

[Mr. White in the chair]

THE CHAIRMAN: Ladies and gentlemen, I would like to call the meeting to order and welcome all back after the long absence. You have an agenda that was circulated. Might we have a motion to approve that agenda? Is it agreed? It's carried.

At the beginning of every session, you look around and see a lot of old hands here that recognize what the authority is, but we must go through the formalities. The authority this committee operates under is Standing Order 50, and it really outlines just that which we're to do, to review the Auditor General's annual report, and that's what we intend to do.

Now let's see. We have a committee budget attached. The budget was approved by the Members' Services Committee on December 16 of last year, and it is provided for your information. If there are no comments or questions on the matter, we'll move on.

You will notice there's no provision for out-of-session committee meetings, which means there's no budget to pay members to attend or pay their expenses to attend. You're not paid to attend; that's the effect. There will also be funding for the year 2000, as we do annually, for the Canadian Council of Public Accounts Committees and a conference to be held in Halifax. Funding was granted by the Members' Services Committee for three attendees, which is pretty standard. That's the way it has been for the last four years, I believe. We do have the privilege of sending other members from – Ms Olsen, what was the committee that you attended from last year?

MS OLSEN: The Public Accounts meeting in . . .

THE CHAIRMAN: Public Accounts? No, the committee that sent you to that meeting was . . .

MS OLSEN: Oh, Legislative Offices.

THE CHAIRMAN: Legislative Offices; right. So oftentimes this committee is represented by more than just the chair and the deputy chair, and we had good attendance last year.

We need approval of the report that's tabled. Let's see. Approval of Standing Committee on Public Accounts Report on Third Session of the 24th Legislature. So in order for your chairman to table the report in the Legislature, we need the approval of that report. I do believe the draft has been circulated. Might we have a motion to that effect? Denis. Is it agreed? It's carried.

The organizational meetings. You will note that prior to this date we've circulated at least once a suggested list of attendees or invitees from Executive Council to attend our meetings and present a brief statement and answer questions on their respective portfolios. You will recognize – I needn't go over it again – that the scope of the questions must relate to the report that is before us and not a policy that may or may not be followed in the future or present but policy related to that particular set of public accounts. We're all aware of that. The questions will be again – unless there's some motion to change it, the standard is one question and one supplementary question alternating from opposition to government and government to opposition.

Any questions about this? Yes, Dr. Pannu.

DR. PANNU: Mr. Chairman, I noticed the schedule of meetings for the spring of this year includes two superministries in it with the reorganization of government last year. The Ministry of Learning, for example, now represents two major previous ministries in it, and similarly the Ministry of Resource Development is a much larger unit now than it was previous to the reorganization. I had made a suggestion at the last meeting that perhaps we as a committee should

consider allocating more than one day for examining the accounts for the superministries, and I wonder what the committee's disposition is on that issue. I would certainly be happy to move that we do that.

THE CHAIRMAN: Well, the chair would prefer you do not because it's difficult to schedule the time of ministers. The secretary has a great deal of difficulty scheduling. We've asked the Premier and the Treasurer to set time aside. The Premier – it does not appear as though he wishes to attend because of his schedule. It appears that the Treasurer is rather busy over the next three weeks and expects thereafter to be able to. The ministries that you mentioned – I don't think we've dealt with the Ministry of Resource Development, but the Minister of Learning will be coming.

MRS. DACYSHYN: Resource Development's on the schedule.

THE CHAIRMAN: Yes, but not for two meetings.

This session being a long session, we may schedule a second one at your suggestion, and we'll have to deal with the ministries. But to have a motion to that effect imposes that restriction on the chair and the secretary to be more than just diligent in trying to schedule those meetings. We end up being an annoyance to the ministries. It's difficult for them of course, but we shall do the best we can. If you want some further discussion on the matter, perhaps we could have a little chat afterwards and fill you in.

Further to this matter, Ms Olsen?

MS OLSEN: Further to this. I think Dr. Pannu has brought up an important issue. With the development of superministries there's far more to cover. Now, I recognize they were only developed over the last year. However, I would then ask the Clerk and the chair to endeavour where that does occur – we now have postsecondary education added to Learning, and I think there's enough within that large framework to support the need for two meetings. So if the chair is advising against a motion, I would certainly want to see, where these superministries exist, ensuring that there's adequate time to review the reports put forward to us. Given that I take this particular position on this committee very seriously, I don't want to see that our time is cut back as a result of that from the past, in that I would like to see that we get to scrutinize the public accounts in as much detail as possible for those new ministries.

THE CHAIRMAN: The chair, with the assistance of the secretary, will endeavour to schedule a second meeting with Learning, but it's subject to the time availability of the minister. We cannot and are not able to command attendance. That has not been the tradition of this committee, nor has it ever been the experience of this chair that that was part of the power. So we do the best we can to ask.

Further, Dr. Pannu?

DR. PANNU: Yes, Mr. Chairman. Since in the current spate of meetings of this committee we'll be considering reports on education and advanced education – they're separately included in this report – the Minister of Learning is now responsible, I guess, for being here to address questions this committee wants answered with respect to those two distinct reports, and it would seem to me it would be entirely inadequate to have the minister come here for one and a half hours and try to do justice. I can see it from his point of view as well. It would be an impossible task for him, and it would be an entirely inadequate scrutiny on our part. You know, our job as the Public Accounts Committee is to scrutinize for Albertans as thoroughly as we can the accounts that come before us. So I would

very much urge you to get back to the Minister of Learning and try and schedule two meetings dealing with two separate departments, for both of which he is now responsible.

8:40

THE CHAIRMAN: You have my undertaking that that shall occur. Thank you.

We have concluded the organizational portion of our meeting, and I would like to have the Auditor General, Mr. Peter Valentine, introduce his staff, the complete staff. We have a cast of not thousands but many.

Mr. Auditor General.

MR. VALENTINE: Thank you, Mr. Chairman. With me in the Assembly today are 21 outstanding members of the office of the Auditor General in the two galleries. Here in the meeting on my far left is Doug McKenzie, a principal who's now involved in the area of professional practices in the office, working with Merwan Saher. Next to Doug is Rene Boisson, a principal who has significant responsibilities in the area of the Treasury, and you all know Nick Shandro on my immediate left, Assistant Auditor General with responsibilities, amongst other things, for health and education. On my immediate right are Jim Hug, Assistant Auditor General with responsibility for Treasury, and Ken Hoffman, Assistant Auditor General who, amongst other things, looks after the performance measurement issues in the office.

In connection with the questioning today, Mr. Chairman, I request that individuals make reference to the page of the report on which they want to direct a question. I would point out to start that our activities for this report, which was tabled in early October last year, are summarized on pages 4 and 5 of the report where you see the category of recommendations that have been made in connection with the scope of our work in the year ended March 31, 1999.

Thank you.

THE CHAIRMAN: Thank you, sir. The report of the Auditor General speaks for itself.

We have questions starting with Ms Blakeman.

MS BLAKEMAN: Thank you very much, and welcome again to the Auditor General's staff and the additional fun seekers and sports fans from the office of the Auditor General who have joined us today. I know it's an enjoyable experience for everyone, and I welcome their attendance here.

The questions I'd like to address at this point are around governance principles for agencies, boards, and commissions, and I refer the Auditor General to his report, pages 48, 49, 50, 51, and 52. The Auditor General has identified a lack of consistent governance principles for appointments to agencies, boards, and commissions. Obviously this is needed to ensure that there's effective governance. There must be performance expectations that are established, and the agencies, boards, and commissions would therefore be held accountable for achieving the results set out. The government I believe needs to provide the guidance to assist the ministries in establishing and agreeing on these governance practices for agencies, boards, and commissions. My first question is: how many of the government ministries continue to use the directive that was introduced by the Premier in 1993 on the appointment of members to agencies, boards, and commissions?

MR. VALENTINE: I don't think we have an answer to that question because I don't think we looked at every one of the ministers.

MS BLAKEMAN: Okay.

MR. VALENTINE: The consequence of our work is these comments here with respect to it, and it's obvious that we don't like what we see.

MS BLAKEMAN: Yes, that's quite clear, and I agree very much with the direction the Auditor General's taking here. I think . . . Well, I won't go on with a speech; these are for questions.

In your examination of recruitment procedures for appointment of members to these different agencies, boards, and commissions, can you talk a bit about any explanations that were provided by government ministries for a failure to establish review panels for the selection of these members, or what has happened around establishment of selection criteria and screening of candidates for appointment?

MR. VALENTINE: I don't think I can tell you anything other than that there were a number of instances where the Premier's directive, if that's what it is, was not followed or not used. We believe it's appropriate to use that discipline in ensuring that the people who are appointed to the boards of these ABCs have the requisite competence to apply the governance that's necessary in the circumstances.

THE CHAIRMAN: Thank you.

Mr. Klapstein, please, followed by Ms Olsen.

MR. KLAPSTEIN: Thank you, Mr. Chairman. On page 33 the Auditor General's report indicates that annual reports for some organizations are not as useful as they might be. Recommendation 5 states:

It is recommended that Ministries, supported by the Treasury Department, provide guidance to accountable organizations on best practices for annual report presentation.

These organizations include "accountable entities . . . other than departments, to whom the government has delegated the authority to execute its programs" such as "provincial agencies, boards, commissions and delegated administrative organizations." You mentioned two areas of deficiency as being "the lack of comparison of budget to actual for financial information and the lack of nonfinancial performance information." Are there other areas that could be improved upon? If so, what are they, and can you elaborate on the lack of nonfinancial performance information that you mentioned?

MR. VALENTINE: Well, just to back up a little, the whole concept of producing annual reports is recently new. You know, if we go back just a few years, we had four volumes of the public accounts and other than series and columns of numbers there was precious little else. So I think we have to anticipate that there's a period of time over which these things develop and mature. I happen to know of one organization which is not within the accountable organization group but just adjacent to it, so the annual report contains no financial information whatsoever. You wouldn't know whether they had \$100,000 or nothing in the bank account or an overdraft. It contains no performance information – that is, the frequency of use of the service or the breadth of use or what its outputs are – and it's contained in a glossy, pretty cover and not much substance inside.

So we think the observation we have made is appropriate in that there ought to be some general standards of presentation and best practice in the preparation of annual reports. We've not looked at this subject before. This is the first time we've looked at it since the development of the new format of the public accounts, and the two

examples we've given are the ones that are the most blatant, if you like. To tell you the truth, I can't remember what other examples we have, but if we can find that information in our files, I'm sure we'd be happy to provide it to you through the secretary.

MR. KLAPSTEIN: Okay.

You said the example you were referring to was outside the accountable entities?

8:50

MR. VALENTINE: Yeah, but it lives and breathes on public money.

MR. KLAPSTEIN: Okay. But your comment on page 33 was directed at accountable entities, was it not?

MR. VALENTINE: Yes, that's correct.

MR. KLAPSTEIN: Okay. Well, my supplemental question. You indicate that the standards published by Treasury for ministries in preparing their annual reports are essentially sound. However, in considering compliance with the standards, you stated there are still opportunities for improvement. Can you be specific as to the areas you saw where there could be improvement and reference any departments that you felt achieved a high standard in preparing their annual reports?

MR. VALENTINE: I would have to refer to our files in order to provide you with an answer to that question. We'll be happy to do that.

Ken, do you have a comment?

MR. HOFFMAN: With respect to the specific ministries, I don't think I can tell you anything off the top of my head, but the fundamental area where improvement was required was in the results analysis section. So where the ministries explain where performance either exceeded the target or didn't exceed target or where they talked about their financial performance, actual to budget, that's where there's continued effort required. It also needs to have a better integration between the financial and the nonfinancial information so you understand where the performance information and financial information link up and perhaps why, if there's a relationship, performance is down. So it's in the results analysis. That's where the predominant improvement is required.

MR. KLAPSTEIN: Okay. I look forward to receiving that further information then.

THE CHAIRMAN: Thank you.

A supplementary answer?

MR. VALENTINE: One of the issues that arises, then, from a number of these annual reports is the issue of summary financial information. It's noteworthy that CICA has not dealt with the issue of summary financial information in a content sense. So if you have a full, complete set of general purpose financial statements, there are no guidelines as to what is important to extract from those and display in the summary financial information and what obviously may not be included. It is clear in the literature, though, that if you produce summary financial information, you have to disclose that the general purpose, total information is available somewhere and was published publicly. So the concept is that you can't have a summary of something that doesn't exist.

I have personally tried to get the issue of summary financial information on the agenda of CICA, without success to date, but that

isn't to say that it won't be successful in the future. It's very important in the development of the kind of delivery of services that we use in Alberta that this issue be dealt with, because we have a variety of entities that are delivering services to Albertans: through child and family service authorities, through persons with developmental disability boards, through developed organizations of a variety of types. We need to get some discipline over the financial disclosure. I appreciate as much as anybody else that if you get drowned in financial information, you may never come up to swim again, but we do need to get some discipline on it. I think that Alberta Treasury is sympathetic to advancing that issue somehow.

THE CHAIRMAN: Ms Olsen, please.

MS OLSEN: Thank you. Welcome to the Auditor General and his staff and familiar faces on the front bench here. I would like to refer you to page 218 of your report. I'd like to talk about accountability issues that have been put forward by the Auditor General. The Auditor General points out that 10 RHAs did not disclose the expense categories associated with \$517 million of payments to voluntary and private-sector operators. On November 24, 1999, the Auditor General indicated that his office had not done a systemwide review of the processes by which the regional health authorities determine how they expend funds on outside contracts.

I just wanted to draw the attention of the Auditor General to the letter addressed to him on the accountability framework, February 18, 1998. I don't know if you have that in front of you, but I can give that to you right now if you wish. I'm just wondering if the Auditor General can indicate whether the accountability and monitoring framework established by the Department of Health and Wellness as it relates to the RHA contracts with private operators includes the components established in the accountability framework that was outlined in that letter. Outcomes to be achieved were service delivery alternatives, cost-benefit analysis, schedule of deliverable services, risk assessment, defined reporting requirements, audits, performance and assessments, and exit strategies. I'm just wondering if you could let us know if the private operators include those components of the framework.

MR. VALENTINE: I'm not familiar with the letter, so I'm at a bit of a handicap here.

MS OLSEN: Sorry. I will share this.

THE CHAIRMAN: Did you want to make copies of that?

MS OLSEN: I would like this passed, if I could, to the Auditor General. It's a letter addressed to him from Mr. Jack Davis, and that's what I'm referring to in this particular . . .

MR. VALENTINE: Mr. Chairman, I think this letter arose – and I don't know where the letter of October 23, 1997, is; it's not attached here – as a result of the 1997 annual report of the Auditor General. While I don't have trouble answering the question, I obviously don't have the materials here with which to answer the question. But it's the 1997 report, and I'm not sure where your mandate takes you if we reference from this report back to a previous report back to a previous report. So I leave that question with you. Having said that, I don't have any trouble answering the question in due course.

THE CHAIRMAN: Ms Olsen, the question will be answered as put in due course, coming through the secretary.

MS OLSEN: Very well. I would appreciate that from the Auditor General.

This is a follow-up question in relation to contracts with private operators. Contracts under \$100,000 are not tendered within regional health authorities, and I'm just wondering, then, if they are part of this whole issue in relation to the nondisclosure of some of the expense categories. If they're not tendered, are they then not reported? Can you explain why this occurs and where it's accounted for in your report or if it's accounted for?

MR. VALENTINE: Well, the fact that they're not tendered I don't think has anything to do with the financial reporting standard. The fact that they're not tendered would be to me a management practice, a level under which other means are used to manage contracts, which is a similar circumstance in a variety of other accountable organizations including universities, colleges, and institutes. So there's not any linkage in that for me.

MS OLSEN: Fair enough.

THE CHAIRMAN: As to your question earlier, a question to the chair as to the relevance of previous reports tabled in the Legislature, I had cause to review that once in earlier days. In fact, a predecessor of yours some way back had said on record that a set of financial accounts are predicated on those that came before it and subsequently down the line, and therefore any question that reasonably relates to something that came from a set of accounts in one year, predicated on another, would then be open to question by the members. It hinges on the reasonableness, I think. Nobody would expect you to know them from 1905.

9:00

MR. VALENTINE: As I say, I have no difficulty answering the question, but I don't bring and I don't think it's appropriate that I bring the last four or five years' reports with us and be prepared to address a question in that regard. Having said that, if there's a specific question that somebody wants to ask at any particular time, I'm certainly open to that.

THE CHAIRMAN: They could be taken under advisement all the time.

MR. SHANDRO: First of all, the \$517 million was disclosed. It's just that the distribution to the expense category wasn't disclosed as is required by a directive from Alberta Health. So it's not a question of the \$517 million not being disclosed. It's a question of the distribution, to which expense categories in the financial statements those payments were allocated, not being disclosed. This issue is strictly a disclosure issue, not one of contracting.

THE CHAIRMAN: Another issue has come up. When a member wishes to cite a document, then it almost becomes necessary to table the document for other members. Other members are not privy to that document. So hereinafter if documents outside the accounts are to be referred to, then perhaps they'd best be tabled at the time. I would ask the secretary to circulate that particular letter, then, to other members along with the minutes of this meeting. Reasonable?

MR. VALENTINE: Let me tell you, Mr. Chairman, that the issue discussed in Mr. Davis's letter and the issue that was discussed with a variety of staff members at the time was one that arose from the CKUA issue, where very clearly the grant was not managed. I don't know specifically that as Mr. Kruselnicki developed the material in connection with grant management, any particular attention was paid

to the health sector. No more, no less than any other ministry.

THE CHAIRMAN: We shall look forward to a subsequent filing with the secretary. Thank you.

Mr. Johnson, followed by Dr. Pannu.

MR. JOHNSON: Thank you very much, Mr. Chairman. Good morning to the Auditor General and your staff. My question arises from page 123 near the bottom. In the left-hand margin there it's entitled "Departmental monitoring and evaluation." You recommend

that a more comprehensive, risk-based approach to the Ministry's planning of monitoring activities would result in greater confidence that all of the Minister's critical responsibilities are being met.

I wonder. Could you elaborate on what a risk-based approach might entail and how both the school jurisdictions and the departments may benefit from such a risk-based approach?

MR. VALENTINE: Let me use an example that's not in the education field but one that I think graphically describes risk-based. We have devolved the responsibility for elevator and conveyance inspection out to the private sector, but we've left with the Department of Municipal Affairs where that activity is involved. The responsibility of ensuring that those inspections are done by private-sector or non provincial government authorities – it could be a civic authority – is in their hands. So the minister continues to have a responsibility to ensure that proper inspections are going on, but the minister is no longer responsible for the mass of people out doing that work. Rather, those people are employed by entities that are not part of the government entity.

How would you go about designing a system whereby the minister could satisfy himself or herself as to whether or not the system is working to ensure that the inspections are going on and that people are safely riding elevators and other forms of conveyance? Well, you would design some sort of inspection system that relates to the risk of the failure of a conveyance. Now, buildings that charge \$25 a square foot for rent generally are the upper-tier buildings that we know about and we use and we live in and work in. Buildings that are somewhat derelict or not well rented, that don't get a good return for the investor, are more likely to be left in a condition that is not up to snuff. You would design a program that looks at those entities where the risk of failure is more likely than not, and you would use other forms of determining whether or not a major landlord, a public-company landlord of a building – to take an example, Commerce Place downtown – fulfills the responsibilities for elevator inspection. In that way you marshal your resources and use them in an effective manner.

Now, the same thing would be true of school boards. Schools boards that consistently run a deficit seem to me to be school boards that you want to know more about. School boards where there are other issues and problems with the administration of various matters within that school board that come to the attention of the minister would of their character probably attract more attention than one where those kinds of things didn't arise. I would think that in some way school boards that are unable to seek alternate sources of funds might be a form of risk when compared to the rest of the school boards. So we think it is appropriate for the minister to direct his or her responsibilities with respect to the oversight of school boards on a risk basis and thereby use their resources of the department in an efficient, cost-effective manner.

MR. JOHNSON: Thank you.

THE CHAIRMAN: Dr. Pannu, followed by Mr. Herard and Ms Blakeman.

DR. PANNU: Thank you, Mr. Chairman. My questions will be to the Auditor General and his team. I just want us to remind ourselves that this is the first meeting of the year 2000, and the year 2000 and beyond is supposed to usher in new thinking, new ways of doing things, improved ways of doing things. I find the introductory comments in the report of the Auditor General for '98-99 as one such attempt to perhaps try and adopt new ways of capital asset reporting, the information system that's needed to improve the ability of the province to respond to the services that the province as a province is responsible for delivering. I won't go into detail, but I looked at some of the notes in the margins from page 8 onwards under planning issues. With your permission, I'd just like to draw attention to a couple of them because as context, that's kind of needed. I'll be as brief as I can be.

9:10

"Planning information is critical for decisions on resource allocation among competing priorities." That's on page 8.

Then at the bottom of page 9, under "Consolidated financial reporting," the Auditor General's report states that

the availability and usefulness of information on the capital asset base and on capital investment requirements is hampered by deficiencies with current consolidated financial reporting. These deficiencies stem from the cash-basis of accounting for capital assets and an incomplete reporting entity.

One more reference from a margin note and then I'll go to the question. This is on page 10. "The cash-basis of accounting understates the Province's financial position and encourages short-term thinking."

Based on these observations, on page 13 the conclusion that the AG makes, although recognizing quite appropriately that it's not his job to make formal recommendations but to make suggestions, is that "capital asset planning needs to shift from annual cash availability thinking, to thinking about long-term costs and benefits."

This report has been released, Mr. Auditor General, for about five months now. Have you had any indication from Treasury or any other part of the government with respect to this suggestion that you had decided to include in your report? What's the response, if any?

MR. VALENTINE: We have received a response to recommendation 47, which appears under the Treasury section of the report. It's on page 264, where we talk about the concept of Treasury initiating some changes in corporate accounting policies in government. Two significant policies that are being spoken about at that point are the recording of capital assets in the financial statements of the government entity and the inclusion of RHAs, school boards, and postsecondary academic institutions in the government entity. These are two difficult issues to be dealt with by governments in their fiscal reporting, and they are under a fair amount of study both in the province here and nationally.

The government has advised me that they agree that good planning is an important aspect of effective management of capital assets and that they're working on this matter, on the recommendation with respect to capital assets, through a cross-government capital planning initiative that appears in the government's business plan. In a variety of places in this year's report we have made comment with respect to the need for capital asset planning, both of the structures and of the machines, tools, equipment, furniture and fixtures, and the like in the variety of organizations to which the government provides funding to operate. Those would include the universities, colleges, and institutes, and it would include the regional health authorities. As the member is probably well aware, those entities are required to pay for the furniture and fixtures and equipment out of their regular operating

grants, and capital for building construction continues to come from the government, or it's not included in the operating grants to those organizations.

The upshot of that is that it's necessary for good planning and for appropriate use of resources to know what the grand plan is, what the requirements are going to be of these institutions as assets wear out. Nick Shandro is constantly advising boards and audit committees of those organizations that their net book value of capital assets is becoming diminished over time and where are they going to get the funds to provide for the replacement.

Now, one of the areas where a lot of those funds came from in the last little while has been the Y2K initiative, and that has provided for an upgrade of a variety of equipment in the health sector and in the postsecondary education sector. There's recently been some similar funds in the junior education area, but we're not going to likely go through a Y2K episode again. Maybe there's a Y3K coming a long time from now, but none of us will be around to enjoy that event. So we shouldn't lose sight of the fact that there's been an upgrade on the back of the Y2K issue, and somewhere down the road those things will either be replaced by alternate technology or will simply wear out, and there needs to be planning for the reinvestment.

DR. PANNU: Thank you for a fairly elaborate answer to my question.

My supplementary or last little question. Those pages make reference to deferred maintenance and replacement costs and certainly the Y2K help, I guess the replacement side of it, with respect to information systems, technology, and whatnot, but the buildings side I understand is still unaddressed. I know that at the universities and colleges and other schools there's a great deal of accumulated deferred maintenance costs. Would it be correct to say that if we do not give a full accounting of those future liabilities, we are in a sense off-loading it to the next generation, the burdens of replacing or bringing up to date the facilities in schools and colleges and universities, that we all know our children will need to continue to move into the 21st century?

MR. VALENTINE: Well, I think the area of accounting for deferred maintenance obligations is one that seriously needs addressing. It happens in the private sector in a market-force way. If you were to take two identical real estate companies – public companies, same size, same number of buildings, everything the same – the stock of those two entities would trade differently depending upon some circumstances or some conditions that are not reflected in financial statements or financial reporting but are perceived by the market, so the market adjusts for that. One of those might be the deferred maintenance of one company over another. In other words, the company with the substantial amount of deferred maintenance can't attract the same rent per square foot as the one that is up to date and clean and modern, you know, the washrooms are painted and all the rest of it. So the market reflects the difference. Now, that doesn't say that it's good accounting, but the fact of the matter is that the market does reflect that difference.

In addition to amortization of capital assets and the appropriate lives and that sort of thing, what we need to come to grips with is this issue: if I don't repair the floor today, what happens to me down the road? It's kind of like a highway wearing out. If the top layer, the surface layer, of the highway erodes and gets into the subsurface of it, you have a much bigger repair bill than if you put the new asphalt on top at the right time. I don't think we've really delved into those issues yet, but they make for great theoretical discussions.

9:20

THE CHAIRMAN: Of which you've had some today.

Mr. Herard, followed by Ms Blakeman and then Mr. Amery.

MR. HERARD: Thank you very much, Mr. Chairman. I welcome the opportunity to learn from the past so that we can be better in the future. This is my first opportunity in the last seven years to be part of this committee, so I'm looking forward to it.

In the Auditor General's report under Ministry Financial Statements for the departments of international and intergovernmental affairs at page 222 and public works, supply and services at page 248 you discuss amounts paid for costs incurred by another ministry, and on pages 163 and 164 of the report you explained that these costs were Ministry of Executive Council expenses for information technology and a new policy role amounting to approximately \$504,000, which were charged to the supply votes of the ministries, \$406,000 to PWSS and \$76,000 to international and intergovernmental affairs.

Now, on page 164 you state that in your opinion the amounts charged to the supply votes of PWSS and [international and intergovernmental affairs] were contrary to both the Appropriation Act (1998) and section 38(6) of the Financial Administration Act

and further that the Appropriation Act, 1998, does not provide for such payments on behalf of other ministries, that were described on pages 222 and 248. What I'd like to have explained is why this is the case, especially when you're dealing with a department like public works, supply and services, where their main *raison d'être* is essentially to provide, you know, infrastructure, goods and services to other departments and other agencies. I need to understand why this is the case.

MR. VALENTINE: Well, the short answer is that they should have gone and got supplemental estimates.

MR. HERARD: I see.

MR. VALENTINE: They weren't authorized payments by the minister. That's what we're saying here, and they were shifted over to another ministry where there was budget room, if you like.

MR. HERARD: All right. I still would like to hear from you, though, with respect to a department like public works, supply and services. Let's think, for example, in terms of telecommunications costs, which part of this was, I guess, information technology and telecommunications.

MR. VALENTINE: That's not telecommunications.

MR. HERARD: No, but I'm saying telecommunications as an example to get you to give me your good counsel on whether or not this is really the way that we should account for things in a department that provides services to other departments. Perhaps something like telecommunications, where it's very difficult to allocate costs to each individual department, is even more expensive to try and do than to just simply have the department that provides the service pay the bill because of all the accounting costs that you would incur, and you don't necessarily have, you know, a true and accurate reflection. So I'm still trying to understand whether or not government should look at amending legislation to allow for certain payments under certain specified circumstances where in fact you can't really break it down that accurately.

MR. VALENTINE: Well, I have difficulty with your theoretical example, and I'm not going to try to address it. I don't think it's appropriate, because you are theorizing on potential for legislation to fix something that comes from a theoretical example, and I'm a

little circular on that. I will ask Ken Hoffman to take you through what happened in these circumstances and see if that gets clarity to the issue.

MR. HOFFMAN: Perhaps the best way to do it is to illustrate by example. The payments that we're dealing with were not payments that were provided by PWSS under normal circumstances. To illustrate this, each department uses the government Imagis system and pays the transaction costs that they incur for using that Imagis system. These are for payment transactions, for vouchers, et cetera.

In the case of the Executive Council those costs were simply transferred over to public works, supply and service: i.e., public works, supply and service was not providing a service to them; they're simply picking up the cost. There are a number of contracts that were signed for services to Executive Council by outside contractors, consultants, and whatnot in their IT area where again the costs were simply picked up by public works, supply and services, and they weren't delivering a service. So these are not costs for services that are delivered by public works, supply and services to Executive Council. They are costs of services acquired by Executive Council and simply paid for by public works, supply and services.

The same thing with the international and intergovernmental affairs. This was a staff member who was working in the Executive Council office, doing Executive Council work, and again his costs were simply picked up by the other department.

So your analogy doesn't apply in these cases in that these aren't the kind of thing that you're talking about. It's just simply a transfer of expenditures. Does that help?

MR. HERARD: Yeah, it certainly helps with respect to the fact that these two examples don't fit the question. However, the question is still one I'd like your good counsel on at some point as to whether or not it's an appropriate way to do business when you have a department that provides the bulk of, you know, infrastructure, supplies, and services to other departments.

MR. HOFFMAN: In terms of the nature of the question, that is the cost allocation. As it stands right now, costs, for example, for accommodation is one of the cases that public works, supply and services provide this service on. Those costs are now entirely within Infrastructure's, ex-PWSS, financial statements. We've commented on the usefulness of allocating those costs to allow the House, the MLAs, to get a better understanding of what a cost to deliver a service is. Infrastructure, ex-PWSS, has this kind of information already. Also, in the IT area where they have IT services being provided, there are billings taking place, so some cost allocation going on. But fundamentally the idea is that if the public accounts don't display the cost of the program or the cost of delivering a program, then it's difficult for anybody looking at those statements to understand, you know, what happens if we add one more million, if we take away this program or that kind of thing, and what are we actually spending to achieve the outcomes that we're targeting. The private sector is able to allocate costs in order to make business decisions, and that's what we're talking about.

In other parts of the annual report and in the past we've talked about the need to allocate costs. There's an ongoing program where were talking with the provincial Treasury in order to see a development mechanism, and it's one of the areas that we've qualified on each year. It's something that's being worked on. It's difficult, and it's challenging, but in our view it's worth the effort because of the better information you have on what it actually costs to deliver a program.

MR. HERARD: Thank you for that.

THE CHAIRMAN: Ms Blakeman, followed by Mr. Amery.

9:30

MS BLAKEMAN: Thank you. I refer the Auditor General and his staff again to pages 50 and 51. I'm continuing with my questions around agencies, boards, and commissions. I was questioning earlier about, essentially, the recruitment and screening of members appointed to these boards. In this series of questions I'd like to look at self-evaluations of governance of organizations. I'm wondering what explanations were given by the government for their failure to ensure that there was regular reporting on their governance practices. What barriers were they facing that were precluding their ability to implement this or to be successful at this according to the guidance that had been offered? What's the problem here with what appears to be an inability for them to make sure that there are these different processes in place? Specifically in this question I'm talking about reporting on governance practices and self-evaluation.

MR. VALENTINE: Well, that's a very good question. The whole evolution of the current interest in governance is probably only six years old. I believe that the Dey commission report was issued in 1994 as a result of work they did in 1993, which was as a result of some financial institution failures in Canada and a concern that there were listed companies on the Toronto Stock Exchange that didn't have the requisite standard of governance within their boardrooms. So in six years we have seen the evolution of the Dey report of 1994. They updated that in 1999. We've seen pronouncements by the Institute of Chartered Accountants on governance in the boardroom, and I think now we probably have some fairly well-recognized principles of governance that should be present. One of those is to create a board self-evaluation process.

Now, nowhere that I am aware of in Alberta legislation is it mandatory that a board self-evaluate itself. We think it's fundamental to good governance to have the board evaluate its performance in its entirety and have the board evaluate the performance of the members of the board on an individual basis. In that way there's an assessment achieved which provides basic input into the reappointment process of board members.

I think that we as an office will continue to have a serious interest in governance in the boardroom. We believe that the principles, as I said, are reasonably well understood now, reasonably widely accepted so that we will be able to make critical comments of a constructive nature to the government on board governance issues.

MS BLAKEMAN: Okay. If I can move on to the issue of training that is made available to members of boards that have now been recruited, screened, and are in place. Once again I'm looking for an explanation that the government may have offered or advice that you may have offered to them of policies that have been put in place around training requirements and delivery of training to people appointed to agencies, boards, and commissions. If there are no policies in place, what specifically is the Auditor General advising that they look at by way of training procedures?

MR. VALENTINE: Well, board member training is one of the six recommendations that are contained within the CICA guidance on governance in the boardroom. We have picked up on that issue, and I have suggested to the government that it's appropriate that boards adopt that as a guiding principle of how they operate. In other words, somebody new comes to a board. Let's say it's a regional health authority. There has to be some training program that gets that person up to speed. That person comes with a skill set that is probably of considerable advantage to the organization, but unless that person becomes familiar enough with the organization to apply

the skill set, then the skills are wasted.

THE CHAIRMAN: Mr. Amery, followed by Ms Olsen.

MR. AMERY: Thank you, Mr. Chairman. Good morning. Mr. Auditor General, you point out in the cross-government section of your report that there's a great deal of variation in how government departments produce their business plans. You suggested that they should strive toward greater uniformity, especially concerning statement of goals, performance measures, and targets. Do you not feel, sir, that a certain degree of latitude is necessary in the reporting of the business plans to reflect the varying nature of each department?

MR. VALENTINE: I'm sorry. Could you repeat the question?

MR. AMERY: Okay. You point out in the cross-government section of your report that there is a great deal of variation in how government departments produce their business plans, and you suggest that they should strive toward greater uniformity. Are you hearing me?

MR. VALENTINE: The last two words.

MR. AMERY: They should strive toward greater uniformity in reporting their business plans. Do you not feel that a certain degree of latitude is necessary in reporting the business plans to reflect the varying nature of the departments?

MR. VALENTINE: I'm going to ask Ken Hoffman to respond to that. Ken has done the work in the area of the review of business plans.

MR. HOFFMAN: There is need for flexibility, and I think we've acknowledged that in the report piece itself. What we're talking about is a better structural consistency so that when one picks up a business plan from one ministry, you understand what the core business is and it meets some kind of common understanding of what a core business would be, what those goals are that that core business is trying to achieve and what performance measures would indicate whether or not those goals were actually being achieved. If you look at a suite of ministry business plans, you won't find that consistently throughout.

So while there is need for flexibility, clearly the goals, the core businesses, and the performance measures will be distinctive and unique for each ministry. That's not what we're talking about here. It's the way these things are put together so that a reader would get a better feel for the ministry itself, what it's trying to achieve and how it's determining whether or not that achievement is being met.

Also, in the piece we've said that it's important for the reader to understand what's being spent to achieve those outcomes, because ultimately the decision that's trying to be made is whether or not the plan is cost-effective. Are we going to get what we accomplish with what money we want to spend? When you can't relate the dollars back to the performance, you're at a loss. All you have is: I'm going to spend a total dollar figure, whatever it might be, \$1 billion, \$2 billion, to achieve a suite of things, and you can't figure out which one's going to be achieved for what.

What's happened is that the government has worked on business plans for several years now, and it's our view that there are some best practices that have emerged. To that end, we're just simply suggesting that the government have a concentrated effort on identifying those best practices and ensuring them amongst ministries and through that way have the business plans improved and more useful to the members when they're having to examine

them. If there is a need for standards, then presumably that would emerge through any kind of collaborative process, but I think we're pretty clear that we think there is a continuing need for some degree of flexibility within an established framework.

Does that answer your question?

9:40

MR. AMERY: Yes.

My second question: in your estimation which government department has produced the best, most understandable, most informative business plans so far?

MR. VALENTINE: We were thinking of having an awards night, and we might rent this room for the awards night. We'll take nominations and screen them and pin the ribbon on the winner.

It would be unfair for us to comment on which we think is the best. There are many very good ones. In fact, the business planning process in Alberta is well advanced over almost any other jurisdiction in Canada. That I can say. But I think it would be wrong without establishing some set of criteria as to who gets the prize for me to make a remark without that criteria and the application of it.

THE CHAIRMAN: Ms Olsen, followed by Mr. Cao.

MS OLSEN: Thank you, Mr. Chairman. I want to go back to the Auditor General's report, page 218, on the regional health authorities, and I have two very brief questions for the Auditor. Will the Auditor General elaborate on the deficiencies he identified in '98-99 with respect to the 10 RHAs that did not disclose the expense categories associated with the \$517 million of payments to voluntary and private-sector operators? I'm just looking for a bit of an elaboration on these deficiencies and what's happened to date.

MR. SHANDRO: Well, I'm not sure what elaboration you're expecting here. What we're talking about is that in the financial statements of 10, they disclosed a total of \$517 million of payments to these operators. They didn't disclose the breakdown in terms of the expense categories in the financial statements.

MR. VALENTINE: That breakdown will be salaries, supplies, rent, all the usual categories. Instead, if you look at those particular financial statements of those regional health authorities, you'll see payments to the voluntary as an expenditure item. They don't give you the underlying components of rent, wages, supplies, and the rest.

MS OLSEN: I guess I'm kind of wondering: if it's been identified as a deficiency, then, what recommendations have been made to the authorities to fix the problem?

MR. SHANDRO: We're discussing the fixes with the health authorities for this coming year, so it's a technical violation of the reporting standards that are required by them. It's something they can certainly do, and I think they're going to do it this year.

THE CHAIRMAN: Mr. Cao, followed by Ms Blakeman and Mr. Herard.

MR. CAO: Thank you, Mr. Chairman. I would like to touch base on human resources on the government side. I believe that human resources is the most important component in any organization. I'd like to talk about the employee performance management system. From the report I know that in recommendation 8 you suggested

improvement to the employee performance management system so that there's support of the achievement of government and departmental objectives. However, with the achievement of the government objective, you acknowledge that the departments need flexibility in implementing the human resource strategy. You suggest the need for greater consistency among departments with respect to these strategies. So my question to you, Auditor General, is: where do you see the appropriate balance being achieved, and to what extent should the PAO be involved in monitoring these strategies?

MR. VALENTINE: The PAO is established to create the policy with respect to the management of the human resources of those individuals who are employed by the province. The day-to-day management of human resource activities has been devolved out to the ministries, but the policy direction continues to come from the PAO, and I think that's the line that exists. To create individual policies within individual departments will end up with an HR policy across the government sector that's mixed, not well understood, varies, creates inappropriate behaviour on the part of individuals, and doesn't produce a strong, capable workforce employed by the province. So we see the potential for the erosion of a common direction in human resource strategies as being a risk.

MR. CAO: On page 46 you further recommend the involvement of stakeholders in developing these systems. Could you elaborate on who these stakeholders would likely be as well as the extent of their involvement in mapping out essentially internal departmental matters?

MR. VALENTINE: Well, I think the stakeholders would be the variety of departments, agencies, and boards, those that are affected by the HR policy of the government and those that are affected by decisions made by the PAO. I personally believe that the PAO has a large role to play in the overall direction of the human resource strategy of the government.

THE CHAIRMAN: Thank you, Mr. Cao.
Ms Blakeman, followed by Mr. Herard.

MS BLAKEMAN: Thank you very much. My next series of questions is around long-term care and acute care beds in Alberta, so I'll refer the Auditor General and his staff to pages 194 and 195 of his report. How do I tackle this question? The Auditor General notes that there is a lack of benchmarks or standards. For instance, with acute care patients the beds vary in the regions between one bed per thousand population to 2.9 beds per thousand population. I'm looking for what explanation was offered by the ministry for the variance between these regions as it relates specifically to acute care beds. What are the barriers to being able to establish these benchmarks and being able to reduce the variance?

MR. SHANDRO: We didn't seek to get the department to immediately try to answer this sort of question. I think it's more a matter of understanding the different service models that are being offered there and what alternatives there are and to come to understanding the different patterns of service deliveries and then trying to work out what might be appropriate benchmarks in relation to the service standards one is trying to achieve. So there isn't right now, I don't think, an easy way of establishing a benchmark. I think that's going to have to come through a considerable amount of analysis and discussion across the regional health authorities, each of whom are responsible for service delivery in their region.

9:50

MR. VALENTINE: I think it's fair to say that nobody would design a system the way we have it. The evolution of health care in this province was by board-governed institutions on a one-off basis. There was a board for the Holy Cross in Calgary, there was a board for the General, there was a board for the Foothills, there was a board for the Rockyview, and I guess there was a board for the Belcher. I can't remember. It was run by the federal government. Then you bring all those facilities into a common region for the appropriate administration and provision of health care, and you've got so many long-term care beds, you've got so many acute care beds, you've got so many of this and so many of that. You've got a place where you can go and get an inoculation in the basement of city hall in some towns, and in other towns you don't have one at all. So they've come together and over a period of time they've got to rationalize the facilities they have, and that's not something you can do by turning the lights off at night and then waking up in the morning and you've got a new set of facilities. You don't have that.

I think some of the discussion we're seeing publicly, people in some towns not wanting to lose their emergency medical services, is not surprising at all, because that was the system of the past, and moving to regionalization is a very difficult process and is not accomplished overnight. So what you see on page 194 in the comment in the very last paragraph – you know, we say: are one and a half beds per thousand population appropriate? Are 20 beds per thousand acute appropriate? We need to come up with some of these benchmarks in order that we can move these facilities into the delivery of modern medicine.

MS BLAKEMAN: I guess what I'm struggling with is that it strikes me that if you now have an overriding organization, a governing body that has all these facilities brought underneath it, it would be easier at that point to be able to look and to gather the information because you're no longer separate entities. You're not a totally different board talking to a totally different board in another town. These are all under one grouping. That is the obvious opportunity to be able to detect the variances and put something in place, so I'm struggling to understand why that hasn't happened. These RHAs have been in place for a number of years now, and it should have been easier for them when they had all the things in front, everything in their own sandbox.

MR. KLAPSTEIN: Point of order.

THE CHAIRMAN: A point of order has been called here.

MR. KLAPSTEIN: I think it's important that we keep in mind the difference between working with the Auditor and his report and a public policy discussion. It's two different things, and I hope we'll focus on the Auditor's report.

THE CHAIRMAN: Have you honed in on a question relative to the Auditor's report?

MS BLAKEMAN: Well, I am referring to the Auditor's report. That's where this discussion is raised and set out. I'm struggling to find what the reasoning is or what advice the Auditor General is giving around establishing these benchmarks. Is that a better way to put the question?

THE CHAIRMAN: Right.

MR. VALENTINE: Well, the reason we raise the issue of benchmarks is to provide good management of public resources. That's

the big picture answer.

MR. SHANDRO: One of the problems you have is that using a single indicator as a benchmark, I think, can be dangerous towards delivery of health care itself, because there are many models of delivery and you're going to encourage one model with some certain indicator if you're not careful and put all your emphasis on that one indicator. For example, I had a discussion recently on level of maintenance and what that benchmark should be.

Now, let's assume that somebody decided that a good performance is a low level of maintenance per unit. Your cost might be low, but then what's the effect on downtime, on other indicators, which are other benchmarks' downside? So, unfortunately, there's an awful lot of emphasis in the sector on beds, but there's more to health care than beds. There has to be some understanding of other forms of health services besides occupying a bed and how you deal with people and what their preferences are.

So there's a debate raging in terms of how you should deliver these services, and I think there's going to eventually be formed a consensus about the various patterns that should be used, and they're not going to be the patterns of the past. A lot of the benchmarks we have come out of the past, but we're looking towards a future model that is more in line with the year 2000 rather than the 1950s. Some of the statistics we have are rather dated and no longer appropriate at the moment. When you start talking about so many beds for acute care or so many beds for long-term care, some of this thinking originated at a time when you went to a hospital for an operation on an ulcer. Today when you're using drugs to treat ulcers, you don't have operations anymore. You wouldn't use those sorts of standards. We're evolving.

Therefore I'm really very, very cautious about solely focusing on something called beds per thousand in itself, because while it might be important as a measure of understanding just like maintenance costs per unit might be important to understand in terms of managing your unit costs, we don't know what the right level is without understanding other factors such as uptime and the ability to deliver service. So I don't think I want to make too much out of this point except to say that we need relevant information to understand how we're deploying these resources.

THE CHAIRMAN: Thank you, committee. With that, Mr. Herard has graciously given up his spot, and we'll put him first up next time. I must remind you that for the next meeting we have Dr. Lorne Taylor, the Minister of Innovation and Science, before us.

If there's nothing further, we shall thank the Auditor General and staff for coming before this committee.

A motion to adjourn? Mrs. Forsyth. Is it agreed?

HON. MEMBERS: Agreed.

THE CHAIRMAN: We stand adjourned.

[The committee adjourned at 9:59 a.m.]

