

Wednesday, April 30, 1980

Chairman: Mr. Mandeville

10 a.m.

MR. CHAIRMAN: We'll bring our meeting to order. Before we start our meeting, committee members, I'd just like to introduce to you some guests we have this morning from Whitehorse: Tony Penikett, who is chairman of the Public Accounts in Whitehorse. They've just started there. Also we have Missy Parnell, the clerk at Whitehorse who's going to start the Public Accounts. We are glad to have you with us, Missy and Tony. Enjoy yourselves.

Just before we start our meeting, possibly I could . . . Are there any errors or omissions in our last minutes? If not, we've agreed we were just going to file our minutes, so we won't have the minutes accepted. That's been our practice.

We are going to go on with our report . . . Yes, Mr. McCrae?

MR. McCRAE: Mr. Chairman, I just want to say that I assume there are no errors in the minutes, but I don't think I've received them.

MR. CHAIRMAN: That's right. Donna just informed me that I didn't sign them, so she didn't send the minutes out. Sorry about that. We'll see that they get out to you after this.

Committee members, this morning we're going to continue with the report of the Auditor General and also, if we complete that, we'll go back to Public Accounts. We have Mr. O'Brien and his assistant here this morning. Mr. Rogers has brought two more of his assistants with him, and I would like to introduce them. Ken Smith and Don Salmon are going to help Mr. Rogers with his report this morning. Now if we could turn the meeting over to you, Mr. Rogers.

MR. ROGERS: Thank you, Mr. Chairman. Ladies and gentlemen, we started at the last meeting to review the report. I think we have dealt with section 1. Section 1.2 talks about the Provincial Auditor era that is now closed. Section 1.3 talks about The Auditor General Act, which we reviewed at the last session.

We have some handouts, some material prepared as a result of a question asked at the last session. One, I had a mental blackout and couldn't remember the names of the members of the audit committee, so we have a copy of the appointing order in council. There was also some information regarding the staffing of the Auditor's office, with specific concern as to the vacancy rate over a period. You'll notice that it fluctuates. I've made some inquiries as to the situation in the private sector, and I find that it isn't terribly different from experience in the private sector. I imagine that the responsibility has to lie with the opportunities that exist. There is no alternative but to live with it. I find that in some firms the vacancy rate is even higher; in others it is somewhat lower. I think that is the situation.

Section 2.1.1, at the bottom of page 3 outlines the contents of 12(a) of the Act, whereby the Auditor General is the auditor of

every department, regulated fund, revolving fund and provincial agency. In addition, section 12(b) empowers the Auditor General, with the approval of the Select Standing Committee on the Offices of the Auditor General and the Ombudsman to be appointed auditor by a crown-controlled organization or any other organization or body.

2.1.2 is a listing of such bodies. In all cases, these are organizations operating with funds that are originally public funds -- but because they had been paid to another entity, have ceased to be public funds -- who themselves had requested that the Auditor General be the auditor. Many of these date back a number of years, and took the form of individual requests to the Provincial Auditor, in some cases myself and in others my predecessor, Mr. Huckvale, and the office had been the auditor of these organizations. Therefore, we presented this list to the select standing committee, and they approved that we continue to be the auditor of these organizations. As you can see, in all cases they are connected with provincial agencies or government itself.

2.1.3 lists the irrigation districts. The Act that created the irrigation districts names the Auditor General as auditor. 2.1.4 gives some information regarding work of the Auditor General. The office is responsible for auditing costs under schedule A, which is in effect the accounting manual, relating to the Crown agreement with Syncrude, whereby the royalty on the production of synthetic crude is based on costs and deemed net profit. Strictly speaking this is not the type of work that was envisioned by The Auditor General Act, but for practical purposes we are continuing with it until such time as it can be handed over to the department concerned.

The Public Accounts contain the financial statements of the entities listed in 2.1.5 on page 5, all of which were audited by our office. 2.1.6 is a listing of those entities that are excluded from Public Accounts by the present wording of The Financial Administration Act. Because I felt that these financial statements should have visibility, I have included them this year in the Auditor General's report, with recommendation no. 1, that the necessary amendment be made to The Financial Administration Act which would allow these financial statements, which always have appeared in Public Accounts, to continue to appear in Public Accounts, where I really feel they should be.

As I say, they have visibility for this year by virtue of being included in the Auditor General's report, but I feel it would be preferable if they were to be part of Public Accounts. This could be in a separate volume, because there is a difference in that the entities concerned are not subject to the other sections of The Financial Administration Act. So it may be advisable to publish them separately, perhaps as a third volume. That recommendation will no doubt be considered in due course.

A number of other financial statements were audited by the Auditor General's office. These are listed in 2.1.7. However, these financial statements were not reproduced and included in either Public Accounts or the Auditor General's report, as in most cases the information contained in those statements is included either in Public Accounts or the appendix to this report.

We have a couple of anomalies. The legislation which was passed in the fall of '77, effective for '78-79, if one read it to the letter, included approximately 60 housing authorities and the Metis settlements. I don't think it was the intention of the Legislative Assembly that we be the auditors of those organizations. The housing authorities are basically at the municipal level. Although technically they do come under the definition of provincial agency, it wasn't felt that the intention for our office to audit those housing authorities had really been there. There's a practical problem: it

would have been virtually impossible, due to the short time frame in which those financial statements have to be submitted, to audit the 60 housing authorities, which are presently being audited for the municipalities, as I stated earlier. The same kind of reasoning exists with regard to the Metis settlements under The Metis Betterment Act. Consequently, we have made recommendation no. 2 that these be excluded in the same way new towns are excluded at the time of the drafting of the Act.

Yes, Mr. Chairman?

MR. CHAIRMAN: Mr. Rogers, would you wish the committee members to interrupt at any time and get involved?

MR. ROGERS: Very definitely.

MR. CHAIRMAN: Bob Clark.

MR. R. CLARK: Mr. Chairman, through you to Mr. Rogers. Mr. Rogers, I've become a bit concerned that we'll go through the recommendations here and after that say, so what? Perhaps a fair place to start is: what's the practice in Ottawa as far as the way the Auditor General's report is handled? Are recommendations made from a committee such as this, or how is the thing handled? I think we have the practical situation here that we can go over the various recommendations you make and ask questions in the area, but if in fact that's where it stops, it seems to me that we may not be dealing with the recommendations in a manner other than listening to the explanations. So what's the practice in Ottawa and other provinces?

MR. ROGERS: Mr. Chairman, it's very difficult. . . I haven't attended any such meetings. I do know that the auditor usually runs through his report, which I was intending to do; after that it is strictly up to the committee.

MR. R. CLARK: So what we should be looking at then, if I might put the question through you, Mr. Chairman, to Mr. Rogers: once the auditor has finished going over the various recommendations in the report, the committee, if we follow the Ottawa situation, looks to itself to see if it wants to take any steps, some steps, or no steps?

MR. ROGERS: That is correct. I believe this is the case. If the committee will zero in on those recommendations where it feels it needs more information, calls witnesses, and so on. The thought today is not to look at every one of the 43 recommendations. I wasn't planning to do that. These early recommendations are fairly basic to covering what is audited and what isn't and what is included in Public Accounts, where the financial statements in effect appear, because they are the evidence of accountability. As to the individual recommendations contained in this report, it was not my intention to go through them one by one; rather to leave sections 4 and 5, which contain most of the recommendations, for the committee to zero in on those items they felt were of most import.

MR. CHAIRMAN: In the discussions I've had with Mr. Rogers and with some of our committee members on this, we would go through the principle in general, and as Mr. Rogers is doing today, go through the report, as in our last meeting we went through Public Accounts. Then we could work up an agenda on how we want to handle the recommendations. If we want to add to the recommendations or add new recommendations, the committee would deal with this when we went through the report, and then we'd set up our agenda for our meetings. Mr. Notley.

MR. NOTLEY: Mr. Chairman, I think that's a reasonable approach to take, but where we are dealing with recommendations that relate to the basic scope of the Act itself, it seems to me that as we go through this general review, it would be helpful if the Auditor General would give us as much background as possible, in the way of information as to why he reached certain conclusions. Looking at the 43 recommendations, some of them are important, but not basic to the scope of the Act. However, it does seem to me that recommendation no. 1 is rather important, because the Auditor General is suggesting that consideration be given to including the financial statement of Crown-controlled organizations in Public Accounts. I guess as we go through this general resume, it would be helpful if the Auditor General would give us background on those extremely crucial recommendations that are relevant to the scope of his work under the Act. I agree with you that rather than our getting into a discussion of it at that point, we can then come back and go over them individually.

MR. CHAIRMAN: Any further questions? Mr. McCrae.

MR. McCRAE: Mr. Chairman, I just wanted to respond to the comments made. It seems to me, sir, there are two aspects to this: one is the general comment on governmental policy and what is in the statute; the second thing is the departmental concerns that the Auditor General -- areas he may express some concern on. I made an inquiry as to what went on in some of the other legislatures relative to their public accounts, and it's about as varied as, I suppose, the other legislative activities.

I think, Mr. Chairman, that we should follow the format you outlined just a moment ago. I don't think the members here are quarrelling with that. But I think we're going to have to -- painstakingly and at great time, and it may not be the most exciting thing to do -- go through the documentation in the Auditor General's report, it being the first one. I think we all have to become familiar with the first report, particularly the general recommendations on his comments on The Financial Administration Act, and not debate it, but hear his reasons, surely. Then we have a new factor. We have the Controller here for the first time, and we most assuredly don't want to get the Controller and the Auditor General into a debate, but it might be interesting to hear from the Controller as well at some juncture. We're into highly technically areas; we're also into areas of governmental policy rather than departmental shortcomings.

So I think we have to bear in mind that there is the general area of government policy, and what is in The Financial Administration Act is what was determined by this Legislature some two years back when we put the statute together. If there are recommendations for changes by the Auditor General, I think, fine, we should hear them, we should hear the reasons for them, and at some juncture the government will consider it, and the opposition members I'm sure will consider it. If the government agrees with the Auditor General, I suppose it would introduce legislation to effect the changes; I presume if the government did not and the opposition agreed with the Auditor General, the opposition always has the luxury of introducing debate in the Legislature or a private member's Bill.

So generally I think we should work our way through this document, take the arguments put forward by the Auditor General as being his point of view on different things, look at the government's point of view, and perhaps at some stage ask the Controller to comment if he wished, and if he didn't wish, I think we should respect that as well. It is a highly technical area. I think it's important we take a lot of time at it, in spite of the fact that it may be complex. I think all members will want to try to understand the complexities of the recommendations.

MR. CHAIRMAN: Mr. Clark.

MR. R. CLARK: Mr. Chairman, I find myself in considerable agreement with what Mr. McCrae is saying. It is especially important that we go through the recommendations. The term, Stu, was "painstaking," but I think it's important we do that, and quite possibly unexciting in a variety of areas, too. Secondly, it seems to me the committee itself . . .

Mr. Chairman, let me say this to Mr. McCrae. Mr. McCrae, I took your comments to say that once the committee had heard the views put forward by the Auditor General, we might go to Mr. O'Brien, who, if I could be somewhat unfettering here, is an employee of the Provincial Treasurer's Department and not of the Assembly -- which introduces a rather new and interesting approach. Getting that aside, Mr. McCrae, I took it from your comments, sir, that you would then see the thing rather stopping there.

We're not getting into any decisions today, but it seems to me that the committee might look at some of the recommendations itself, and where there is agreement within the committee that the committee, as is done in other provinces, then makes recommendations to the Assembly -- where there is agreement in the committee as to what can be done. That may be especially important, not in areas of policy, but in some of the initial recommendations in the report. I'm not trying to focus an argument today, simply drawing the point that at some time I think it would be very helpful for us as a committee to explore that kind of possibility, because the approach we establish this year in dealing with the report will likely become the practice following that.

MR. CHAIRMAN: It is certainly the understanding of the Chair that we will be dealing with the recommendations in the report. It's just a matter of when we deal with them; that's all I'm saying. Should we let Mr. Rogers go through the report in a general way now, and then come back to the recommendations? As Chairman of the committee, I certainly agree that we have to deal with all the recommendations. I'm very hopeful that we'll have some input and some amendments to these recommendations, or possibly some new recommendations. Mr. Notley.

MR. NOTLEY: Mr. Chairman, I think the proper procedure is, as you suggested, to go through the report and have Mr. Rogers underline those recommendations that are basic and relevant to our consideration. Then I think we have to come back and look at the recommendations as a committee. Where I would differ with Mr. McCrae -- and I'm not sure he really said this; perhaps I just mistook it -- I don't really think that it is at that point something for the government members to consider in their caucus, for the Social Credit members to consider in their caucus, or for me to consider at any time. Rather, it is a question . . . *laughter* I'm pleased that Mr. Penikett is here. As the lone New Democrat in the Yukon legislature, he knows how I feel.

But I think the real question, it seems to me, is that we have to deal with these recommendations as a Public Accounts committee. At that point, after we've had the initial introduction by the Auditor General, then we have to go back collectively, as a committee. Some we'll be able to reach agreement on; some we won't. But it seems to me that that process has to be very clear, that as a committee we deal with the recommendations.

MR. McCRAE: Mr. Chairman, could I make one more comment. I don't quarrel with anything that has been said, but I guess it's a question of time. I don't think we can begin to deal with these complex, technical, financial areas today. I think we go through with the Auditor General -- and it may be six weeks from now when we come back to it, and it may be two weeks, but I think

it would be very unfair to the committee this morning if there were motions that we accept recommendation no. 1, or whatever. It is just too complex. We need to take a lot of time on this first report; much more so, I would hope, than later reports. There are two aspects: the general government policy and then the departmental shortcomings. The departmental areas -- if there are any -- would be much easier to deal with as a committee than the complex, technical, financial areas.

MR. R. CLARK: I agree.

MR. CHAIRMAN: Mr. Notley.

MR. NOTLEY: Mr. Chairman, I would agree. I don't think we could even get to the point where we would want to get into consideration of the recommendations today. The only thing I would say is that, assuming that in the next three or four weeks the Legislature will adjourn, we do have a lot of work to do as a committee, and it would seem to me -- I just raise this in hopes that the Chair would take it under advisement -- that it might be appropriate to call several meetings over the recess, as other committees do, because we do have an awful lot of work. I think of the time frame: both in the remaining spring session and the fall session, we may not be able to do justice to this report. I just raise that as a matter of interest for the Chair to take under advisement.

MR. CHAIRMAN: I appreciate your comments, Mr. Notley. I had indicated at our first meeting that all committee members -- we should have all the input we can into this particular report and these recommendations and how to deal with them. Mr. Rogers, did you care to carry on?

MR. ROGERS: Thank you, Mr. Chairman. I would return for a moment to recommendation 1, because it occurred to me that there was a second part to it which I think is important: "Consideration should also be given to including the financial statements of crown-controlled organizations in the Public Accounts." There is some precedent for this in that, I think in '77-'78, the PWA statements were included in Public Accounts. As a purely personal observation, I feel that it is a good thing, wherever there is accountability, that financial statements should appear in the province's Public Accounts, for information, if nothing else.

Pushing on, so there is recommendation no. 1, which deals with the inclusion of audited financial statements in Public Accounts. Recommendation no. 2 is trying to establish what should or should not be audited, with respect to housing authorities and Metis settlement associations. 2.1.9 deals with the lottery. The situation there of course is that the Western Express lottery in Alberta is administered by a partnership of the Edmonton Exhibition Association Ltd. and the Calgary Exhibition & Stampede Ltd. We have an opinion that indicates that the money concerned is public money, and in view of that legal opinion, recommendation no. 3 suggests:

that consideration be given to classifying as a regulated fund the money collected and held by the partnership which manages the Western Express Lottery in Alberta.

Of course, if it became a regulated fund, it would automatically be audited by our office. However, this is not a clear-cut situation, and I think it will be a matter for some study, by the Attorney General's Department, as to whether the legal opinion we've obtained is sustained or otherwise.

In previous Public Accounts, there have been financial statements with regard to the Jubilee auditoriums, the Alberta Geriatric Centre, et cetera, as listed on 2.1.10. These are not separate legal entities, but are divisions or parts of departments. Consequently we have discontinued the audited financial statements in Public Accounts. I feel this is consistent with the way we treat other such organizations within government. The information is included in departmental figures, which are included in Public Accounts.

Section 2 deals with audit responsibilities, to give members of the House further information to understand the way in which the audit responsibilities are conducted. 2.3 deals with reporting responsibilities, and is a further elaboration of some of the comments that were in the introductory section to the report. I draw your attention to section 2.3.4. It is trying to understand what is anticipated when funds are voted by this House, and it is believed that it is understood that when funds are voted, those funds are used

(1) for the purpose specified and no other purpose,

(2) with probity

(3) with due regard for efficiency,

(4) with due regard for economy,

and that the effectiveness of the program concerned will, wherever practicable, be measured.

That is based on what is contained in The Auditor General Act.

Continuing on, section 2.4 deals with the organization of the audit office, and again is to give a general understanding of the way in which the audit function is conducted. Section 3 deals with Public Accounts, and on page 16 the Auditor's report is reproduced on the consolidated statements of the province, which to the best of our knowledge, are the first consolidated financial statements produced in Canada for a provincial government. The impetus that led us along this path, I think, would be the heritage trust fund; it's probably been the chief spur to having consolidated statements, which included both the heritage trust fund and the General Revenue Fund and other legal entities. I think that a study of those statements, compared with the General Revenue Fund, which hitherto have been regarded as the financial statements of the province -- I think that there is an improvement in the reporting, as a result of the new set of statements.

Section 3 gives a number of breakdowns of information and supplementary information to that contained actually in Public Accounts. The recommendations in this section are picked up by later sections and expanded on by later recommendations.

Page 20 shows the revenue and expenditure of the General Revenue Fund in a form that has usually been carried in the Provincial Auditor's report in prior years, and gives some continuity of showing it on a per capita basis and the percentage of revenue and expenditure basis. A number of the other exhibits also continue the practice of prior years. For example, on page 23 we show the breakdown of income tax over a period of years, as to the amounts collected for taxation year. This has proven to be of some value to this committee in previous years.

Continuing, I think that perhaps one illustration of the differences we get between the General Revenue Fund being the accounts of the province and the consolidated statements, is in section 3.4.9. The indirect liabilities in the General Revenue Fund financial statements in 1979 were \$3.8 billion, whereas on the consolidated financial statements the indirect liabilities are something in the order of just under \$0.5 billion. The reason of course is that many of the guarantees involved are government guarantees of debt of provincial agencies. The \$481 million shown on the consolidated financial

statement represents guarantees outside the government economic entity as a whole.

Moving to section 4, these are the audit observations. On page 34 is an index of these observations. We have several categories: losses and potential or possible losses. These are reported pursuant to 19(2)(a), (b), and (c) of The Auditor General Act. Again, Mr. Chairman, I don't think I should deal with the individual observations, but rather leave it for the committee to come back to those they find of interest, at their wish. Unless the committee would like me to comment as we go through, I think they are largely self-explanatory. What would be the wish of the committee in this regard?

MR. McCRAE: Mr. Chairman, just a guideline. I think it would be helpful if the Auditor General would take us through the document, not for debate purposes but just to highlight. The document is massive, in excess of 300 pages, and I don't think many of the committee members will have gone through it in any great detail. It is difficult to pick up the recommendations in terms of their relative importance, so I think if the Auditor would take the time, the members will appreciate his stepping us through the book.

MR. ROGERS: Mr. Chairman, in that regard, I would point out that we are really only talking about -- page 63 is virtually the end of the report. The rest of the document consists of the financial statements that are, for the most part, the subject of recommendation 1, which would appear in Public Accounts in the subsequent year, if the suggestion in recommendation 1 is implemented.

So the observations are -- 4.2.1. deals with the compensation payment for flood damage. In this instance, we had an example of one payment which . . .

MR. CHAIRMAN: Mrs. Embury, did you have a question?

MRS. EMBURY: Excuse me, Mr. Chairman, I just wanted to ask the Auditor General if he would repeat that last statement. I'm sorry, you left me when you said that from 65 on is the same information as is in the Public Accounts.

MR. ROGERS: No. These financial statements are the statements of universities, colleges, and so on, and would not appear anywhere this year, if they had not been included in this report. I felt it was important as they are the evidence of accountability of funds spent, that they should appear somewhere, so I included them in this report this year, with the recommendation that in subsequent years, through an amendment to The Financial Administration Act, they be included in Public Accounts. They are not in Public Accounts this year. Most of these statements formerly were in Public Accounts, and had traditionally been in Public Accounts for many years, but this year they would have disappeared from public view unless they were included in this report. So I made a decision to include them in this report, so that a decision could be made. Maybe the decision is that they shouldn't be included in a public report; that is a decision of the Legislative Assembly, in effect. Mr. Chairman?

MR. CHAIRMAN: If you'd want to carry on, Mr. Rogers.

MR. ROGERS: Fine. The feeling on this particular one was that there were weaknesses to the system that led to the payment of this claim, which did not comply with the regulations under The Disaster Services Act, under which this payment was made, that in fact the circumstances did not coincide with those called for by the regulations. However, there was no evidence of wrongdoing, as such. The party concerned was not named because they, to the best of my



knowledge, acted in good faith, in that they simply filled out a form that showed their loss damage. I think the thrust of the recommendation is:

that Alberta Disaster Services take steps to ensure that procedures are strengthened to evaluate eligibility for compensation and the accuracy of items included on "Statements of Loss and Damage" and that individuals and companies compensated are properly informed of the conditions under which the compensation is paid.

The whole thrust here, of course, is that the weakness was in the systems in existence in Disaster Services, and not in any wrongdoing on the part of any third party.

Also, when payment is made on the basis of certain conditions, we feel that such payment should be treated as conditional grants, and in 4.2.6 we have a recommendation relating to conditional grants. Basically it is that where there is a condition on the basis of which public funds are paid, there should be the ability to determine that those conditions were indeed met, and that the department, in the first place, should be able to verify that conditions were met. I think also it would be a good thing if the Controller likewise could determine if conditions have been met, and also the Auditor General.

This is not to visualize three sets of auditors descending on everyone. It is that the right would be there, but obviously it would be exercised only when the circumstances indicated that it may be necessary to determine that conditions which were the basis of the payment being made, had been met. Because in some instances, the payment of a grant, for instance, will state that unexpended funds will be returned to the province. So there are many instances where the province has a direct interest that the grantee in a proper manner meets the conditions that he accepted when he accepted the public funds. The Auditor General Act is not operative with respect to any grants that are paid, because once the grant is paid, it ceases to be public funds. Therefore, The Auditor General Act is inoperative at that point of payment. I feel that a condition of the grant should be acceptance by the grantee of the fact that he is subject to subsequent audit, to ensure that he has, in effect, satisfied the conditions he accepted when he applied for and accepted public funds. That is basically what's involved in this recommendation.

4.2.2. deals with a federal cost-sharing claim. At the time of audit of the department, we found that this claim for \$482,998 had in effect been rejected by the federal government. The rejection was for the reason that similar costs had already been received from the Alberta Department of the Solicitor General, that this had been settled, and that the federal government's understanding was that this was final. Now, the Department of Social Services and Community Health had discontinued attempts to collect from the federal government; after we had drawn this to their attention, they did proceed to try to collect this money, and I believe that those endeavors are still under way.

However, again in keeping with the thrust of the Auditor General's report, and our mandate, the fact that this has occurred is one thing, but it does demonstrate a weakness in the system, which would allow this to occur. So we recommend that where costs are eligible for cost-sharing, the proper procedures "be established to ensure adequate liaison when submitting claims." This is where more than one department is claiming under the same agreement.

Federal sales tax: we found that losses were occurring due to failure to recover sales tax where payment of such tax had been made by contractors; contractors had purchased goods for the use of the government, and we were not recovering the federal sales tax. Consequently, as a result of observing this

and seeing that collections were being made as a result of this point being picked up, we recommended that a senior official of the Treasury Department be assigned the task of ensuring that government officials in departments and agencies are provided with information concerning federal sales tax regulations and their implications, and that Treasury should also be responsible for monitoring refund claims, because we found that a number of departments lack knowledge -- I'm not the only office in the government area that has a high turnover; there is a high turnover in departments as well. In the course of time, you find people are not as aware as they should be of the amounts of money involved in sales tax and the importance of making sure that the government gets the benefit of sales tax exemption.

MR. CHAIRMAN: Mr. Clark.

MR. R. CLARK: Mr. Chairman, to Mr. Rogers. Mr. Rogers, what volume of money are we looking at here that led to recommendation 4.2.3?

MR. SMITH: In the departments we're speaking about here, I think we're talking in the range of between \$100,000 and \$200,000. One department is around \$100,000, and the other would be about half that, I would say.

MR. R. CLARK: Which departments?

MR. SMITH: Housing and Public Works, and Environment.

MR. ROGERS: The point is that this condition can also exist in other departments, obviously.

As you are aware, the fixed assets are charged directly to expenses. Unlike a situation in the private sector where assets are carried on the balance sheet and therefore kept track of as balance sheet items, in the government environment there is no such tying in of assets to financial figures. Therefore the control systems on fixed assets must be something apart and separate. The need for this was recognized. Treasury's accounting and financial control manual deals with this subject very fully, and sets out the framework for determining whether an item should be considered a fixed asset, et cetera, et cetera, and also prescribes the system that should be in place to control fixed assets. However, we found these recommendations or prescriptions were not being followed by many departments, and the reason for its inclusion in the report, together with extracts from management letters, is to show that this is fairly widespread. Our recommendation as a result of that is that: "it is urgent that improvements are made to many of the systems currently in place to ensure adequate control and safeguards;" that is, over fixed assets.

Every effort should be made, as soon as possible, to implement systems which comply with the guidelines contained in section 9.5 of the Treasury Department's Accounting and Financial Control Manual.

We also suggest that: "the Office of the Controller review section 9.5.2 of the Accounting and Financial Control Manual, which defines fixed assets . . ." That says, "public property that cost in excess of \$100." This places a heavy burden on departments, and perhaps could be revised upward. However, it should not be revised upward in all cases, because some assets, although not very expensive, are, shall we say, attractive. So I think this matter should be considered by the office of the Controller.

Now a number of agencies, as we've said earlier, are specifically exempted by The Financial Administration Act from the Treasury Department's accounting and financial control manual, along with everything else. But I feel very strongly that while they are not legally bound to these guidelines or prescriptions of the manual, it would be helpful if they would observe at least similar standards. We recommend that those agencies that are not currently subject to the Treasury Department's accounting and financial control manual -- and I would point out that some have done this of their own accord -- those that haven't should implement and document procedures to adequately record, account for and safeguard all fixed assets under their custodianship."

As I said earlier, some provincial agencies which are not required, due to their being exempt under The Financial Administration act, had nevertheless designed systems that fully satisfied the standards contained in the Treasury Department's accounting and financial control manual.

MR. CHAIRMAN: Mr. McCrae, did you have a question?

MR. McCRAE: Yes, I did, Mr. Chairman. I wanted to ask if the Auditor General is auditing the accounts of these agencies or whatever, which I assume you are doing, and you're making this recommendation -- I am assuming there is a relationship between the auditor of any given organization and the organization being audited, a speaking or talking arrangement. I would therefore assume that you would make the same recommendation to them as you are making in your annual report, sir. Are you getting a positive response from the agencies that you're urging to do this?

MR. ROGERS: We are getting a positive response. The reason for including this in the report was that it was so pervasive and so extensive. In fact, the departments concerned are in most cases taking steps to improve their systems in this area. But I didn't choose to use the ability not to report, as is permitted by 19(5), because it is pervasive, and I felt therefore that all departments should be aware that they have responsibilities in this area.

MR. McCRAE: Thank you, sir.

MR. ROGERS: The government long distance telephone service, under 4.2.5 on page 40. I wouldn't want this particular item to be interpreted that I feel that the use of the WATS system or the RITE system -- the RITE system within Alberta, the WATS system for the rest of Canada -- is a bad thing. I think it is a very good thing. In itself, someone using the WATS system to phone, shall we say, Fogo, Newfoundland, on the weekend, does not in itself cost anything. The government does not incur a cost as a result of that phone call. But it uses up some of the usable allowable hours, and then if the allowable hours in the month are all used up, any subsequent phone calls, of course, will incur an additional hourly charge. So that is why it is objectionable to have people using the system for private calls, even on the weekend.

Using the system for private or overly long calls during the week causes another problem. The system gets tied up and it is sometimes virtually impossible to get anything but a busy signal. Of course what happens is that people dial direct, thereby incurring long distance phone charges, over and above the cost of the WATS system. But that is the context in which this should be read. I think that if proper monitoring only of those exceptional cases by the Department of Housing and Public Works takes place on a sampling basis, matters should be brought under control. The problem has been that hitherto the department has not known who the calling party was. They know

the number that has been called; they have all the information on that: how long the call was, when it took place. But they don't know who did the calling, because it all appears as the same originating number. But I believe steps have been taken to upgrade the system so that the calling party, or the calling number, is known, and any undue abuse in the form of numbers of calls or hours, can be monitored by the department. And it is the department's responsibility to ensure that this system is properly used. So that is the thrust of this particular observation.

4.2.6 deals with grant payments. Over the last several years, we've seen a considerable improvement in the controls surrounding the payments of grants. While there are some areas that perhaps should be improved in the payment and approval of grants, I think the one area that perhaps requires the most attention is the area of conditional grants, and I've already dealt with that in earlier comments.

4.2.7 deals with incorrect program charges. When this was drawn to the department's attention, they took the necessary corrective action, and consequently, there was no distortion of Public Accounts as a result. But it was done deliberately, and consequently I felt it should be included in the report. It was a situation where, instead of taking the usual or proper steps in the case of overexpenditure, unexpended funds for another purpose were used incorrectly by wrongly coding the payments.

Overtime payments -- Fort Saskatchewan Correctional Institution: I think that speaks for itself. I have a lot of sympathy with the management's problems in this area. Management has stated that staff shortage has made it impossible to comply with all policy guidelines with respect to correction officers.

MR. R. CLARK: Mr. Rogers, I apologize for going back, but I'd like to go back to 4.2.6, specifically with the statements there as far as the Department of Environment is concerned. Could you explain to me -- I just don't understand how a grant application which isn't signed, how the money could be approved. On page 41 under Environment. I may be missing something, and don't understand how the system operates.

MR. ROGERS: In our examination of the files in the department, these were the situations we found.

MR. R. CLARK: Mr. Rogers, pardon my ignorance, but how does the cheque get processed, if there's no grant application?

MR. ROGERS: The payment document itself was signed by the officials who normally sign such documents, but the supporting evidence which they relied on was not signed in some cases.

MR. R. CLARK: Mr. Rogers, once again pardon my ignorance, but how would an official in the department sign a document which in essence says, all the conditions have been met, when the application isn't signed?

MR. ROGERS: That was the why this particular management letter was written to the deputy minister, with copies to the minister and the secretary of the Treasury Board.

MR. R. CLARK: So that I clearly understand what happened, then. Pardon my ignorance again, but we have a situation where there's no signed grant application, some official in the department said, despite not having the application signed, we've met all the criteria. And just on that one person's signature, the money gets paid. Is that what happens?

MR. ROGERS: There was a definite breakdown of the internal control system at this particular point, for these particular instances we observed. Yes.

MR. R. CLARK: Mr. Rogers, was this one situation, and could you share with the committee -- perhaps this isn't the most appropriate time to share that kind of information with the committee -- but was it done to speed up the application, was it a matter of a letter coming in one day later with the signed application?

MR. ROGERS: I don't think it's a situation of bypassing controls. I think that you do get instances of carelessness, and you also get instances where not all copies are signed. Copies may be in existence that have a signature on them, but the ones we observed on file -- which are their official files -- did not have a signature.

MR. R. CLARK: Mr. Rogers, then, wouldn't you and your people go and see if this is an everyday occurrence or a once in 1978 occurrence? And if and when you did that, what did you find out?

MR. ROGERS: It was not a one-time occurrence. For example, reading from the management letter, and realizing these are quotes from the letters written at the conclusion of the audit: "For example, numerous files were examined which contained the following deficiencies . . ." It was not a single instance.

MR. R. CLARK: This involved the municipal water works and sewage assistance program, was it?

MR. ROGERS: That's right.

MR. R. CLARK: When you spoke . . .

MR. ROGERS: And I do think that there is a different exposure, if you will, in this kind of grant, as compared with other grants one can think of where the payments are being made to citizens, shall we say.

MR. R. CLARK: Mr. Chairman, perhaps I might just say that perhaps sometime later when the committee is reviewing the whole matter, this may be an area it'll want to look at.

MR. CHAIRMAN: Mr. McCrae.

MR. McCRAE: I think my question was answered. It is municipal grants we're talking about, and there's no suggestion of wrongdoing. You're saying the housekeeping may not be as tidy as we would all like it. In some cases, even though all of the supporting evidence may have been somewhere, the final application form was not signed by the proper municipal officials. So you're saying the housekeeping needs to be restructured, and so on.

MR. ROGERS: Mr. Chairman, if I could just say . . .

MR. McCRAE: There's no suggestion that any municipal official or individual got any moneys he was not entitled to.

MR. ROGERS: With regard to that, Mr. Chairman, when you have a situation like this, you obviously have to make a judgment call as to whether it is, to coin a phrase, sloppy housekeeping or poor practice, or whether indeed there is the opportunity or possibility of something much worse. We always have that in

mind, and in this particular instance we felt it was in the category of undesirable practice and somewhat sloppy housekeeping. We were ourselves satisfied at the time that there wasn't anything other than that.

MR. R. CLARK: Has the department at this time shaped up its operation?

MR. ROGERS: Yes, it has.

MR. CHAIRMAN: Mr. Notley.

MR. NOTLEY: Mr. Chairman, I wonder if we could move from 4.2.6 to 4.2.7, where it seems to me we move from an area of sloppy housekeeping to something that, when I read it over, rather disturbs me a great deal. I had thought when I glanced over it first that what we had here was another example of sloppy housekeeping, but you note, Mr. Rogers, "It would appear that these payments were deliberately charged to the wrong program . . ." Now that is a rather more serious situation. It's not a question of carelessness. It seems to me that if we have payments deliberately charged to the wrong program, and I gather in this particular case we're talking about departmental support services -- we'd used up the expenditures there, and so they were shifted over to the Edmonton Remand Centre, because it wasn't operational.

Gee whiz, that's a violation of our whole process of government, that is, in my judgment, intolerable. The fact that it's been corrected subsequently is fine, but that doesn't alter the fact that it was done in the first place. I guess, if it was done in the first place, I'd like to know under whose authority it was done and whether any disciplinary action was taken, because to do it deliberately is really contempt of the Legislature. If it'd been accidental, then I think we could look at it in a more generous way. But the words "deliberately charged" -- frankly, that worries me, and I'd like you, perhaps, to expand a little more, Mr. Rogers, on what happened, who was involved, and why.

MR. ROGERS: Mr. Chairman, the three employees who were concerned in this instance have terminated their employment with the government, or were terminated. I think the department fully shared the feeling you've just expressed, as did my office, and the reason of course that when we found it, we handed it over to the department, who carried out a thorough investigation. I believe you were involved too, Mr. O'Brien, after we had discovered the situation. I think everyone felt this was an intolerable situation, and the department was with us completely on that. They found all the various transactions that were involved, corrections were made, and as I say, the employees concerned are no longer with the department.

It is included in here because of the deliberateness with which the -- and incidentally, those words and that opinion were concurred with by the department, that it was a deliberate act.

MR. NOTLEY: Do you have any information for the committee on just how it happened? Was there any failure in the control mechanism? I assume that a management letter went out to the deputy minister in this particular case. Or was it the sort of thing that frankly just involved fraud, pure and simple?

MR. ROGERS: I don't really think the people concerned thought in terms of fraud. They were shortcutting and what have you. I would not like to get into what their thought processes were when they did it. I don't think there was any thought of fraud, but it certainly did mean they didn't have to get a special warrant, shall we say, for that particular program.

MR. NOTLEY: I guess the concern I would have, Mr. Rogers, is that if that kind of shortcutting took place by deliberately shifting payments, what mechanism do we have in place in that department now to forestall that? Was it just a problem that could be laid exclusively at the door of these three employees, or was there something wrong with the system that made that easier to happen than would normally be the case otherwise?

MR. ROGERS: What is involved of course is incorrect coding. If you get collusion within any department, it is very difficult to pick this up. However, I would suggest that the recommendations in section 5 of this report, which involve each department of significant size having an internal auditor -- that is one of the functions of internal audit, to make sure that kind of thing isn't going on.

MR. NOTLEY: And are you satisfied, Mr. Rogers, that the extent of this problem was in fact confined to three people and only three, who are now terminated, and that no other people in the department were aware of it or allowed it to happen, because of the convenience of not having to go through the process of getting a special warrant?

MR. ROGERS: I believe that to be the case, that it was just the three people.

MR. SMITH: I don't think there's much doubt about that.

MR. CHAIRMAN: Bob Clark.

MR. R. CLARK: Mr. Chairman, to Mr. Rogers and his assistant. I don't profess to know who all has to sign an application for a special warrant, but at what level in the department were these three -- well, whatever term one wants to use -- characters, who were dismissed?

MR. SMITH: I can't recall the exact titles, but they were fairly senior financial and accounting officers within the department. It was not the senior financial officer, but the number two man, plus another senior officer. I'm not exactly sure who the third member was. But they were senior enough to be in a position to make the adjustment to these documents and not get picked up by anyone above them, really.

MR. R. CLARK: So what we're talking about, if I understand what's being said, is that this was the number two financial officer in the Solicitor General's Department, who, if I could put it crudely, deliberately set out to use funds in a manner that was not approved by the assembly. Is that an accurate assessment?

MR. SMITH: Yes. Well, he was basically trying to save himself the problem of obtaining a special warrant by charging them to a program which had funds available in it, as it was near the year end and they were scrambling to get all their documents processed. They just took this as the easy way out, really, and unfortunately for them, they got picked up.

MR. R. CLARK: I'd just ask one question of Mr. Rogers or perhaps Mr. O'Brien. What steps have been taken since then to impress upon senior financial people in the various departments that it should be regarded as, I would think, pretty serious business that the number two financial man in a department, who I would assume understands the process that goes on in here -- whether it's a good process or whatever -- what steps have been taken to impress upon people at that level of financial management that it shouldn't be a situation of

fiddling with the approval given by the Assembly? I make it very clear, so that we don't get involved in an argument here in the committee, that I'm sure no member at all is suggesting that it's anything but administrative -- it may well have been done for administrative convenience, but administrative convenience can lead to an awful range of problems down the road. So what steps have been taken? To Mr. Rogers or Mr. O'Brien.

MR. ROGERS: I think as far as I'm concerned, inclusion of the item in the report was to bring it out to everyone's attention that this has happened.

MR. O'BRIEN: Mr. Chairman, I don't think that we have taken any general action arising specifically out of this event, because certainly everything that we are able to do, in terms of our guidelines and instructions and the financial procedures that are followed in the department, start from the premise of ensuring that funds are spent for the purpose for which they were appropriated by the Legislative Assembly, and that accounts are coded correctly. So I think, apart from the Auditor's comments about considering further measure to strengthen the financial management and internal auditing systems in the government, I think the importance of this issue is clearly understood by all departmental financial officers.

MR. CHAIRMAN: Mr. Notley.

MR. NOTLEY: Mr. Chairman, just following that up for a moment. I respect that it was put in the Auditor General's report by Mr. Rogers, and I think that is certainly appropriate, and I respect the recommendations being made which may guard against that problem in the future. But it does strike me that there is a rather compelling argument that we should in fact, through somebody in this government, notify every financial officer of every department that we had a problem here and that it was sufficiently troubling that it was raised officially in the Auditor General's report, and that it's just an intolerable action on the part of any financial officer, whether second or third in command, or down the line, or wherever.

It just strikes at the heart of our entire system of government. Without being overly dramatic about it, I think that this one allusion here in the report is probably the most serious matter contained in the entire report, when one thinks about the principle of our system of government. Frankly, I don't think anybody in Alberta knows that it existed. I think people have tended to gloss over it. I have to confess myself, that when I read the report -- and I must take some responsibility -- I read it in the light that it was a housekeeping error, and only as we've had the opportunity this morning to go into it in some detail did I realize that it wasn't that, that it was a deliberate effort to block or circumvent a decision of the Legislature.

MR. McCRAE: Mr. Chairman, I'd just like to make one observation. I think the point was well made that there was some avoiding the system, and none of us would support that, of course. But it strikes me that we're talking here -- we're putting a pretty heavy emphasis on it in the absence of the minister responsible. I think if we really want to get into this kind of detail, we probably should put that particular department and this particular appropriation on our list. I don't suggest we do it right now, but I think it is unfair to be talking in this detail and in this censorial nature, without the minister here able to respond in the detail in which the Auditor or the Controller are not able to respond. I have no quarrel with anything that's been said, but if we're going to go into it further, I think we should offer



the minister an opportunity to be here and offer the explanation of what really went on and what corrective action he has taken.

HON. MEMBERS: Agreed.

MR. CHAIRMAN: Committee members, it's 11:30, and I'm sure that we're going to . . . We've made progress with the report, but I'm sure it'll take another meeting. Would you indicate it would, Mr. Rogers, to complete the report?

MR. ROGERS: At least part of a meeting.

MR. CHAIRMAN: Motion to adjourn?

*The meeting adjourned at 11:30 a.m.*