

Standing Committee on Public Accounts

Wednesday, April 28, 1982

Chairman: Mr. Mandeville

10 a.m.

MR. CHAIRMAN: Can we bring our meeting to order. I see we have a quorum. Our clock is two minutes slow, so we'll be quitting two minutes early. We are not starting early, but we will be quitting two minutes early. You have your minutes of April 21 before you. Are there any errors or omissions in the minutes?

MR. HYLAND: (inaudible)

MR. CHAIRMAN: The minutes are accepted and will be filed. Any business arising from the minutes? If not, we're going to turn the meeting over to Mr. Rogers so he can complete the recommendations. I believe we left off at approximately 46 in the cross-reference and recommendations. Mr. Rogers, if we could turn the meeting over to you.

MR. ROGERS: Thank you, Mr. Chairman. Recommendation 47 is to the effect that auditors need not report matters that are inconsequential. Our legislation does satisfy that recommendation. Recommendation 48 is that auditors follow up the recommendations made in their reports and ensure that the responses are made known to the Public Accounts Committee. As you know from the practice we've established, that is indeed carried out. We publish the responses of the government to our recommendations, and then follow up, in subsequent reports, the action actually taken. Recommendation 49 is that there be statutory provision to make special reports, and that is in our legislation. 50, that legislation clearly establishes that auditors are officers of the Legislature, and that is in our legislation.

Recommendations 51, 52, and 53 relate to the filling of the position of Auditor General. That is provided for under the legislation, whereby the recommendation in the first place would be made by the Select Standing Committee on Legislative Offices. If the House were in session, the House could, in effect, accept that recommendation and move that the person chosen be appointed. If the House were not in session, the person could be appointed by order in council. But if he was not confirmed at the next sitting of the House, the position would again be ruled vacant and everyone would have to go through the same procedure. So our legislation does take care of making sure that the Legislative Assembly has control over the appointment.

Mr. Chairman, I can move on to Recommendation 54, that auditors be appointed for a fixed, non-renewable term of no more than 10 years. I can speak to this without prejudice, because my appointment takes me past normal retirement age anyway. I do not agree with that particular recommendation. If you have a particularly suitable person in the position who may be in his late '40s or early '50s, it would seem a pity, at the end of the 10-year term, to have him go elsewhere and bring someone else in. I think it would be a matter of judgment, probably for the select standing committee to make, at the end of that 10 years as to whether this man had sort of got comfortable in the job and was just going through the motions or whether he still had a bit of a cutting edge, in which case why not have a further appointment. I think this is a matter for discussion. Our Act does not provide for the non-renewable

term, but does provide for the fact that at the end of the eight years, the incumbent might be considered for a further term.

MR. McCRAE: Mr. Chairman, if I could comment, I think it would be our government's point of view that we are in full agreement with Mr. Anderson, that there is a total flexibility as to whether the appointment could or should be renewed.

MR. HYLAND: Mr. Rogers.

MR. McCRAE: I'm sorry; Mr. Rogers. It would be an error to provide in the legislation that the term could not be renewed; a question of judgment at the time.

MR. HYLAND: See how effective you are; he's forgotten your name already.

MR. McCRAE: What did I call him?

MR. HYLAND: Mr. Anderson.

MR. McCRAE: My apologies.

MR. CHAIRMAN: Any further questions? You can feel free to ask questions on any of the recommendations as Mr. Rogers goes through them.

MR. ROGERS: If there are no further questions on 54, recommendation 55 is to the effect that the Auditor's salary be tied by statute to that of top public servants. I presume this is to protect the Auditor General; I don't know. I don't believe that should be adhered to in our particular circumstances. I believe the present procedure, whereby the salary of the Auditor General is established by the select standing committee, is very adequate -- very good, as a matter of fact. So I would not recommend that consideration be given to that recommendation of the report.

The budget of the Auditor General's office is reviewed by the select standing committee, as recommended under section 56. Section 57: that is perfectly open to me at any time in my annual report if I felt the resources available to me were not sufficient. So I don't think there's a problem with Recommendation 57.

I think 58 has been taken care of in the legislation. There is freedom; for instance, in those situations where the Auditor General's office is subject to control by government. If any rulings can be shown to impair the independence of the office, then the Auditor General can take the matter to the select standing committee. Under the legislation they have the power to amend the rulings in question.

MR. STEVENS: Mr. Chairman, perhaps I might indicate my support and understanding of the approach we have taken in this Assembly. Where there is a case where recruitment, classification, or salary presents a problem between a position with the Auditor General's office and another position, the relief valve of the select committee is very useful for the government of Alberta as well.

MR. ROGERS: Recommendation 59 is that there be provision for an audit of the audit office, and for the first time that has now been carried out under the Auditor General Act. One small difference is that technically, our legislation would allow an employee of the Crown to be the auditor. But in

actual practice, the office of the Auditor General is audited by a private sector firm.

MR. McCRAE: Should we expect any surprises, Mr. Rogers?

MR. ROGERS: I think the Controller could probably mention -- I think you've seen the management letters, Mr. Controller. I don't think there are any surprises there, are there?

MR. O'BRIEN: I don't believe so.

MR. ROGERS: Recommendation 60 of the report recommended that "separate legislation be enacted dealing with the auditor", and of course that was effected in the Act passed in 1977.

Recommendation 61:

A committee of senior representatives of all recognized parties in the House, including at least one minister, be given responsibility for approving the auditor's budget for presentation to the House

...

The select standing committee does include a minister, but it is in effect submitted to the Provincial Treasurer for inclusion in the budget. In practice, on the basis of the last three years, we've not had any problem with the procedure included in our legislation. So I don't think there's any need to take the provision of 61 into account.

I believe we comply with Recommendation 62 and in fact are doing that right now. Recommendation 63: the Auditor General does attend all hearings of the Public Accounts Committee. Recommendation 64:

Public accounts committees make use of auditors as advisers while preparing their agendas and reports and in briefings prior to their hearings.

Mr. Chairman, I think you're aware that I'm available at all times.

MR. McCRAE: Mr. Chairman, I believe we comply with that. When we get into your report here, sir, and you take us through that, that will probably be the basis on which we decide what our next step or meetings will be all about. So in effect you are an ex officio adviser to the committee.

MR. ROGERS: Yes. And of course I do discuss the general subject of the format and style of the report, both within the report itself and verbally when I present the report.

Recommendation 66:

Auditors prepare their reports with the needs of public accounts committees in mind.

I prepare the reports with the perceived needs of a number of parties in mind, including the Public Accounts Committee. I would certainly take any express needs of this committee into account.

Recommendation 67:

Auditors consider issuing separate reports on special studies or comprehensive audits as they are completed.

I think there are pros and cons with this. A stream of reports throughout the year would tend to detract from the focus that's there when one report is issued. The GAO in the States issues its reports as they are ready, and I think something is lost in that process. However, I think the way we operate -- that if there is a very important matter, that report could be issued at any time -- is perhaps adequate for our purposes.

Recommendation 68:

Public accounts committees be given the power to instruct auditors, by resolution, to conduct specific examinations, provided that such assignments do not unduly interfere with the regular duties of the audit offices.

Under our legislation, I don't believe there is any provision for the Standing Committee on Public Accounts to instruct the auditor to carry out investigations; rather the committee would have to go to the full House, and by resolution of the House. Then under the legislation, I would accept those directions to carry out whatever investigation was required. I think that feature was built into the legislation, that in all cases only the House, by resolution, could ask the auditor to carry out certain work.

In actual practice of course, if the committee wishes some elaboration or information, that wouldn't be covered. As you know, that is carried out. It would only be, for instance, going back in the past, where there would be investigations that this committee would wish me to carry out. Then they would have to go that route. I think that is reasonable.

Recommendation 69:

Public accounts committees discuss with auditors the most appropriate manner of using the services of the audit offices to follow up committee recommendations.

This would be up to the committee. If they wish to discuss that at any time, I will obviously be happy to discuss it.

Mr. Chairman, having dealt with up to Recommendation No. 69, I think that concludes the review of the recommendations of the report.

MR. CHAIRMAN: Are there any further questions to the Auditor General before we leave the Auditor General's recommendations?

MR. McCRAE: A general comment, that it is amazing how close we are to the recommendations of the foundation group. The only areas we appear to depart at all are where we have greater flexibility, direction, and discretion than they recommend. I think discretion and flexibility are attributes or areas we should keep open. I'm very pleased that in spite of the stories we read about a year ago, about how flagrant we were in our departures from the recommendations, it's really amazing how close we are.

MR. CHAIRMAN: If there are no further questions to the Auditor General, on behalf of the committee I certainly want to thank you and your staff for going through these recommendations with us. As was recommended by the committee, that we file a report on improving the accountability of public accounts and legislative auditors, we'll get together and work on this. I will get the vice-chairman possibly, and we will have a report. We have all the remarks of the Auditor General on this cross-reference and the recommendations here. We have all the Hansards. So we'll go through this, prepare a report, and then present it to the committee. That is the wish of the committee, so we'll have that taken care of.

So if we now take the next step on our overall agenda, we're going to be dealing with recommendations in the Auditor General's report. Has the committee any recommendations on how we should handle the Auditor General's report? The last report we went through with the Auditor General, we went through it item by item. We can continue to do this if the committee wishes.

If that is the wish of the committee, Mr. Rogers, maybe I can turn the meeting over to you on the recommendations in the Auditor General's report. If you have any overview of the report, maybe you want to start with that.

MR. ROGERS: Mr. Chairman, I took a bit of a different tack this year, in that for readers of the report I have prepared an overview, which I think sort of helps in that it summarizes the substance of each of the matters reported upon. If anyone is short of a copy, we have ample copies with us. It's white, plain sheets, looking somewhat like this.

In the meantime, perhaps I could proceed. If we look at page 1 of the report, Section 1.1.3 is the overall opinion. That overall opinion, which is based on a great amount of audit work, as you can well appreciate, is that:

. . . the financial affairs of the Province of Alberta were administered in a generally satisfactory manner during the 1980-81 fiscal year. This . . . opinion does not detract from the significance of the audit observations and related recommendations contained in this report. A number of these recommendations for improvement to the design and operation of financial and management control systems have been communicated to and concurred with by management, which has undertaken corrective action. Furthermore, since it is neither practical nor necessary to audit all control systems every year, some are audited on a cyclical basis. This overall opinion, therefore, relates only to those systems audited during the 1980-81 fiscal year.

But that does include all relevant financial systems and many management control systems.

MR. CHAIRMAN: Mr. Rogers, if you approve, possibly we could have questions on each item in the Auditor General's report, as you deal with it.

MR. ROGERS: Very definitely.

DR. CARTER: Mr. Chairman, through you to to the Auditor General. Mr. Rogers, is this just accountants' vocabulary to say it was administered in a "generally satisfactory" manner. I'm a bit concerned that when someone from the general public reads that, they focus on the words "generally" satisfactory instead of "satisfactory". A number of people look at that and say, well, that means it was so-so. Whereas from an accountant's point of view, I think it means that it is more than so-so; it is quite positive. Do you understand what I'm trying to get at with those two words "generally satisfactory"?

MR. ROGERS: In another context, I've drawn the allusion to an iceberg, where the vast bulk of the ice is below the surface. The report focuses on what is above the surface, if you will; in other words, the top of the iceberg. That which lies below ranges from satisfactory to very good, and perhaps a few things need improvement. But none of those things is of material significance, in that no losses as such took place. It is a combination of quite a range of situations.

So I have to give an overall view, including the top of the iceberg that's out of the water; in other words, what's in this report. But taking all that into account, I believe you can use the words "generally satisfactory". They are meant in an English sense and don't have any obscure meaning. They are my words.

I think it's a matter of judgment. If we had a situation where a large number of systems was giving trouble, there was a profound risk of loss, incompetence, poor management, and so on and so forth, and it was a bit of a shambles, then I wouldn't use those words. I'm not sure what words I would use, because I haven't been faced with the situation. But to me, I think that those words adequately describe the overall situation: the good, the bad, and the just satisfactory.

MR. CHAIRMAN: There are no further questions. Did you want to carry on, Mr. Rogers?

MR. ROGERS: Perhaps we'll go back to the first page of the overview. You'll notice the comments relating to the opinion I just gave under Section 1.1.3, page 1. Now if we could go on to Section 1.2, which deals with the special report on the Alberta Heritage Savings Trust Fund. As everyone is aware, this report was issued separately a few months ago. I have brought forward into the annual report what I believe are the key factors of the report on the heritage trust fund, in that we have the special report opinion, which was requested by the government. I have repeated that opinion under 1.2.2.

MR. MAGEE: Mr. Rogers, I take it that this is strictly a special report opinion, as it states, and wouldn't necessarily change in any way the normal pattern of looking at the heritage trust fund in more depth during the fall session, as has been the case in time gone by.

MR. ROGERS: This special report opinion was actually brought right up to the end of the last calendar year in the special investigation that was carried out by my office. It's repeated here, because I believe it is significant that the work was done in a very complete way. From that point of view, I think the opinion is of some significance.

DR. CARTER: Mr. Chairman, through you to Mr. Rogers. Have you been able to run an estimate of the cost of running that special report on the Heritage Savings Trust Fund? I assume most of it was covered in-house by the normal expenditures of your department. But have you been able to do a 'guesstimate' as to what the cost of it was?

MR. ROGERS: I don't have any actual figures with me. I have to say it was considerably more than the cost would have been. But a great deal of the work that was carried out there was audit work that we would have had to carry out for 1981-82 in any event. But it brought it forward. There was additional work, quite obviously. I can't quote a figure, but I certainly can obtain figures for the committee if it so wishes.

DR. CARTER: If the committee doesn't request it, perhaps the Auditor General and I could speak to each other on the phone about what the amount of it was.

MR. ROGERS: Mr. Chairman, is that a request for that information by the committee?

MR. CHAIRMAN: It's a personal request from Dr. Carter, unless the committee would like to have the figures. Is it the wish of the committee for Mr.

Rogers to bring the figures to the committee? It's agreed then, Mr. Rogers, that it's . . .

MR. R. SPEAKER: (inaudible) fulfil those special requests. If it's the intent of the committee just to get the information to say this is how much money may have been wasted on an investigation that wasn't necessary -- if that's what the object of the Conservative group here is, I don't accept that at all.

DR. CARTER: I'm sorry, Mr. Chairman, I object to that.

MR. R. SPEAKER: What else is the purpose of it? Within Mr. Rogers' responsibility -- and it says right in the Act that Mr. Rogers, upon request, would take special tasks upon himself and staff. A special task was requested by the Premier of this province and fulfilled. I don't see any objective of looking at what the administrative costs were; they were there. But it's the taxpayers' money we're trying to protect, and that's more important. So the expenditure is proper. If the Conservative members here feel that the expenditure was improper, they should point out why they think it's improper. But it was a proper expenditure, so we should have no concern or beefs.

DR. McCRIMMON: Regardless of whether it's proper or improper, an expenditure was required, and I think it should be brought forth to this committee. I think that's the purpose of this committee. We look at government expenditures and at audit expenditures. Whatever the requirements are, let's bring it forth in front of the committee. I think that's standard procedure, whether it's for the government side of the House or the opposition side.

MR. R. SPEAKER: For what reason?

DR. McCRIMMON: Is it a frivolous request or isn't it? Let's find out what the request cost.

DR. CARTER: Mr. Chairman, I'd like to object to some of the comments of the Member for Little Bow, in the sense that he imputed as to the reasons for the question. He said that we had improper reasons for asking it. That's his personal opinion. As a member of the Public Accounts Committee, I believe that we're here to examine all sorts of various issues. It is not improper for us to ask what the actual costs were with respect to various parts of the operation of the office of the Auditor General. In terms of the minutes of this meeting, it will show that the Member for Little Bow said we want to use this for political means. Again, that is his personal opinion.

MR. CHAIRMAN: Any further comments or discussion? Carry on, Mr. Rogers.

MR. ROGERS: Thank you, Mr. Chairman. I will bring the cost of the investigation to a subsequent committee meeting.

1.2.3 deals with a number of recommendations that were included in the special report. I felt that in order to avoid losing sight of them, it would be advisable to bring them into the annual report, which I did. They are repeated on pages 4 and 5.

If we could now proceed to pages 7 and 8 of the report, the way in which the audit office develops its report. On page 10 we get into the report proper. The first item dealt with is 2.2.1. I think the overview is a little easier perhaps than the full narrative. It

comments on the methods used by the Department of Energy and Natural Resources to ensure that the Province collects its resource

royalties. Since the Province derives almost 60 per cent of its revenues from resource related sources, the methods used to collect these revenues must be as efficient and effective as possible. It is believed that the benefits available from a further expansion of the activities of the Department's Mineral Revenues Audit Division would more than outweigh any additional costs involved.

I think the report itself details the sequence of events that led to those recommendations. I would say, and I want to make it quite clear, that the second paragraph from the bottom of page 10, which talks about the value of increased audit activity as illustrated

by the fact that four of the audits identified royalty underpayments totalling approximately \$7 million.

I want to make it quite clear that that is audit activity carried out by the department. Perhaps we did have a part to play in developing their audit programs and in, shall we say, working with them in the development of the audit teams they now have in place. But I believe the results are showing on an ongoing basis, because I've had some further ones in, since the report was published, that indicate the value of that activity.

MRS. CRIPPS:

It is believed that the benefits available from a further expansion of the activities . . . would more than outweigh any additional costs . . .

Are you indicating there that you feel they need more people or that they need to improve the audit procedures? If so, what kind of additional costs would be involved in that case?

MR. ROGERS: At the time the recommendation was originally made, they had been trying to get people at the right level, but for various reasons had not been successful in getting them. You really need someone with audit background and experience in order to be able to do an adequate job. When you're faced with records that are unfamiliar, you need a pretty first-class auditor. They have been successful in getting some staff of the right calibre, but quite obviously there is a need for expanding that still further. But the returns from such audit work, of course -- the savings are many times more than the costs involved. We're talking about simply a staff cost. We're not talking about a lot of people. We're talking about the right level of person, with the necessary experience and knowledge.

MR. STEVENS: Mr. Chairman, I think the people of Alberta, the Legislature, and the department owe a great deal of appreciation to the Auditor General's office for recognizing this problem over a period of time and developing a strategy for dealing with it. The responses are obviously well required.

Could I look specifically at no. 8 and ask the question . . . Mr. Chairman, the Auditor General is saying that consideration should be to "legislation to provide the Auditor General with access rights". The question I ask is -- and it's just my unfamiliarity with it -- are there other situations in Acts where the Auditor General would have access to organizations other than Crown organizations? I'm looking at 6, 7 and 8, on page 11. Or would the acceptance or requirement of another auditor be sufficient, where required; in other words, if a private company has an accountant or is required to have a

fully audited statement, would that not be sufficient? In my own mind, I'm concerned. Do we have provision in other legislation for this request?

MR. ROGERS: Mr. Chairman, the problem here is that in our audit of the department's activities, the one area you're unable to determine how well they are doing the job is the situation where their auditors go into the records of the royalty payer and come back and say, yes, we did a fine job. You have no way of knowing what it was they really did. Did they look where they should have looked? Was their scope adequate? You have no way of forming a judgment in that situation unless you're there.

I fully agree that the last thing we need is the Auditor General with a lot of people charging around, auditing everyone in sight. I'm not asking for that at all. On a sort of spot basis, I'm asking to be able to join an audit already in progress and, preferably, almost complete. My people could then review how effective, adequate, or successful was the audit activity being carried out was. I think it's simply an extension of the watchdog activity. If the work was being done in the office of the department, you have no problem. The documents are there. Here, you have no way of knowing how effective the audit operation is unless you are actually with them. That was the secret of this particular exercise. At the request of the department -- it was actually a joint affair. After discussion with the department, we were invited to join them, on a joint basis. I think that was what originated all this, because we were able to be with the departmental people on an audit. In the future, we will have no way of knowing how their work could be improved without being able to join them on subsequent audits.

What I'm looking for is fairly minimal. It's more or less a matter of perhaps spending a day or two with their auditors, but being able to do it as a right on a surprise basis, so they're not necessarily expecting you to come. I'm not recommending that we have the right, for instance, to independently go in and audit royalty payers' records. You get auditors chasing auditors, and I'm not looking for that.

MR. STEVENS: Are there any other examples where you have felt this need and we as a Legislature have responded to that need? Not in royalty payment, but in some other systems.

MR. ROGERS: One other area readily comes to mind that is almost exactly like this, and that's in the corporate tax area. We will be discussing that this coming year.

MR. CHAIRMAN: Are there any further questions on the Department of Energy and Natural Resources?

MR. ROGERS: Mr. Chairman, I'd like to proceed to Section 2.2.2, which deals with the Department of the Environment, land acquisition and administration. Here too, I want to make it quite clear that we are talking about the systems in place and not the individual decisions. Item one deals with a situation that arose as a result of using a particular "offer to sell" form. By its actions and records, it did seem that the department expected that form to offer them protection which indeed it did not offer. The sole purpose of this particular item is to draw that to the attention of the department and the government.

The second item deals with the fact that the department was administering land for which it did not have the necessary authority. That authority has since been provided by the passage of orders in council. I think those observations gave rise to recommendations 9, 10, and 11.

MR. CHAIRMAN: Are there any questions in this area? If not, could we continue with the Department of Social Services and Community Health?

MR. ROGERS: Item 2.2.3 has been discontinued. Therefore, the recommendation is not repeated. The situation, as recorded on the last paragraph of page 12, is that the province of Alberta is still negotiating with the government of Canada for recovery of the original claim. That matter may still be in abeyance for quite a while, but the purpose of bringing the matter to light in the first place was to make sure the procedures were set up for the future. That has been done. Consequently, the recommendation is not repeated in the report.

Mr. Chairman, if we could proceed to 2.2.4, dealing with the Social Services and Community Health public assistance overpayments. These overpayments were not discovered by the Auditor General's office. I want to make sure that that is understood. These overpayments were discovered by the department itself. On March 31, 1981, the social allowance overpayments receivable amounted to \$11,677,000, compared with \$8,315,000 recorded on March 31, 1980. The fact that there had been such an increase in overpayments the department was attempting to collect, indicated deficiencies in the systems involved. Those deficiencies are set out in the report.

DR. CARTER: Mr. Chairman, I'm sorry, just to go back for half a moment to 2.2.3. Mr. Rogers mentioned that the system of billing the federal government has been rectified, but I wonder if you might just outline what that system is. I assume it goes through the audit section of the Department of Social Services and Community Health. Is one person designated to make certain we stay on top of this procedure?

MR. ROGERS: Treasury has set up a section to co-ordinate these claims. Do you have any knowledge of that, Al?

MR. O'BRIEN: Yes, I think fundamentally we now have a kind of clearing house in our revenue administration division in Treasury that keeps track of all claims and shared cost agreements, and supposedly would identify a gap in the claiming process, or a lack of co-ordination between two departments.

MR. ROGERS: The original point, Mr. Chairman, was where two departments were involved. One department in effect indicated to Ottawa the matter was closed, and there were still outstanding amounts in this other department. That lack of co-ordination was the real problem area as we saw it. That has now been rectified by action taken by Treasury.

MR. HYLAND: Mr. Chairman, in that audit year, the increase in overpayment was approximately \$2 million. That brought the total overpayment to about \$11 million plus, wasn't it? Something like that.

MR. ROGERS: \$11,677,000.

MR. HYLAND: Okay. When there is an overpayment and the department proceeds to collect that overpayment, do you suppose that will ever get wiped off? Some of the payments are something like \$20 a month. It could be a \$1,000 or \$2,000 overpayment, or whatever. In reality, are they ever going to be collected? Will that keep growing? Or will it close down? I don't think we'd even collect half the interest off them.

MR. ROGERS: Mr. Chairman, I think this really is a matter that the department should answer. My own feeling is that it will continue to grow or be written off, as the case may be. I think collection in full is doubtful.

MR. HYLAND: Does the percentage of the overdue accounts that are having some payment made on them show in the accounts?

MR. ROGERS: I really don't have with me any information on that. But certainly the department, if called, could give an explanation of the procedures they carry out, or I could bring some information on that matter to this committee, if the committee wishes. Offhand, I'm afraid I just can't give the answer on that.

MR. HYLAND: I for one wouldn't mind the information. I don't know about the rest of the committee, but I wouldn't mind having a look at it. I realize it's something the department has to assess and check out. I was just seeking out your comments as the Auditor and what your feelings would be in that particular issue, seeing as it's listed in your report. I think it's fair to say that when the general public, when they read something like that -- and \$2 million is a small percentage of the total payout in social assistance during that calendar year -- and see any sort of abuse of the system, they react and ask me as a politician, how can it happen and how are you stopping it from happening? I guess that is the same kind of question I'm asking you as the servant of the Legislature checking the accounts.

MR. ROGERS: Mr. Chairman, do I understand there's a request for a breakdown of the collection activity on these amounts?

MR. CHAIRMAN: Mr. Rogers has agreed to bring this information. Would it be the wish of the committee to have this information? Anybody opposed?

MR. HYLAND: I'm not sure it would have to be every one broken down. I'm looking for what you've often done before: the overview.

MR. ROGERS: That's right. It wouldn't be by transaction, obviously. But I think we could probably give some indication of the collection activity that is taking place in the course of the . . .

MR. McCRAE: Mr. Chairman, I just want to ask a general question about the fourth comment or recommendation in the last line of paragraph 2 of the introductory 2.2.4:

. . . 117 instances were noted where the amount owing by an individual exceeded \$5,000.

Then we come to Section 4, where you've got:

A significant number of social allowance cheques, which . . . reported lost or stolen, were subsequently presented for payment . .

I can appreciate the department's dilemma if someone comes to them and reports that they've lost a cheque, it has disappeared, or whatever. Social assistance recipients obviously need their money on time. I guess I understand the position of the social worker in putting out a second cheque. But where the lost or stolen cheque is then presented for payment, I want to ask a couple of things. One, is there evidence of repeat cases, where the

person presenting the subsequently found cheque has done the same thing on a number of situations? The second part of the question would be, do any of these particular individuals fit into the category of the 117 people where the overpayments have exceeded \$5,000? I guess I'm really asking: is there any evidence of a predetermined course of action to defraud the taxpayer in the social assistance area?

MR. ROGERS: Mr. Chairman, perhaps I could include that in any other information I prepare for this committee. I'm not aware . . .

MR. McCRAE: . . . very, very general basis. I don't want to spend a lot of your dollars or the taxpayers' dollars pursuing it. Perhaps it's a departmental matter. If you have the information close by, I would like it. If you don't, don't bother.

MR. ROGERS: Right, okay. Our working papers would show that kind of situation. But I'm not aware of them right now.

MR. MAGEE: Through you, Mr. Chairman, to Mr. Rogers. I wonder if your report could also give an indication as to the number of these cases that are taken to court in an attempt to reclaim the funds. Granted, we know that a welfare recipient hasn't got much money. But do we finally go to the point of trying to collect through court action, if necessary? Or is this just throwing good money after bad?

MR. ROGERS: Mr. Chairman, I will include any such action in the information I'll be presenting to the committee on this subject.

MR. CHAIRMAN: Any further questions on this topic?

DR. CARTER: Mr. Chairman, with respect to the wording of Recommendation 13, I think it's quite clear that the Auditor General wishes that the whole

practice of reducing the year-end social allowance overpayments
receivable and the allowance for doubtful accounts . . .

cease. I want that to be crystal clear, because it reads here:

by an amount equal to one-third of the year-end receivable.

While that has been the practice that was in effect for that department in the year you examined their books, as you read this motion you could say, well, are you really saying that perhaps it could be reduced by one-third, by 10 per cent, or by some other amount? But I believe, as I have looked at this for the last 10 minutes, that it really means that the whole practice cease. Is that correct?

MR. ROGERS: No, sir. Mr. Chairman, you have to read the preceding paragraph. Recommendation 13 applies only to that. This is something that came to light when we were looking at this area. I looked in public accounts to find out if these receivables of \$11,667,000 were reflected as a receivable in public accounts. I found that the figure was quite a bit less than that. It was \$7-odd million. I found they had adopted this rule-of-thumb reduction of the accounts receivable.

All this is saying is that the accounts receivable should be shown in public accounts at their total value, but realizing that the net effect won't be different because you will automatically increase the allowance for doubtful

accounts. This is a recommendation that is quite separate from the earlier part of Section 2.2.4. It applies only to the accounting presentation.

MR. CHAIRMAN: Any further questions on Social Services and Community Health? If not, could we continue, Mr. Rogers?

MR. ROGERS: Mr. Chairman, Section 2.2.5 deals with expenditures in excess of authorized limits. While there is blanket authority for such excess expenditures to be charged against the next year's funds, it is in effect a violation of the limits established by the Legislative Assembly at the time the budget was approved. The details are on page 78 of the report. They show the departments that exceeded the limits, to the extent of \$3,795,070.

All this section does is recognize there were these excess expenditures, over and above what was approved by the Assembly, and say that government department systems should alert them in sufficient time that they can cover such expenditures with special warrants or simply avoid expending more than they have authority to expend in the year.

MR. CHAIRMAN: There appear to be no questions in this area, Mr. Rogers.

MR. ROGERS: Mr. Chairman, I'd like to move on to 2.2.6, which deals with federal sales tax. As that whole area is now working very well and Treasury has been assigned the task of ensuring that government officials in departments and agencies are provided with information concerning federal sales tax regulations and their implications, that is now no longer a concern. Consequently, the matter is discontinued.

2.2.7 deals with fixed assets. Although some progress has been made in establishing the system to record the fixed assets, the situation is not good, as indicated. I have chosen a couple of situations, one a department and one the University of Alberta. I would like it understood that they were selected because they perhaps have done more work than anyone in this area and, in effect, should be commended for their efforts. On the other hand, the work they have done has revealed how potentially serious the situation is in other departments which have yet to tackle the subject.

It's simply a matter of knowing what is owned or what they are responsible for so they can take the necessary action to safeguard those assets. I think the key to this is for the government to determine what it is they wish to control. As it stands right now, technically a department is responsible for ensuring that all items in their custody over \$100 are accounted for. Perhaps the scope of that responsibility is part of the problem. On the one hand, one might say that a government should at least know what buildings it has. Some governments don't know that. On the other hand, you could say they should know how many paper clips they have, and everything up from paper clips. But obviously that is unrealistic. So the government has to determine the point above which there should be records of the assets held, the custody for which they are responsible. Also they should periodically make sure those assets are present rather than just recording them. This is not an accounting exercise. It is a way of controlling or ensuring that those assets actually are there. Of course if they're not there, the questions is: what precautions should be taken to ensure the safeguarding of those assets? That is what we're aiming at. It isn't just an accounting exercise to make sure we have nice tidy lists of all the assets.

MR. KOWALSKI: Mr. Chairman, a couple of comments to the Auditor General. I think his opening statement on page 15, under 2.2.7, fixed assets, using the words "is inadequate and ineffective" is very strong. In my experience and association dealing with fixed assets in at least one department of our

government, I have to agree with those words. I think it's a very, very difficult problem. When one looks at his own individual circumstances in his family and and looks at his backyard this time of year, trying to find all his hoes, rakes, pitchforks, and what have you, to get his gardening work done, and invariably finds out that his children have lent them to the neighbor's kids to play with and it will take him four months to try to retrieve them to get an inventory -- that is just a very, very small example to point out the very complex problem that would exist in an entity as large as the government of Alberta, with its enormous number of fixed assets.

It's an area that I really want to commend the Auditor General for including in his report, and is an area that I think all my colleagues and everyone associated with government have to be much more cognizant of. I guess the dilemma is one he has already referred to: where do you begin and where do you end? It's by nature of that beginning and ending that I would like him to clarify for me the usage of two words he has in Recommendation No. 15, on page 18:

An accurate and timely record of assets under the entity's
custodianship . . .

I would like to know his definition of "entity's custodianship". Is he talking about an agency, department, or individual as the entity's custodianship?

MR. ROGERS: I'm talking about a department or a provincial agency. Very often we find that if assets are provided by some other department, whether it be Housing and Public Works or whatever, there is a feeling on the part of the department or provincial agency that they don't really have a responsibility in relation to those assets. I feel they do. I feel they are the custodians. It's unreasonable to expect Public Works, for instance, to exercise physical control over assets that they don't even know what use is being made of. It's immaterial whether a department buys its own assets or receives them from some other department of government. Once they are in their custody, they have a responsibility.

MR. KOWALSKI: I wonder, sir, if you're in a position to comment on the advisability of having two types of responsibility attached to the fixed assets in our province, one level assessed to a particular department, agency, or institution, and a second level attached to an individual employee of that department, who would be assigned a variety of fixed assets, whether it be a small calculator, to a typewriter, to a desk, to a flower pot -- what type of system we might want to take a look at that would ensure that individuals are held responsible for those assets that are assigned to them and they make use of for a period of time. Do we have a system of records where each and every employee of our province has definite responsibility, and a listing of responsibility, for those fixed assets they make use of? What type of system might be developed to ensure that some degree of inventory accounting is done periodically?

MR. ROGERS: Very definitely. I couldn't agree more that it's necessary within a department. It's one thing for the department to be able to account for the assets it has custody of, but it's another thing -- and equally important -- that they have internal controls over the use made by their employees of assets that are entrusted to those employees. I think it's kind of a two-tier thing. But I'm not sure exactly what the manual says on that. Do you have any comments on that at all, Mr. O'Brien?

MR. O'BRIEN: I believe we suggest that in their records of the assets, they should record the individual who is accountable for those assets. But normally that would be the managerial level of employee who would be regarded as responsible for ensuring that those assets exist or determining why they don't exist. I do not think we prescribe general standards for the specific procedures used in a department, in terms of a listing of the custody of assets by an individual employee, because it would really vary with the nature of the asset and so on. Many assets would be used by a number of employees in a division. It would be very difficult to say that Mary Jane is going to be held responsible for that asset.

So I think we only request that they identify managerial responsibility for the fixed asset. We don't prescribe that they should identify for each employee which assets are under their custody, although many departments would do that with respect to certain kinds of assets that are easily portable.

MR. KOWALSKI: Perhaps, Mr. Chairman, if I just raise one other issue, extending on that same point of discussion. Would it be the reflection of the esteemed gentleman across the way that perhaps that might be over-bureaucratic if we did move to setting up a system that would necessitate more individual responsibility for the fixed assets which they use on a day-to-day basis? I simply give the example of any individual who has an office, associated in any department of this government. The dollars, in terms of fixed assets, that might be associated with that office if it included a desk, chair, table, couch, typewriter, or word processor could very easily rise to the level of \$10,000 to \$25,000.

Granted there may very well be someone in the managerial responsibility level within that department who might be responsible for all the assets of that department. But are we in a position to go one step further and assess some point of responsibility to the individual to whom those assets are assigned, without becoming overly bureaucratic?

MR. ROGERS: In practice -- I know in our own office, we pay particular attention to what we term "attractive items"; that is, small portable calculators and such. But I think we take a very different view of desks. I think if my office was suddenly bereft of a desk and a chair, someone would be bound to notice. So as Al said, it depends on the assets in question. I think that is sort of automatically carried out, in most instances, by managers as simply good management. But there are a number of provincial agencies and departments that simply don't know what it is they're responsible for. That is what this particular recommendation is aimed at.

MR. KOWALSKI: If I might add one more question. Is the Auditor General or the Controller in a position to let me know what the dollar figure of the fixed assets of the province of Alberta is?

MR. ROGERS: Absolutely not. I have no idea. The assets have been accumulated over many years and have been expensed. For instance, a program, say, in the old lands and forests could have bought a bulldozer. That was there that year, but there was no further expense except upkeep on that bulldozer. It could still be working, for all I know. In many departments, there's no way of knowing what had been written off, and so on and so forth. That's what we're asking or suggesting should be done. That's the purpose of the recommendation.

MR. CHAIRMAN: Any further questions on fixed assets? It appears not, Mr. Rogers. Do you want to carry?

MR. ROGERS: Again I would like to bring to your attention the fact that following up our report of last year, the Treasury Department reviewed the employees' payroll history files. It was they who reported that 6,105 employees had received overpayments totalling \$127,488. Therefore the Treasury Department took necessary action. However, I repeated the recommendation, because it is quite surprising that this many overpayments would occur and not be picked up by the departments, who are responsible in the first place for ensuring that their employees are paid at the correct rates. Therefore the recommendation is addressed to the departments concerned, where I do not believe they have sufficient control over or are doing sufficient work to ensure themselves that their employees are paid in accordance with the master contract.

MR. CHAIRMAN: Any questions in this area? If not, did you want to continue Mr. Rogers?

MR. ROGERS: Section 2.2.9, Mr. Chairman, deals with the special funds of the University of Alberta and, specifically, the University of Alberta students' union fund, which was overdrawn in excess of limits. This has now been rectified, nevertheless it was a reportable item. It is simply a drawing to the University of Alberta's attention that they need to pay particular attention in this area.

If I can proceed with 2.2.10, Wapiti Lodge. That matter has now been discontinued, in view of the action taken by all those departments involved in that particular situation outlined in the last report.

If we can now proceed to Section 2.3.1, on page 21, the collection of public money. That situation is now satisfactory, and the matter is discontinued. 2.3.2, conditional grants: there has been significant change in this section. Consequently the matter is now discontinued.

In earlier reports, we had covered the matter of contracts. This resulted in significant changes. The matter is now discontinued. 2.3.4, which deals with the management information system for central vehicle services: as a result of the findings and the recommendations in the last report, the system was reviewed and it was discontinued. Therefore there is no further comment in this year's report.

Section 2.3.5 deals with the development of electronic data processing systems. As a result of the audit observations to management we sat down together, and there was a considerable change in the approval procedure for these systems. Because we are unable yet to determine how this is working, although we have very good early reports on it, we have repeated the recommendation as Recommendation 20. But there's every indication that this situation is under control.

MR. MAGEE: I was just curious, in the section we were just covering relative to electronic data processing systems and so on. Is the proliferation of software getting to the situation where there's continuous change of software programs with computers and so on? Are we reaching any level of stability in software programs or is this just an ongoing, horrendous exercise in improvement all the time?

It has been my experience that you seem always with the early computer systems . . . Maybe because people didn't understand them enough, they were always wanting to inject more information into a program, and this would result in a completely new software program being rewritten. It just seems to me to be always a tremendous cost factor, and one begins to wonder about the efficiency of some of these computer systems.

MR. ROGERS: Mr. Chairman, I don't think that is a problem we're addressing. I have full sympathy because of being involved in the EDP area for a number of years. Especially in the earlier days, it seemed that it was a never-ending sort of situation, and I fully sympathize with the comments made.

But I think we have now reached a greater level of maturity. Of course "we" does not include me any more. But I believe the government has reached quite a level of maturity in this area. I think the emphasis is now on expanding the role of the computer and using it in areas where it can be a useful tool. To do that, application systems obviously have to be prepared, and so on and so forth. We will see the approval of that work and the approval, for instance, of computers in departments which is with distributed data processing -- it's the coming of age, if you will, of the use of the computer that is taking place that, in effect, requires more flexibility in the approval system than we had.

We now have that flexibility. My preliminary judgment is that it is leading to better decision-making by departments; in other words, they don't put their requests in and keep the pressure on to get their requests complied with. It is now they who have to make the decisions, and I think it is resulting in better and more responsible decision-making on the part of the departments. But I'll be able to report more fully on that in the next report.

MR. MAGEE: I wish you would, because it seems to me a tremendous opportunity to spend money, shall we say. It's fine to be up to date and so on. But if we're continually changing our programs because of more and more requests and not enough original consideration of capacity being built into the system, that just devolves into spending money like water.

MR. ROGERS: My own feeling, from being quite close to the situation, is that it is developing very well. But I will be including in the next report a more detailed and objective analysis of what has happened.

MR. CHAIRMAN: Any further questions in this area? If not, could you continue, Mr. Rogers?

MR. ROGERS: Mr. Chairman, 2.3.6 deals with the nursing home program. Although I'm aware that there have been some changes in this area, the recommendation is repeated pending further investigation. There will perhaps be a winding-up comment in the next report, but for now it is simply held pending our carrying out more work in the area.

Section 2.3.7: earlier reports dealt with the segregation of duties relating to payroll. I would say that the action taken by the government has been very satisfactory in this area, and this is no longer a matter of concern. Therefore the matter has been discontinued.

Mr. Chairman, Section 2.3.8 deals with public colleges and a number of different matters. If we could just look at them, you'll notice that the one dealing with fixed assets, on page 27, says:

Audits for the year ended June 30, 1981 revealed that only Lethbridge Community College had an acceptable fixed asset system.

Of course, that is in line with a lot of other provincial agencies, and we dealt with that a little earlier.

The final paragraph on page 27 is a matter of some concern. It's now been almost four years, and still the colleges of Fairview, Keyano, Lakeland, and Olds are not aware of what is being transferred to them by the government. Consequently, their reports have a reservation of opinion in them, because they aren't aware of those assets.

MR. McCRAE: Mr. Chairman, what is the difficulty in seeing the matter resolved?

MR. ROGERS: I think it's just a matter of getting down to it and doing it. It has not been done by the department.

MR. McCRAE: Have your usual management request letters gone out and been responded to?

MR. ROGERS: Yes, for four years.

MR. McCRAE: Then there's no debate about whether it's going to be done. It's just a question of . . .

MR. ROGERS: That's right.

MR. McCRAE: So if you must report again next year on this matter, maybe in stronger words.

MR. ROGERS: That's right. I think the report is self-explanatory.

The other matter I will deal with is financial reserves. We're recommending here that there be guidelines on these financial reserves, because the money is granted to the college on an annual basis. But if they spend less than they ask for, there is an increasing tendency to want to put that aside as a reserve for a program they couldn't otherwise get funded, in very many instances. It seems that this takes away from the minister's right to grant funds on an annual basis for programs that the department wishes to authorize under Section 43(b) of the Colleges Act. We feel that the minister should provide guidelines for the establishment and administration of reserves by public colleges. We have no problem with the fact there are reserves, but we feel that the fence around our reserves should be specified by the department and the minister.

MR. McCRAE: Mr. Chairman, a question to Mr. Rogers. Are there other areas of government, beyond Advanced Education's colleges, where grantees set up reserves?

MR. ROGERS: The universities have some. That's a long-standing thing. But I think they have guidelines on the universities.

MR. McCRAE: For instance, hospitals do not create reserves?

MR. ROGERS: In the past, when a hospital has used surplus moneys for a purpose other than was specified, I think there have been demands for the repayment of that money. This situation occurred five or six years ago, I believe.

MR. McCRAE: Is there a general policy of government, one way or the other, that moneys that are unexpended by the recipient . . .

MR. ROGERS: There is precedent for the government giving some guidelines as to how, in that situation, the entity might conduct itself. But I think there should be some form of control, however loose the rein, over the establishment of such reserves.

MR. CHAIRMAN: We have several more questions in this area. I see our time has elapsed. Our clock is 2 minutes slow, so our time has elapsed. We have several more recommendations to go through as far as the report is concerned.

In the event we do complete the report at our next Wednesday's meeting, providing we're still sitting, we would like members to keep in mind that we should make some recommendations or suggestions on what departments we want to deal with at future meetings. So if committee members would keep in mind for our next meeting any recommendations or suggestions on which departments we want to appear before the committee.

The Chair will now accept a motion to adjourn.

The meeting adjourned at 11:30 a.m.