any of the organizations dealing with provisions, where they have listened to us as well as provide the information that we've requested. We've come to an agreement where we feel satisfied that we can give a clean opinion based on the amount of the provision. It is something that we have been very satisfied with otherwise we would either stall the audit or threaten a reservation or whatever else, as any auditor does in such a process.

I don't know whether you want to add anything, Andrew. I didn't want to get into the specifics of any one.

MR. WINGATE: Well, no. I think that covers our general process certainly.

MR. DALLA-LONGA: Thank you.

MADAM CHAIRMAN: Ty Lund.

8:40

MR. LUND: Thank you, Madam Chairman. Recommendation 28 out of the Auditor General's annual report talks about the Department of Family and Social Services encourage caseworkers to ensure that Assured Income for the Severely Handicapped clients' shelter costs and asset levels are recorded correctly for cost-sharing purposes.

I certainly would concur that that would be desirable. You use the word "ensure", and it's my understanding that social services does not have the ability to force clients to either give their income and/or their assets. So I'm wondering how this could be accomplished.

MR. SALMON: Well, I admit that the word "ensure" is maybe a little bit strong. As you read this particular recommendation, there's the difference between the worker actually asking the question, which the client doesn't necessarily have to answer, and the many times there are indications that they've never asked the question. Probably in many of those cases they could have that answer and then be able to include those costs within the claims themselves. We recognize there's that problem, and it would be nice to get the whole thing resolved so that it was a little bit more straightforward as to what should be in claims to the federal government. Certainly in our examination there were some things that they could have done, and that's why we were encouraging them to have the caseworkers strive to actually get that information so that that could be included, because it definitely is a cost-sharing item.

MR. LUND: In your answer to me you've commented on things that could be done. Would you elaborate on that, please, to see if there's some way that we can accomplish this?

MR. SALMON: Well, I think one of the things in dealing with these clients, as they call them – I don't particularly like that word – in dealing with those that are involved in receiving the assistance, and getting the information that's necessary for cost sharing is that the agreements often have very strict eligibility criteria on what can be included. If they know what it is that these individuals have in the way of assets and living arrangements and so forth, it gives them a better indication of what they can include. Many times when they don't do that, it just can't be included because they have no proof. If they stepped this up, they could probably recover additional dollars. They recognize that. It's not something where we're sort of going against the grain, you might say. They recognized that when we were dealing with it last year, and our present auditors will be examining what they've done in relationship to this in the current year.

A lot of these things are not simple solutions. There are processes that are complicated and sometimes not easy to deal with because of the magnitude of the clientele that they deal with as well. We felt that some encouragement to the caseworkers to actually ask the questions would help. There had not been indications of examination of files. They really weren't stressing that very much. They really didn't care whether they did it or not, because they were dealing with the clientele rather than worrying about the cost sharing, which is probably right as well.

MR. LUND: Yeah, I understand the dilemma that they're in.

I guess I also have a little concern that if in fact the caseworkers go on that kind of a fishing expedition yet do not let the clientele know that they don't have to answer those questions, we may run

into some problems. So I'm wondering if you would be recommending that there be some legislation changed. I still don't have a comfort level that this can be accomplished.

MR. SALMON: Madam Chairman, if this can't be resolved as we go back to see them – and I don't know the results of the current audit; it's probably done by now, but that'll come together as we finalize things in the next month or so – yes, I think it would be better if they went back to the federal government and worked out something that would be a lot less complicated and difficult to administer. That definitely is the route they should go.

MR. LUND: Thank you.

DR. PERCY: A general question. In some instances as departments have downsized and they have bought workers out with the early retirement package, we'll see that the expenditures of certain departments have been reduced. On the other hand, we know that to perform some of those functions then, what they do is they effectively contract out. In some instances the firms to whom they're contracting out have hired some of the former employees. It's one step removed, so it's not violating the nature of the contract, I think, of the package. The issue I want to raise is this. Last session we talked about efficiency audits, and you said: well, reality is that we don't have to do them; all we have to do is define management goals and that would be sufficient, and we could work within the systems. When something comes up like this, when a government department has contracted out and it appears that the value of that contract exceeds what it would have been had they done it in-house, how would that show up, then, in a systems analysis? Would you comment on that shift in structure? Would it show up?

MR. SALMON: Madam Chairman, first of all, one has to recognize that some of this is fairly new. There was some downsizing in '92-93, because we had some people leave as well under that, and then of course there was more in the current year. In our systems work there's no reason why we are not examining – and certainly we will be examining those contract arrangements and looking at exactly what they're achieving by doing that and also what the costs are. There's no reason why that shouldn't also show up in relationship to the costing of that department.

If you're asking whether or not we would go so far as to say whether or not it was more costly than it would be under government, that would depend on how much work it would entail or whether or not management in their process – again, back to what we recommended last year – were to set their benchmarks and determine the ways in which they could determine whether it's sufficient. They themselves should be providing to the Legislature and to the public via the Legislature whether or not they've achieved what they set out to do. That certainly should indicate in each case whether or not they've achieved less cost than how they had done it before. Maybe there's more to it than just cost. Maybe even the service is better. Those things should come out in relationship to that versus what we also do in our systems work.

DR. PERCY: A supplemental. It strikes me that if you allow your task to be defined by management objectives, that is certainly a weaker approach than in fact having the ability to do efficiency audits if you see fit to do so. There's quite a difference, I think, in terms of the degree of autonomy that you have.

MR. SALMON: Well, I think one of the things you have to recognize, Madam Chairman, is that if management doesn't do

their job and the Auditor does his job, it's going to show up very clearly quickly that the work hasn't been done and that it's inefficient. I think that it's a combination of the two things. I'm not talking about management by objectives or anything like that. I'm talking about the actual business of the manager determining whether or not he's achieved what he set out to do originally and reporting on that, which in many cases hasn't been done and should be. Certainly an indication across Canada is that this is the thinking that is going on professionally. We certainly will follow along on those same lines if we can encourage the government to do so as well as still do our work with respect to the systems work that we can do under our Act.

MADAM CHAIRMAN: Your last supplemental.

DR. PERCY: Are we enforcing the rules that supplementals have to be tied directly to the initial question?

MADAM CHAIRMAN: Yes; that was the motion.

DR. PERCY: Okay. The third point, then, is with regard to business plans. Will you assess really the efficiency or the realism of these business plans? Because it's easy to design sort of an open-ended business plan that gives you a lot of flexibility with regards to goals. So will you, then, in the context of assessing the performance benchmarks ask whether or not this is the best benchmark that could have been chosen, or will you just in effect take the benchmark that the department sets for itself as given?

8:50

MR. SALMON: Certainly, Madam Chairman, the three-year plans, which are brand new and which management in some cases has provided a copy to us, not because we are in the development or design of these but for information for purposes of audit, will be examined in relationship to that, to what they're deciding to do, and also developing or auditing work in relationship to some of the things that are indicated in there where we see concerns. Those results of the work that we do will be included in our annual reports, and I think over time we'll begin to see whether or not those plans are reasonable. It's a new thing, so I can't really comment on whether or not I think they're good or not at this stage, but certainly it's a good and a positive step.

MR. WINGATE: If we thought that benchmarks were inappropriate, that would be an issue as far as our office was concerned. We'd stop performing audit work to come up with more appropriate benchmarks in our opinion, and we'd make direct recommendations if we concluded that there were more appropriate benchmarks. I think our posture is that if there's any issue concerning economy, efficiency, effectiveness, and systems that we spot as auditors relating to one of our clients, then we will mount an audit to see whether there's room for making sensible recommendations to improve the situation.

Having said that, obviously it's primarily management's job to assess their own effectiveness in delivering their programs. We tried to get away from the suggestion that it's the auditor's job to assess the effectiveness of government programs, because clearly it shouldn't be the auditor's job; it should be management's job. The auditor comes along to verify that what management is doing appears sensible and that there aren't better ways of doing things, which is what our role is. I think some confusion has built up in respect of our perception of management's role and our perception of our own role. I hope that clarifies it.

MADAM CHAIRMAN: Thank you, Mr. Wingate.
Barry McFarland.

MR. McFARLAND: Thank you, Madam Chairman. I appreciate your iron-fisted ruling on the Edmonton-Whitemud supplementary. It made me feel at home, when vomitoxin was ruled out of order the other day. When you don't know that it's weather related, well, what the heck can you expect; right? You still don't know what vomitoxin is.

MADAM CHAIRMAN: I'll take those comments in the spirit that they were given.

MR. McFARLAND: My question this morning to the Auditor General, sir, is on recommendation 38, page 123. You talk about the rates that are charged by hospitals to noneligible patients for certain procedures. You and I would know that open-heart surgery isn't done in Picture Butte, Alberta, but at the same time I just wondered, since your recommendation 38 had been put out, if the Department of Health has provided you with any explanation as to why these high-cost procedures were classified under a lower rate structure.

MR. SALMON: Madam Chairman, definitely the department in this last year when we met with them – and this is a repeat recommendation from a previous year – were much more serious about the possibility of trying to resolve this concern that we had raised. I cannot comment on what they've done since that time, but certainly it will be included in our next report, which we hope to have done soon.

MR. WINGATE: I think when we originally made this recommendation, there was some doubt on the part of the department as to whether this was a significant point. I think in repeating the recommendation there's a growing awareness by the department that this is indeed a problem and deserves action. So they are taking it very much more seriously than perhaps they did initially.

MR. McFARLAND: Thank you. Madam Chairman, the supplementary. Although open-heart surgery, as you quoted in your example, may not be a common procedure in many rural hospitals, I do believe there are still a number of out-of-province patients that come in. I don't think anyone wants to get sick or have to be treated, but is there any method that the department can use to obtain the information to clarify the difference between a going rate, if you want to call it that, for a certain procedure versus the actual cost of providing that level of care or that procedure for people like out-of-province patients?

MR. SALMON: Yes, we believe there is. The department certainly has indicated to us that they felt there were ways and means of doing it. Of course, in any of these you must come up with what's cost-effective and make sure that you're not creating a regime that's just not effective to recover the dollars. Certainly when you recognize these that we do – and Alberta has had a lot of non-eligible patients coming in for treatment – it's a case of examining what would be a practical way to approach it all. I don't expect this to be a full repeat this coming year. I expect there'll be at least some improvements or a change in the way they'll approach this whole problem.

MR. McFARLAND: I guess that pretty much takes care of my final supplementary, Auditor General, on whether or not any

progress is being made on reporting those discrepancies, if you want to call it that.

MR. SALMON: All of the recommendations we have here are treated in that light, in that we must comment on whether or not they've fully improved and we can now drop the recommendation, or it's partly done and we'll still continue part of it, or we have to repeat if they've done nothing. That's the basis on which we approach it every year.

MR. McFARLAND: Thank you.

MS CARLSON: Just a clarification from our last meeting, as well. Are the nonrecorded capital assets that are going to be brought into the consolidated statements going to be brought in at cost?

MR. SALMON: That hasn't really been determined, I believe, because Treasury, even as indicated last week, said that it's under advisement and they're considering. We have not got to any point of discussion with them as to what would be done. Certainly it's open, I think, as to the approach they'll take on those assets. Of course, as Auditor, if I don't like their approach I will certainly do the best I can to ensure that the method will be an acceptable one and one which can be audited, because you can't really include on financial statements matters that can't really be verified by audit procedures. We'll have to be sure that that's properly done.

MR. WINGATE: If the assets were introduced into the consolidated financial statements, they would be at written-down value; in other words, having amortized from original cost. Your question was: would they be based on original cost? Yes, it would be based on original cost, but after charging amortization. As the Auditor General says, the jury is out on whether those assets are going to be bought in, and as we say in our report, it's a complicated matter. There are certain elements of it which are simple, but there are some big questions which will probably take some time to resolve. So no decision has been made as yet.

MS CARLSON: Do you have any preliminary recommendations for what types of assets should and shouldn't be included?

9:00

MR. SALMON: The matter of what would be included or not be included has been discussed in a general sense with Treasury. There was an indication last week in this committee meeting from the Treasurer that the matter of recording of assets in the public sector was under review by the public-sector accounting and auditing board of the CICA. I'm very much aware of where they're approaching their resolution of this whole matter, because at least some of their approach is based on previous studies that have been made for the CICA. There was a study in the '80s with respect to physical assets. That particular study included a review of the types of assets that could be recorded that had been studied in the United States as well as in the U.K. This has been a world concern in the public sector, so there's a lot of material for them to sort out.

I think in the case of Alberta we recognize that there are some very specific assets. Especially, as we talked about before, where you have physical assets or capital assets from colleges and hospitals that are owned by the province, they could presently be there because they're on their own balance sheets right now. They could be in the consolidated. The fact is that the province a number of years ago had fully maintained the cost of their

buildings and so forth but haven't kept it up in the sense of ensuring that they had the full value. They'd have to do considerable work to come up with those types of assets in the province because the province hasn't recorded them on any balance sheet for years, if ever. It was mostly a memo account back 20 or 30 years ago. So there's considerable work to be done there.

We would encourage that particular asset to be recorded as quickly as they could, so that when the consolidation of the provincially owned hospitals and the educational institutions are included, you can keep those assets on the consolidated balance sheet. But it wouldn't be fair to put some on and not the others, and then you get piecemeal things.

MR. WINGATE: The point to be made here is that when you consolidate the universities, colleges, and technical institutes, it's much more meaningful to have a line-by-line consolidation. In other words, revenues are recorded as revenues and expenditures as expenditures, but because of this capital asset conundrum, it's likely that they'll be consolidated on the equity basis, which is less meaningful to the average reader. The average reader won't see the significance of the transactions passing through universities, technical institutes, and colleges, and their substance is large. I mean, they are very large organizations. The theory is that it would be much more meaningful if the gross figures were available to the reader of the public accounts.

MADAM CHAIRMAN: A further supplementary?

MS CARLSON: Yes. If those transfers are in fact made, will your department be giving an opinion on the process by which it was done?

MR. SALMON: Madam Chairman, we have to give an opinion on the financial statements themselves. Therefore, you automatically have to ensure that your figures are adequate, and therefore it would be picked up by that particular opinion.

MADAM CHAIRMAN: Thank you.
David Coutts.

MR. COUTTS: Thank you, Madam Chairman. Sir, recommendation 40, page 125:

Department of Health – Verification of patient registration.

It is recommended that the Department of Health establish a system that hospitals can use to verify whether patients are registered under the Alberta Health Care Insurance Plan.

Is the current method of verification costing us money that we could be putting elsewhere?

MR. SALMON: I guess the way I could answer this is that – let's go back; it might not be quite the answer you're looking for. We're asking that hospitals verify whether the patients are registered now. The present process in hospitals in Alberta is that if someone comes in for treatment, they will treat them. I think that's probably proper, because if people need treatment, that's what they should get. When it comes to recovering the costs of that treatment for the purposes of the hospital, there is a process. In other words, the department knows who's registered under the health care plan, but the hospitals don't have access to that information. On page 125 we've indicated that "the Department has not yet decided to provide hospitals with access to this information." Therefore, we're saying: well, lookit; how are you going to ever know whether or not the hospitals are going to

recover their costs if they don't know whether they're eligible to be billed under the health care?

So it's kind of a two-way thing here, and we're encouraging the department to provide the opportunity for the hospitals to have access to the information. Again, it's one of these recommendations – here we are into the past even in the present. It's a bit old, because I can't really tell you the results of the current situation. We will take care of this recommendation on the basis of what our auditors have found in the current year. So I don't know really what the department has done about it other than that they indicated to us last year when we put the recommendation in that, yes, this makes sense, but we're not sure whether we really want to do it.

MR. COUTTS: I guess, then, that this would be somewhat hypothetical: would the potential cost of establishing a communication network, as you mention here in your report, for verifying this information be more than what we could save in the future?

MR. SALMON: I don't think so; otherwise, we would be quite concerned with suggesting that they try to find out whether or not these patients are properly registered. We think the recovery would be much greater, and because the department has the information, we don't think it would be that difficult to provide a method whereby the hospitals could have access. Again, it's time and all the rest of it that goes with that discussion with the department people.

MR. COUTTS: Thank you very much.

MADAM CHAIRMAN: A final supplementary, David? Thank you.

MS HANSON: This is in regards, sir, to page 104, recommendation 29.

It is recommended that the Department of Family and Social Services review the operations of its child welfare Quality Improvement Branch in an effort to seek cost-effective and timely ways of achieving the Branch's objectives.

In reading that section, I was interested to see that many of the comments that you make in recommendations are the same or similar to the Children's Advocate report that came out on August 12 this year. I wondered if you could tell me if the department began to implement, to respond to any of your recommendations, because they're pretty broad ranging.

MR. SALMON: Yes, Madam Chairman, this was broad ranging. However, in doing the systems work that we were looking at, we recognized that there were some things that the department could improve upon. They also recognized that the branch that's been designed to check on their quality processes was probably not as efficient as it could be and probably even lacked some people. The department accepted the recommendations as we went through them. Management led a process as well, knowing that it was going in the annual report. They accepted the recommendation and acknowledged that the child welfare system was presently under review, and of course that's what that latest report is. So we weren't really trying to get into the specifics of it. We don't feel that's really the role of the Auditor General, but we recognized that they had systems in place and the processes were not as efficient as they should be. We were just comparing those two things.

So yes, certainly as far as the current year, again in view of that report as well as the co-operation that management has indicated

to us, we'll be making some comments about these recommendations in our new report.

MS HANSON: Okay. I'm not just sure of the extent of your audit or the detail. Was there any indication that some of the reason for this noncompliance was lack of staffing, do you know?

MR. SALMON: Well, that was one indication where they said there were some staff shortages. It's not always the magnitude of the department's operations; it was not always maybe covering that aspect as they had planned to or hoped to be able to do. It was one indication of a problem, but again, there may be other ways in which they can solve the problem as well. So that was what they were considering, and knowing that the study was on, they didn't want to comment further.

9:10

MS HANSON: Thank you very much. No supplemental.

MADAM CHAIRMAN: The next question, Pearl Calahasen.

MS CALAHASEN: Thank you, Madam Chairman. To the Auditor General. On page 94, recommendation 25, you recommended that the ERCB should

improve control over its capital assets by verifying the existence and location of such assets, and accurately updating [their assets under] the asset register.

If you don't think that the ERCB has sufficient control over its capital assets, how do you think the board should deal with the problem to increase their control?

MR. SALMON: I think we repeated this recommendation, Madam Chairman, based on the fact that no change had taken place within the board over the current year. It was included in the previous year as well. Because the board operates autonomously and has maintained some control over their physical assets and because of the nature of the amount, when our auditors were in there to test to verify the location, et cetera, of some particular assets, they were having difficulty, particularly in the computer area, where you would think that it would be fairly easy to control. They hadn't been able to locate some of the computer equipment listed in their physical assets. The board had not maintained tag numbers on particular assets that they did see, so they couldn't relate the two. We gave a management letter again to encourage them, had a meeting with them in the exit conference, and because there hadn't been progress, we included it.

We do expect, because of the nature of these assets, that something has been done in the current year, yet I again can't indicate to you exactly what it is until we get through our report period.

MS CALAHASEN: So until we get any kind of report in this next year, we won't know what has occurred?

MR. SALMON: Right. We'll include that in our next report and a full explanation of what's happened to date.

MS CALAHASEN: So maybe we'll be able to get something out of it.

MR. SALMON: Hopefully.

MS CALAHASEN: Thanks.

MADAM CHAIRMAN: Thank you, Pearl.

MR. VASSEUR: In Public Accounts 1992-93, volume 3, page 2.70, note 4: those are notes receivable on a NovAtel issue. On May 29, 1992, there are nonperforming receivables of \$189 million, and at the end of December, eight months later, that amount is very similar. I'm just wondering: what are the assets behind those nonperforming notes receivable?

MR. SALMON: I'm going to let Andrew answer the question in detail.

MR. WINGATE: I don't know that we know the assets backing those nonperforming loans. We just know that the payments on those loans are not being made at their due dates; hence they're classified as nonperforming. In assessing the adequacy of the provision, we'd have to take into account the asset backing for those loans, as you've correctly indicated. I haven't got a figure off the cuff for the assets represented by those nonperforming loans or backing those nonperforming loans, but I can tell you that the provision for losses on notes we are comfortable with. In other words, we think that the provision is adequate, and as a result we were able to sign the Auditor's report.

MR. VASSEUR: So in that period of time of eight months, the allowance has only changed from \$84 to \$88 million, and you feel that's sufficient to cover what's going to be nonperforming?

MR. WINGATE: Yes, we do.

MADAM CHAIRMAN: Do you have a supplementary?

MR. VASSEUR: Well, you basically also answered the last question at the same time here. We just find it strange that over a period of eight months the provision for loss wasn't increased.

MADAM CHAIRMAN: Moving to Ty Lund.

MR. LUND: Thanks, Madam Chairman. In dealing with the revolving fund of Alberta Transportation – and this is recommendation 45 on page 152 – you make the comment that

it is recommended that the Department of Transportation and Utilities determine whether the Transportation Revolving Fund meets the Department's needs for the procurement of supplies and materials.

Reading the information leading up to it, I find that you have found that they in fact use the revolving fund and other means of obtaining materials from the same supplier. Are you recommending, then, that this practice be stopped and that it only be from using the revolving fund? Exactly what are you getting at with this recommendation?

MR. SALMON: Madam Chairman, in this particular recommendation, because of the very fact that they were not utilizing fully the revolving fund in all cases in purchases made by the department, it seems to me that some consideration needs to be made as to whether or not the value of the revolving fund is there. Interestingly enough, revolving funds were established many years ago and have operated very well for the purpose for which they were designed: to separate this sort of overall supplies and to get them at a good cost and to try to establish a basis for handling this kind of thing.

I think really what happened is that the department has sort of recognized that maybe there was a ways and means of dealing directly and maybe doing it for less money. Because this is one

MR. SALMON: Well, the audit work that we would do in relationship to the non provincial hospitals would be in relationship to the costs that are incurred by the province; in other words, the grants, the basis on which they give those grants, the costing that's included within the Department of Health, and what you can see in the public accounts, on which we have to give an opinion.

MR. DALLA-LONGA: Well, I guess if I could just go back: are you familiar with the process that these non provincial hospitals utilize in having their audits done?

MR. SALMON: Yes. We've had some discussions in relationship to the processes that are followed, and there are some things that probably the department could do. I think you'd indicated there are some weaknesses in some of those audits done by people that maybe are not necessarily as qualified as they should be. I don't want to get into that. That's not really directly involved. We could only talk about the systems that the department has in place and work with the department itself. I have a particular man who looks after that whole area and has quite close dealings with the department in relationship to what's going on with their expenditures.

MR. DALLA-LONGA: Okay. Thank you.

MADAM CHAIRMAN: Thank you, Mr. Salmon.
Hung Pham.

MR. PHAM: Thank you, Madam Chairman. Mr. Auditor General, on page 23, recommendation 9, regarding the Workers' Compensation Board liability for claims you recommend that the Workers' Compensation Board fully analyze the annual change in the liability for claims to more effectively manage assessment revenue and the accumulated deficit.

I wonder: has there been any progress in this area? Have we adopted your recommendations yet?

MR. SALMON: I can indicate that following the annual audit last year and the recommendations that we had included in that particular audit, we had some fairly positive reaction from officials of the Workers' Compensation Board including the new people were very interested in coming and visiting with the Auditor General. I had a meeting in my own office, and they indicated to me that they were going to do everything they could to resolve this. We also indicated, in completing the annual report, that they had begun to analyze the annual change in the liability. We had felt that if they really did analyze it, they would have a better handle on how to manage where those costs were coming from. Indications are that there has been some progress. Again I must indicate that the nature of the results of that process that's taken place in this last year will be included in the coming Auditor General's report. They've been very co-operative and wanted to be sure that they were heading in the right direction and have had several meetings with our staff.

MR. PHAM: Thank you.

Also, you have indicated in there that the liability has grown substantially over the past five years. When you did your auditing, I assume that you must have done some comparison with other provinces. How is this rate of growth compared to the other provinces'? Is that reasonable to you?

MR. SALMON: Comment? Go ahead.

MR. WINGATE: Yes. Other provinces' liabilities are also growing very rapidly. Ontario's liability is extremely large and

growing very rapidly. So I think our experience is similar to the experience of other workers' compensation boards.

MR. SALMON: The Alberta board is very conscious and very cognizant of what's happening in other boards, and they are fairly close to the results of their audits as well. There have been some substantial comparisons and some examinations to just be aware. Of course, they're more concerned with how to resolve their own, but they are very much aware of what's happening elsewhere as well.

MR. PHAM: Thank you.

My last supplementary question is: if we are going to implement your recommendation 9, what do you think would be the cost for the Alberta government?

MR. SALMON: I really couldn't answer that, Madam Chairman. I don't know the costs to the government. All I know is that there is a concern with the growing liability, and the board has indicated that they want to do everything they can to resolve it. Now, whether that means recognition of a different fee base or whatever else, that's certainly a policy matter. We are here just to identify ways and means with which we can help them to analyze and to resolve the problem.

MR. WINGATE: The actuaries are aware of the reasons for the growth in the liability, but there's a communication gap between the knowledge of the actuaries and the knowledge of management of WCB. That's essentially the point we're making. Our feeling is that if that information gap was closed, management would be as aware as the actuaries of the cause and effect, the causal relationships for the deficit increasing. Armed with that knowledge they could then manage the cost side of the equation more accurately. If on the other hand they couldn't do much about the cost, then the logical thing for them to do would be to increase the premiums charged for those workers who are subject to these special risks. So it's really a question of getting the information out of the actuaries' heads and into the heads of senior management in certain areas. It's not across the board; it's just certain specific areas.

So I think the work is done by the actuaries, and the cost of closing that information gap is obviously not large. What the cost of the subsequent steps is going to be can't be speculated at this juncture, but the whole idea is to save cost and reduce the increase in the deficit.

MADAM CHAIRMAN: Thank you.
Debby Carlson, please.

MS CARLSON: Thank you. On page 146 of your report, with regard to the Recreation, Parks and Wildlife Foundation, they've been in contravention of their Act since the 1987-88 annual report with regard to the paying out of traveling expenses, subsistence, and remuneration for their members. My question is: what other recourse do you have if they don't comply with your recommendation?

MR. SALMON: I have no recourse other than to tell the Public Accounts Committee that they ought to push to have the legislation changed if that's the process by which they're going to operate. It's a straight compliance issue. They are not in accordance with their authority, and they know that. There have been indications every year that they're going to change the legislation. I don't know, but it just hasn't got to the top of the

list. So we have continued to repeat the recommendation because they haven't made the change. Public Accounts could make the recommendation to ensure that it's cleared up so that we don't have to keep repeating it. Because it's in noncompliance, we can't really just leave it out and forget it.

9:40

MS CARLSON: Okay.

In that same department with the Alberta Wildlife Park Foundation, you reserved an opinion there for two reasons, one of them being – that's page 147 – that the management there would not provide you with "signed representations concerning the accuracy and completeness of the financial statements." Can you explain to us what kinds of problems you encountered there?

MR. SALMON: Well, without going into the details on this one, the reason it's mentioned in the annual report is because there was a reservation. The interesting thing about this was that the province really owned the foundation only for about six months. This was kind of an in and out. It was kind of a mess. As a result of that, there was no way that we could give a clean opinion. They were out of it after this audit, and we really just did an audit to the point where it was taken over by the other organization that took the foundation over. This is basically a weakness in scope. They just wouldn't refuse it because the people involved at the time were new, and they wouldn't take any responsibility for the past. That's their protection for not signing, so we just had no choice but to make a reservation.

MADAM CHAIRMAN: Final supplementary.

MS CARLSON: Yeah. You also made a recommendation on page 146 with regard to this department about not leaving signed cheques. Has that been complied with now?

MR. SALMON: Yes, as far we know. Again, I can't remember the specific reply to the management letter other than that we felt that it was – you notice we haven't numbered the recommendation. It's kind of a dumb thing. It's a poor control to have recognized that for expediency you sign a cheque, and then let everybody have a totally open book to do whatever they wanted with the cheques. We didn't have anything wrong; it was just that it was a poor process. That's why we haven't numbered the recommendation. On the basis of our exchange of letters we expect we won't have found that in the current year.

MADAM CHAIRMAN: Thank you.

Barry McFarland.

MR. McFARLAND: Thank you. On page 150, recommendation 44, Auditor General, you're talking about gravel reserves. I know from past experience that there's a number of municipalities and the government as well who might take advantage of a particular pit knowing that it may not be cost-effective to have a crusher come back in because the surplus that's remaining in the pit isn't worth the while to move the crusher back in. So they may in fact do 50,000 yards instead of 40,000. Have there been any notations to your office to actually explain that this is why we've seemingly overcrushed in certain areas?

MR. SALMON: I think that's a good question, Madam Chairman. I don't get too excited about this other than the fact that they just couldn't identify – again, they've just done it and they have the excess. They didn't need all of the gravel they had, and again

maybe over years and years you use it anyway, so maybe it's cost-effective to do it that way. We were more interested in whether or not they felt satisfied within their own processes that they weren't extending the gravel beyond reason and spending more money than they needed to in a particular year. They have indicated to us that they think they have a handle on it. They're telling us that really we do have a handle on it. They're a little concerned that we actually put it in here, but it had been around long enough. Gravel has periodically come up as a matter in our annual reports. We've had difficulty with the verification of the gravel over the years. It hasn't been an easy thing to get a handle on. So I'm expecting that this probably is okay for now.

MR. McFARLAND: Just a supplementary, Madam Chairman. In terms of the fact that it's a nonrenewable resource, I can see the justification to go into an area and stockpile. I just wondered if the department had made you aware of a later trend the last couple of years where local municipalities and the government themselves are cost sharing in a lot of the projects. So if you've got a base course in a project that the local municipality has as a priority for year 1 or 2 up the road, they may well have stockpiled their gravel for that project, even though it's one, two, or three years up the road.

MR. SALMON: Well, I'd certainly agree with that. In this particular case, in examining the system, I think it was just a case of they really hadn't laid out the processes for identifying that they were satisfied with how they were handling it.

MADAM CHAIRMAN: A point of order, please. To the gallery: if anyone has a camera, you're not allowed to use it within the Legislative Assembly. So please, no flashes.

Sorry, Mr. Salmon.

MR. SALMON: That's okay.

Have you got another question? I just have to ask her something.

MR. McFARLAND: No, go ahead.

MR. SALMON: Can I have just a moment before the end to put into the transcript the answer to one of last week's? She's not here, but it'll be there for reading.

MADAM CHAIRMAN: Did you have a further supplementary?

MR. McFARLAND: No thanks, Madam Chairman.

Thank you, Auditor General.

MADAM CHAIRMAN: I'd like at this time to welcome our visitors in the gallery and explain to you that we are in Public Accounts Committee. It is a committee of the Legislative Assembly. We are 21 in number, which includes the chair, myself. This morning we have before us the Auditor General, Mr. Salmon, and his staff, and we are asking questions in relationship to the Auditor's report. I welcome you to the Legislative Assembly of Alberta. Thank you.

Is it a point of order?

MRS. BURGNER: Madam Chairman, it's a follow-up to the issue that Mr. McFarland raised.

MADAM CHAIRMAN: I'm afraid I'd have to take your name in the order, Jocelyn. Thank you.

Mike Percy.

DR. PERCY: Yes. I'd like to follow up with Mr. Salmon some of the questions that Mr. Dalla-Longa was asking with regard to the audits that are connected with our grant programs. Since a large share of provincial expenditures are in fact grants to health, to education, is it correct to say that with Bill 5 that has been passed and the recommendations in there for financial scrutiny, you will now be in a position to put in place consistent audit requirements to ensure — because the term "compliance" to me suggests, then, a consistent set of audit requirements that meet your concerns about the efficiency with which these services are being provided by these funded institutions, whether it's in health care, education, or postsecondary education.

MR. SALMON: Madam Chairman, I believe that I would answer that question by saying that this provides the government to establish . . .

MADAM CHAIRMAN: Excuse me; I have to interrupt you, Mr. Salmon. I apologize to everyone, but I have to request that no photographs are allowed in the Legislative Assembly. Also, if you could please take a seat to fit in with the rules of the House. Thank you very much.

Mr. Salmon, would you like to continue.

MR. SALMON: I believe the changes in the Financial Administration Act will allow the government to establish directives, guidelines, or anything else for the institutions, both hospitals as well as educational areas, as they see fit. I think certainly the idea is that the recommendations of the Auditor General would be taken into consideration in developing some of those directives. I think it gives the government more positive power, you might say, to issue directives to those boards and expect that they would be followed, whereas prior to this change the autonomy has sort of been left there and no specific directives have been given in that light. I do think it provides that opportunity.

DR. PERCY: So in this sense the directives that you refer to are compliance with financial regulations. Would you then, in your discussions with a department such as Health, set out clearly what the nature of those directives would be from the perspective of the Auditor General wanting to assess the efficiency with which provincial funds are being used?

9:50

MR. SALMON: I have input into the things that I'm concerned about, but I'm the Auditor. They have input as to what they want to establish in the way of policy, and they can establish that policy. As long as I can feel that they are taking into consideration the concerns that I have raised or will raise, then I am satisfied. I don't question the policy itself, but I do question whether or not the recommendations that I make to improve the operations and to provide for greater efficiency are taken into account.

DR. PERCY: My final supplemental would be: what are the core recommendations, then, that you have made in this regard, with regards to the nature of the directives or the type of compliance you would like to see by these institutions?

MR. SALMON: Well, it goes back to the discussions that my staff have had with respect to completing the audits in those areas.

As we have come to the conclusions that we've made or the recommendations that we've made in the annual report, particularly with respect to efficiency and effectiveness in recommendation 5 particularly, there's a lot of background to that one and a lot of work that needs to be done in the future to establish the things that we have given that recommendation for. Some of those discussions have taken place; others haven't yet, and it's a case of timing as to whether or not we can get progress made. Certainly in the current annual report of the Auditor General we will indicate the progress that's been made to this point.

Now, from my understanding, I believe the change in the Financial Administration Act is twofold. There are things that are on the agenda of the government that I'm not a part of, and there are also things that they recognize which I have suggested that would improve things if they would provide for that. I don't wish to get into the salary restraint issue, but I did not write that letter on the basis of any agenda on the part of the government. That letter was from me, to include within the annual report that's coming up. How they chose to use that is their prerogative, because the release of a management letter by myself was never done publicly. But if the government chose to do it or a minister chose to do it, they can do that. I have no control over that. So I think the future will indicate which way we're going on this.

MADAM CHAIRMAN: Thank you, Mr. Salmon.

Because of the hour, I'd like at this time to ask you if you'd read into the record the question that was asked by Yvonne Fritz at our last Public Accounts meeting, please.

MR. SALMON: Thank you, Madam Chairman. Last week a member of the committee asked a question about the supplies and services that were provided by the Alberta Children's hospital to the Alberta children's research centre: what were the services that were provided? This is indicated in the annual report of the Auditor General. We didn't have the answer specifically, but it is that the Children's hospital provides services and supplies to the centre. These services and supplies include facilities management and maintenance, banking, computer services, accounting, payroll services, et cetera. These costs are incurred by the hospital, and the hospital should be reimbursed for these costs for the staff time and supplies that are used by the centre. The recommendation indicates that the full costs incurred by the hospital have not been recovered. We recognize that this is basically a non arm's-length relationship, but at the same time we feel that the proper costs should be included within each organization. That's what those supplies and services were.

MADAM CHAIRMAN: Thank you, Mr. Salmon.

I'd like, if there's agreement, to do the agenda items that are still outstanding. If by any chance we have a couple of minutes, we could have one more question.

The first item is the Standing Committee on Public Accounts calendar. You should have before you dates from October 20 to November 17. For your information, October 27 is being held open right now because we're anxiously awaiting confirmation from the Hon. Ken Kowalski. He's not able to take that date, so what we were hoping was that we could accommodate him possibly November 10th or 17th, as those are still tentative dates. If by any chance we cannot fill October 27 because there's not an opportunity to move one of the other departments, what we would like is an alternative. So we're looking for one other department that you would like to move at this time as an alternative. What are the wishes of the members of Public Accounts?

Gary.

MR. FRIEDEL: Madam Chairman, I was of the impression that we were leaving it to Corinne to arrange available suitable dates.

MADAM CHAIRMAN: That's correct, and I'm reflecting what Corinne is asking me to ask you. She has for the past number of days tried to get confirmation from the Hon. Ken Kowalski. As yet we have not had any response as to an alternative date, and she doesn't want to be caught with not knowing what the wishes of the Public Accounts members are if indeed we cannot accommodate Mr. Kowalski's schedule. So what we're looking for, Gary, is one other alternative, and hopefully we won't have to utilize that.

MR. FRIEDEL: Does that mean that we're going to start setting up the appointments then?

MADAM CHAIRMAN: We have actually set up four appointments, but there was an understanding through Corinne with the appointment secretaries that if the ministers of Education or Health could accommodate the Hon. Ken Kowalski's schedule, they would be prepared to do that. But we need some dates from him. Ty and then Sine.

MR. LUND: Thank you, Madam Chairman. I thought that we had agreed at the last meeting that these decisions would be made between the chair and the vice-chair.

MRS. ABDURAHMAN: That is correct, but I think it's only right that we as a subcommittee ask the members whom out of the other government departments you want as a sixth alternative. We didn't get as far as that; we took five names of government departments. But if you wish to defer that decision to myself and Gary, I'm certainly comfortable with it.

MR. LUND: Well, the problem I have with it is that we can make the suggestion, but if that minister's not available, then it still falls back on you. From my point of view, it would certainly be more efficient if we would have the chair and the vice-chair make that decision.

MRS. ABDURAHMAN: Agreed?
Gary.

MR. FRIEDEL: That was the point I was making, that we could sit here and haggle for half an hour and suggest six names, and if all six of those are not available, we're just wasting our time. You and I had agreed that we would let Corinne contact the various ministers to see who would be available on certain dates, and we would slot them in accordingly. I think all we're doing is speculating, if we're going to add names to the list. We don't know if they're going to be available.

MRS. ABDURAHMAN: What I'm asking as chairman is if you, with myself, are agreeable that we can direct Corinne as to which other government department. Is that agreed?

MR. FRIEDEL: Yes.

HON. MEMBERS: Agreed.

MADAM CHAIRMAN: Okay. Thank you.

Date of the next meeting. I should bring to your attention that there has been Parliamentary Reform Committee called for the

same time. Some members serve on both, so we will see some members not being able to be in attendance.

MR. CHADI: Excuse me, Madam Chairman. I did have my hand up.

MADAM CHAIRMAN: I apologize.

MR. CHADI: Okay. Thank you. I was just going to ask you if you'd entertain a motion to that. It makes sense that if the Hon. Ken Kowalski cannot attend on the 27th, you perhaps get an indication, you and the deputy chair, as to whom we'd like to see.

MADAM CHAIRMAN: I'd certainly entertain a motion.

MR. CHADI: I would move that we call on the Minister of Economic Development and Tourism. It's a rather large department, and there's a lot going on in it. I would hope that both you . . .

MADAM CHAIRMAN: Sine, that is the minister we were talking about. That is Ken Kowalski, and he has been invited.

MR. CHADI: Oh, I'm sorry. Okay. I'm sorry; I was reading something else. Can I just rephrase that? I'm going to move that we call upon Municipal Affairs and the Hon. Steve West. That's the one where there's a lot going on. We're talking about privatization; we're talking about a lot of different areas here. I think it's important that we bring him onside.

10:00

MRS. ABDURAHMAN: Pearl and then Ty.

MS CALAHASEN: Madam Chairman, thanks very much. Even though I think that it's important to look at Municipal Affairs, an idea that we might entertain is going down the list. Then those who can come can make it, and then we can make sure we go through them as quickly as we can. I think what we're doing is sort of hit and miss. It would really be nice if we could go in alphabetical order, and then we can go through every single one of the ministers. This way, you know, it's whoever is going to be brought up rather than looking at it in an organized fashion.

MRS. ABDURAHMAN: We have a motion on the floor.
Ty.

MR. LUND: Thank you, Madam Chairman. I thought we had just agreed that we were going to in fact have the chair and the vice-chair, and if you're going to accept a motion, I want to speak to it and speak to the comments that the mover made. We are dealing with the public accounts of what has happened, not what is currently happening. His comments about dealing with the privatization of the department: that's a current issue, and we're not dealing with that. We are dealing with the public accounts of '92-93. Furthermore, the clock has run out.

MRS. ABDURAHMAN: Is there any further debate? If not, I'll call the question. All in favour? Against?

MS CALAHASEN: On which motion?

MRS. ABDURAHMAN: On the motion that was before us. There was no other motion.

MR. CHADI: I moved that we bring Municipal Affairs -- not bring Municipal Affairs, but that indeed the chairman and the vice-chair deal with that, simply because you've already got dates scheduled for the others.

MRS. ABDURAHMAN: Excuse me, but you've changed your motion.

MR. CHADI: I haven't changed. I'm just making a comment.

MRS. ABDURAHMAN: I'll call the question once again. All in favour of the motion? Against? The motion is lost.

We stand adjourned.

[The committee adjourned at 10:02 a.m.]

