

Standing Committee on Public Accounts

Wednesday, May 4, 1983

Chairman: Mr. Martin

10 a.m.

MR. CHAIRMAN: I think we'll bring the meeting to order. I believe you have a copy of the minutes from Wednesday, April 20. First, are there any errors or omissions? Would somebody like to move adoption? Moved by Mr. Paproski, seconded by Mr. Gogo. All those in favor? Carried.

In the last session we had Mr. Rogers going through the role of the Auditor General in this particular committee. We started to get into his report but, as I recall, we didn't get very far. I believe on the last day we covered the overall assessment and, talking to Mr. Rogers, I would just throw it out to the committee. We're suggesting that as we go through this, we do it section by section. He will make some general comments on the particular section and then open it up to any questions from members, if that's agreed. I don't see any problems with that, so I will ask you to continue to the next section, Mr. Rogers.

MR. ROGERS: Thank you, Mr. Chairman. On page 4 we talk about the reporting criteria, which I think speak for themselves. The only point I would like to mention in this section is that because there was no fall session last year, the government did not make responses to the '80-81 report to this committee. It is my understanding that the intention is that responses to both the '80-81 and '81-82 reports will be coming to this committee in the fall this year.

Mr. Chairman, I think the only other comment I would make is that 2.1.8 at the bottom of page 5, as called for by the legislation, lists the reservations of opinion on various financial statements. The last one, which deals with "payments . . . made from a regulated fund without statutory authority", perhaps is a little unusual. That is subject to separate comment in this report, under subsection 2.3.9, so we'll be coming to that later.

Some of the other reservations, because of situations that were in existence -- for instance, the four reservations resulting from "an inability to audit the completeness of reported revenue from donations" is customary when donations are a source of revenue.

2.1.10, subsequent events, was important at the time the report was finalized on January 25. I believe that matter has since resolved itself to a very large extent.

So perhaps we could regard 2.1.10 as the end of the introduction section. If there are any questions, perhaps we could entertain them.

MR. PAPROSKI: Mr. Rogers, I have a couple of questions. I think they're generally informational and perhaps how-to questions. Specifically on 2.1.7, where there is discussion about the Manual of Financial Administration and the Alberta Financial Information System User Manual, I wonder if you can discuss a little bit what these manuals are like. How old are they? How extensive are they? Are they indeed the bibles for you and for our government with respect to auditing? I wonder whether we should perhaps have these manuals available for ourselves. Maybe you could comment on that.

Secondly, the whole concept of how you audit. For example, I take a department like Social Services and Community Health out of the air. As a first-time MLA, I would like you to comment on the procedure in auditing a department like that. How long would it take you? When do you usually do it? How many people would be involved? What happens to the officials in that

department when you are auditing? Is one individual specified, two individuals, the deputy minister? Who in those departments would be involved with you in that audit area? I'm asking because I think much of what you are saying and what you are referring to reflects back to how you audit and, secondly, those particular manuals. Are those fair questions?

MR. ROGERS: Mr. Chairman, the manuals mentioned here were prepared by Treasury in anticipation of Treasury undertaking its responsibilities under the new Financial Administration Act of 1978. These manuals set out the procedures that should be adopted by financial personnel in various departments and are used as a guide. They do not have anything to do with auditing; rather, they have more to do with the day-to-day activities of financial officers in departments. Treasury expects that there is compliance with those manuals and, of course, part of this is determined by the ongoing disbursement control over every transaction that is exercised by Treasury. The other manual, the AFIS User Manual, gives instructions to departmental personnel on how to effect their payments through the system called AFIS, which is Alberta Financial Information System. So this is a Treasury operation. We come into the picture as auditors. A part of our responsibility is to give assurance to management, both of the department and of Treasury, that these manuals or instructions are being complied with. Does that help about the manuals?

MR. PAPROSKI: Okay.

MR. ROGERS: As to whether the manuals were brought in here and made available to the committee, that would really be arranged with either the Provincial Treasurer or the Controller.

MR. PAPROSKI: Excuse me, Mr. Rogers. With respect to the manuals. They've been in existence since '78. Do you advise the Treasury Department that they should be updated, that they're outdated, or that they're not giving enough emphasis in certain areas or giving too much emphasis in certain areas?

MR. ROGERS: Mr. Chairman, these are very much live documents, in that they are subject to continual updating each year. The updating is influenced by what we find. In other words, if we find a situation where there's overcontrol, for instance, then they are modified to allow more flexibility. If, on the other hand, we find cases of abuse or where people are acting in a way that is not desirable, suitable entries are made in these manuals. I think there have been updates each year since 1978.

MR. PAPROSKI: A supplementary dealing with this area again. One concern I had throughout the document in front of me is the continual reference -- I think four or five times -- to the concept of payroll, that there were overpayments and underpayments. I would therefore reflect that somewhere in one of these manuals there are some errors. I see one of your members nodding. Would you have alluded to that particular area in these manuals?

MR. ROGERS: Yes, and there has been a great deal of tightening up. Perhaps you'd like to comment. The reason I ask Mr. Henkelman to comment is that he deals with our own payroll in our office and perhaps can comment as a user, as much as anything.

MR. HENKELMAN: I don't think I would say that there were errors in the manual. When I was nodding, what I was indicating was that we will find infractions in the department where they do not comply with the manual. So we'll report that to them.

The earlier question that Mr. Rogers dealt with about these manuals: perhaps the Manual of Financial Administration would be of some use to the committee. The other is more of a how-to manual. It's three volumes, and it's how to prepare the forms. As you suggested, we should discuss that with Treasury. But it might be useful.

MR. ROGERS: Thank you, Mr. Henkelman. I think if the committee is interested, these manuals could be brought in at the next meeting. At least you could get sort of a feel for what is in those manuals.

MR. CHAIRMAN: There seems to be some interest from some members. So maybe if you would do that.

MR. ROGERS: [Inaudible] Mr. Chairman, I will request this.

MR. CHAIRMAN: Okay, if you would do it. Mr. Gogo.

MR. ROGERS: I think I have the second part of the question.

MR. PAPROSKI: There's part two of my question that he hasn't answered yet.

MR. ROGERS: That's right.

Mr. Chairman, the work of our office is rather complex in this area. It's a fairly big subject to describe, because we don't just sort of go in and audit the department as such; we audit the payment system, the AFIS that I mentioned earlier. The first step, I guess, is that we actually simulate the payment system on our computer. Not in the detail that the government or Treasury operates but in a summarized form, we process each day's transactions on a fairly small computer in our office. Through computer comparison -- there's very little manpower involved in this operation -- we're able to detect if there was ever a breakdown of internal controls. Or if there was any intent to manipulate the system, shall we say, we would be able to detect that at quite an early date -- not immediately but shortly after the fact. That's a part of the preventive activity, if you will, of the office. This gives us, as a by-product, a record of all the transactions on magnetic tape.

We then go through a statistical sampling process right across the government, because this is all the General Revenue Fund. We regard the General Revenue Fund as one unit. We then take a sample, on a daily basis, of these transactions. These are followed up by going to the department files. We batch them so that people don't go in and out of departments all the time. But periodically, through the people, we take these transactions that have been picked out on a sampling basis and trace them to ensure that they are legitimate and comply in all respects with the statutes, regulations, and orders in council; in other words, so there is compliance with authority. Of course, one of the main things we are looking for is that the money was spent for the purposes for which it was provided by this Assembly.

From this work, plus other substantive testing that we do -- in other words, checking with the outside world -- we are able to arrive at an opinion that the General Revenue Fund statements at the end of the year fairly present, in accordance with a disclosed basis of accounting, what happened during the year.

In addition to that, we do go into the departments and evaluate their systems of internal control, over which they have control. So all the management control systems -- some every year, others on a cyclical basis -- are evaluated and examined, some of them simply to see that they are performing in accordance with the documentation which we developed earlier, which told us how these systems should operate. Through walk-through tests,

we see that they're working. Others, we evaluate in depth to ensure that there is compliance.

From this whole process comes an exit conference, where we sit down with the senior officials. Prior to that, we've usually not had too many dealings with people, except when we've needed explanations, and this can be from almost any level of staff. But in the exit conference, we're usually dealing with senior officials in the department. We explain to them our findings, obtain their comments -- either concurrence or, if they feel that what we have found is not to their understanding, then sometimes we'll even go back and do more work. But usually it is concurrence. Subsequent to that, we prepare a management letter. A copy of that management letter goes to the minister and a copy goes to Mr. Collins in Treasury, as secretary of the Treasury Board. The department then responds to that management letter. If they don't respond, very often Treasury will ask them where their response is, because it is important that there be feedback to us. We evaluate their response and will often write a further letter if there's been a misunderstanding or if we don't agree that their response has really dealt with the situation. It is only after that, that we determine which items should be in this report.

So as mentioned earlier, this report is a report by exception. It deals with a very, very small number of the matters we've come across in the year. Most of those are resolved. Only the ones that are so large they can't be resolved appear in this report. Even with large ones, as long as they are not resulting in loss, by rule of thumb they usually have a year to clear house, to rectify the situation. Only if they have not taken satisfactory action by the time we come to audit the next time does it appear in the report. So this is very much a report by exception.

Having decided which items are to be in the report, the draft of the report is prepared. We then submit it to members of the audit committee. It is discussed in detail by the audit committee over several meetings. This includes Treasury officials, who have copies of our report. They can in no way cause me to make a change, but certainly I respect their comments. Very often the effect of this is that we have not made ourselves sufficiently clear in the draft. On the odd occasion we have expanded our explanation, because obviously we have not got the message across. Copies of what is going to be in the report are then conveyed to all departments. Only then is the report printed. You asked for the process; that is the process we go through.

MR. GOGO: Mr. Rogers, I fully recognize that the report we're dealing with really was for a period ending some 13 months ago. I draw your attention to 2.1.10 on page 6, regarding trust company deposits. I recognize that the assets of Crown Trust Co. have been taken over by Central Trust Co. The liabilities are part of the -- heaven only knows.

I draw your attention, though, to the U of L with Greymac Trust Co. Without getting out the statute and looking at the Universities Act, I recognize that on the one hand, they are autonomous. Yet by definition, I guess they are an agency of this government, judging by the description in 2.1.10. Mr. Rogers, it's public knowledge that Greymac is now in receivership, which obviously raises some concerns with some people, certainly those who are trying to raise funds for the good of the University of Lethbridge, when they know there's almost \$2 million gone. The question I have . . .

MR. ROGERS: Mr. Chairman, I don't think one can say it is gone. I believe that arrangements have been made -- I'm not sure whether it included Greymac; I believe it did -- that a British bank, I think, has been put in to manage and inject money into it so that it can pay its liabilities. I don't think it's gone; it is simply a risk.

MR. GOGO: With respect, we will just say it's not here.

The question I have, Mr. Chairman, to Mr. Rogers: are there restrictions you could advise us of, as to where an agency of the government of Alberta might make investments? For example, must it make investments that qualify under the Canadian and British Insurance Companies Act? Must it make investments in a federally chartered company, as opposed to a provincially chartered company? Is it allowed to invest offshore; in other words, outside Canada?

The final question would be: would the funds referred to here, because they make your report, be funds allocated from the government of Alberta to the university, or could they be commingled with funds raised by one of the agencies of government, say the matching trust fund? Indeed they are not government funds at all, but they are funds from contributions. If that's the case, what would be the authority or jurisdiction of the Auditor General reporting on those?

MR. CHAIRMAN: I'm just trying to figure out how many questions there were.

MR. GOGO: Well, there was really only one.

AN HON. MEMBER: A typical Gogo one.

MR. ROGERS: Mr. Chairman, if the committee is interested in this area, I would be happy to prepare a brief paper for the next meeting, outlining the types of instruments that can be invested in. It is a little more extensive than I can answer just from memory. I would be very happy to do that.

MR. CHAIRMAN: So is it agreed that he prepare a report for the next session on the types of investments they look into? Okay.

MR. ROGERS: I would like to answer the second part of that question, though. I couldn't agree more that universities are autonomous. Nevertheless, because they are in effect created by the Legislature, there is still accountability back to the Legislature. It is for that reason that the Act has in effect caused the Auditor General to be the auditor of all the universities. So the statements of those universities can appear in public accounts, and so on and so forth. To that extent, the universities' financial transactions and financial operations are a matter of public record. Whether or not the moneys were supplied by the government or raised directly by the university, the reporting of those moneys is in public accounts. Because of that and because this was a subsequent event, it is valid that it be reported as such. I think that is the situation.

MR. NELSON: Mr. Chairman, I have a similar concern relevant to 2.1.10. I guess overall, I would like to really know where we are at today relevant to those investments: whether we have a secured investment, whether it's a high risk, and what we are doing to ensure that we recover that investment. That's one question.

MR. ROGERS: I really am not in a position, because I don't think the matter has been completely resolved. Under the terms of the investments, some of them won't mature or be paid back for some considerable time. I am not sure of the maturity date of the investment certificates the University of Lethbridge has with Greymac, for instance. Consequently, one doesn't know what is going to happen to Greymac in the foreseeable future. As I said earlier, it was my understanding, from media reports, that the investors in Greymac were being protected.

Now, in the case of . . . I'm sorry, I've just been corrected. It was Seaway that was being taken over or managed by a British bank. So I have to revert back to the comment that I am not at this time aware of the situation with Greymac. But we will obviously be following this. When we get some information at a later date, I could report back.

In the case of Crown Trust, I believe that matter has been cleared and the investors of Crown Trust have no further problems. If that were the case and I were writing the report today, I would not report that. But on January 25, it looked quite different.

MR. NELSON: Maybe when Mr. Gogo's question is more completely brought forward in written form, I will have other questions relevant to that.

The other area I wish to develop is relevant to section 2.1.9, where you have a number of reservations on certain areas of accounting procedures. I wonder what has been done to correct the difficulties with the universities and the colleges under the first part of that, the four reservations -- and you sub that under 2.4.8. What is being done to correct these deficiencies in the reporting in some of these areas? Have you found that these have been corrected through the last number of months since this report was concluded?

MR. ROGERS: Yes, I'm afraid I have to go back. We obviously have further work under way with the colleges, and I believe those were cleared. But I would rather be able to come back next week with a clearer written statement on that. I hate going from memory. We did a further year, June 30 of 1982. You see, their year end is June, so they're kind of a year in arrears over and above. As Mr. Gogo pointed out, there are 13 months since the end of the fiscal year. I would like to cover that with a specific answer next week, if I could.

But if I could speak in general terms: yes, we find that reservations of opinion in a year are usually cleared the next year. Now some of these cannot be cleared. They are sort of inherent in the type of operation. I mentioned donations, for instance, and a similar one is the adequacy of certain reserves. For instance, on the mortgage insurance, for many years we had a reservation of opinion that we were not able to judge the adequacy of that because there was insufficient experience. After a number of years -- and we could see the pattern that it appeared to be adequate -- then that reservation disappeared.

As I said, certain of these reservations are inherent. Others are perhaps one time only, because corrective action is taken subsequently. That last one, for instance: I believe they are amending the Act to ensure that the types of payments and reimbursements that were commented on or were the cause of the reservation of opinion for the medicare fund, will not occur again. So it is an ongoing thing. Out of the several hundred audits we carry out in the course of a year, this is not exceptional.

MR. NELSON: Possibly it's the time it takes to clear these away. In your comments relevant to the one item on the universities, I wonder if you might comment on the others at the same time. Also, as was already commented, we were dealing with a report that is already 13 months old, and legislation may be put in. Therefore, you're looking at up to two years before you can correct the problem. I just wonder if you have any recommendations that you could put forward to have this speeded up at the same time you write this in.

MR. ROGERS: Then is it the wish of the committee, Mr. Chairman, that I bring forward a comment on all the reservations of opinion that are subject to this report?

MR. CHAIRMAN: I think that's what I'm getting. So is that agreed with the committee?

MR. PAHL: If I may, Mr. Chairman. It's a little bit on this point. Just looking again at section 2.1.10, subsequent events, I think in a way I addressed this point somewhat at the last meeting we had, when we all questioned the timeliness. But on what basis was this section even included? It is certainly not within the audit period of your report. In fact, your report doesn't indicate whether these were investments held during the audit period, which would be the year ended March 31, 1982. So I'm for it, in the sense of being more timely. I think other members have the same sense of being able to take corrective action. But what in your mandate allows you to leap ahead, I guess? As interesting as it is and as topical as it is, are we moving beyond the terms of reference of the whole public accounts function by an interesting highlight that you presented?

MR. ROGERS: As we say in the report, although we're commenting on the financial statements that are in public accounts at March 31 of a year, auditing of those accounts goes on right until December. Consequently, we report any lack of compliance, any internal control weaknesses, that we find right up to last December, which was December 1982. Those are in this report. So the timeliness from that aspect isn't really too bad, considering.

In addition, there's an obligation on an auditor to bring to the attention of readers of financial statements any subsequent events that could have an effect on the opinion the reader of financial statements forms. One can form an opinion by looking at financial statements, but it should be kept in mind that after those financial statements were prepared, this happened or may happen. There's an obligation on an auditor to bring that to light, and it's under the heading of subsequent events. So I was simply carrying out the type of thing that all auditors do. If that subsequent event happened before the report was finalized -- and in this case, that happened before I signed off for the report which I signed off on February 14, I think it was. Consequently, there was an obligation to note what were obviously significant occurrences.

MR. CHAIRMAN: Mr. Pahl, it seems to me that we've agreed there'll be a further reporting of both 2.1.9 and 2.1.10 at the next session, more complete, following from Mr. Nelson's and Mr. Gogo's report. Because there are other people, would it be more appropriate that we save those questions till then, because we'll be coming back specifically to those areas again?

MR. PAHL: Okay. Mr. Chairman, the point was to question the appropriateness of focussing on this issue. I have one supplementary, if I may, that will add to that request.

MR. CHAIRMAN: Okay.

MR. PAHL: It's simply this, Mr. Chairman.

MR. CHAIRMAN: Only because you're such a nice fellow.

MR. PAHL: Thank you, Mr. Chairman. Would it be appropriate, I guess -- and for me it would add to the legitimacy of the subsequent events report -- if you were to indicate, at the end of the audit period, what the portfolio of the University of Lethbridge was with respect to these? I'd like to see a linkage, if you will, between the audit period and your subsequent events. In other words, what was in their portfolio at that time as opposed to . . . Was

there a material change in their portfolio that would have added Greymac Trust investment certificates, for example? If they weren't in there, I'd be interested in that. But I would also further the question and participate in the debate in the same light as I have now. Fair enough?

MR. ROGERS: Mr. Chairman, I'll make sure that is dealt with in the response that I'll be bringing to the committee next week.

MR. CHAIRMAN: No further questions on this section? Just so members are clear on it, a further reporting on section 2.1.9 and section 2.1.10 will come back. We'll deal with that at the start of the next public accounts.

If there are no further questions on that, I'd like to move into the next section, 2.2. Mr. Rogers, do you have any preliminary comments on this section?

MR. ROGERS: Mr. Chairman, this mainly deals with recommendations that originally arose as a result of a special investigation I carried out, at the request of this House, into the Alberta Heritage Savings Trust Fund. If I recall correctly, that report was tabled in February 1982. The recommendations were subsequently reiterated in the 1980-81 report. These were answered by the government, so consequently we're picking up on recommendations made in 1980-81. The government responded separately because of the nature of them, because they were heritage trust funds. The responses were given to the Alberta Heritage Savings Trust Fund Act Select Standing Committee. The responses in the case of the first recommendation, for instance, were that the appropriate changes would be made in legislation.

I think item 2 is of some concern to this committee. The government's response suggested that those entities funded primarily out of funds provided by the heritage trust fund should be examined by the select standing committee on the heritage trust fund and not be subject to this committee. The purpose of this is of course to prevent duplication. I suggest, as I do here, that perhaps the right way is not to limit the existing powers of either committee, which I feel could reduce the effectiveness of one or the other committees, but rather that there be co-ordination in any given year as to which committee calls as witness officials from, say, the Housing Corporation, just so there wasn't any duplication. I think that could be arrived at through interaction between the two committees, because I believe this committee may have different concerns than would the standing committee on the heritage trust fund in examining officials or the minister of mortgage corporation, and so on and so forth.

The only other one I would comment on is the recommendations under 2.2.5, 5a, 5b, 5c, and 5d. I made a commitment when I realized this was not going to be well received, shall we say, by the government. As an alternative, I made the commitment that if in any given year the audit of the heritage trust fund resulted in any matter that should be included in the Auditor General's report, I would make a special report, under section 20 of the Auditor General Act, to the Legislative Assembly. The reason for this concern, which recommendation 5 was to deal with and which this alternative suggestion deals with, is that if a matter is found in the course of the audit that is reportable to the Legislative Assembly, then surely at the time the heritage trust fund is examining the financial statements of that year -- which they do in the fall -- they should be aware of any concerns as a result of the Auditor's examination, rather than find out about them after they've completed their examination for that year, on the release of the Auditor General's report the following spring. We're back to this timeliness problem. To overcome that, I undertook that if there is a matter resulting from my examination of the heritage trust fund financial statements and systems, such

matters would be drawn to the House's attention under a special report under section 20.

That was accepted, but there was a part of that particular recommendation that sort of dropped by the wayside because it was wrapped into recommendation number 5. That was that the financial statements of the heritage trust fund be subject to the discipline, if you will, of the audit committee. Consequently, my recommendation number 2 of this report is to that effect.

Mr. Chairman, if there are any questions on this section I'd be happy to . .

MR. PAHL: Mr. Chairman, I might ask Mr. Rogers whether he has had a formal government response -- or his response to the government's response -- to his recommendation 2 in 2.2.2?

MR. ROGERS: No, Mr. Chairman, we've not had any dialogue on this particularly. Because it deals with the powers of House committees, I very much believe it is a matter for the Legislative Assembly. I simply offer my comments on the matter. It really is for decision by this House.

MR. PAHL: Mr. Chairman, I guess if we were to take a lead, it would be that our committee chairman would be directed to have some liaison with the chairman of the legislative committee on the Heritage Savings Trust Fund.

MR. ROGERS: That is essentially what I'm suggesting. It need not be a very formal thing; simply a communication between the two committees, through their chairmen, to ensure there isn't duplication whereby senior officials from the ministry of one Crown corporation appear first before this committee and then before the other committee. In a very short space of time, I think that could be ironed out without any formality of changing the powers of the respective committees.

MR. PAHL: Thank you. That's helpful.

MR. PAPROSKI: Mr. Chairman, are we talking strictly about 2.2 issues now, or can we go on?

MR. CHAIRMAN: Any part of the section.

MR. PAPROSKI: So 2.3.7, for example.

2.3.12, where you refer to insurance, Mr. Rogers, the second last paragraph.

MR. CHAIRMAN: Sorry. We're in Section 2.2. Are there any other questions on that? I see none.

We can move into section 2.3. Mr. Rogers, do you have any initial comments on this section?

MR. ROGERS: No. There's a sort of general heading for these items, Mr. Chairman, simply for convenience. These are inadequately safeguarded assets and non-compliance with legislation. From the nature of them, I think we could go to questions immediately.

MR. PAPROSKI: Again, 2.3.12, regarding insurance -- the second last paragraph on page 22, where you talk about insurance. I wonder if you can expand a little bit more on what you are recommending in that particular paragraph. What are we doing in error now, if anything? What should we be doing differently?

MR. ROGERS: This is 2.3.12, protecting public funds. This section really arose because while to my knowledge the government has not incurred any losses that have not been covered by insurance, there have been losses because there have been several cases of theft -- I suppose robbery is the right word. This is simply a general section, if you will, alerting those individuals in the public service whose responsibility is to protect cash and other valuables, simply to make sure they review the controls they have for the transportation of cash and so on and so forth. It was a general thing, based on the fact that there had been several incidents. It is not based on observed weaknesses, if you will, but rather the fact that there had seemed to be a rash of incidents in the course of the year.

MR. NELSON: Mr. Rogers, in section 2.3.4, the Department of Social Services and Community Health, you indicate some recommendations regarding the overpayment of social allowances and what have you. I notice that through the section there are not any responses to these recommendations. I'm particularly interested as to whether there's been any response from the Department of Social Services and Community Health to recommendation no. 6 to date, and what that response might be.

MR. ROGERS: We're just looking up our documentation, but if I could talk in general terms for a moment. They are preparing a computer system -- it's in the planning stage -- which they believe will take care of this problem. But as I think I point out in the section, that is not the whole answer. There must be the will, if you will, to make sure that overpayments are collected with perhaps a little more vigor than has been displayed. I put that in very general terms. That computer system in itself is a useful tool, but obviously it does not solve the whole problem.

The response we received was:

The Department is in the process of implementing the Remote Data Entry . . . system for the Social Allowance program. When the conversion is made from manual processing of Data Decision Sheets . . . to the automated R.D.E. system, the time taken to update the clients' financial information will be considerably reduced. The . . . system should be fully implemented by June, 1984.

The Department is also implementing simplified . . . codes and procedures in May, 1983. It is anticipating that this move will reduce the processing time for D.D.S.

One of the problems was that the information available was very often stale, out of date.

In the interim, we will re-emphasize to the appropriate employees, the importance of prompt processing of client D.D.S.'s:

-#Social Workers, through Regional Delivery Services, will be informed to maintain complete and current client information on the recipients' files.

-#A Departmental policy for the collection of overpayments is being finalized. During April/May, 1983 up to 10 staff from Crown Debt Collections will be provided to assist the Department in the collection process on a full time basis.

This is the Treasury Department.

The Social Worker is responsible for verifying the client's financial and personal information. Documentation is to be prepared to show proof, and home visits are generally made to further substantiate the circumstances. Before assistance is provided, except for emergency short term assistance, an Assessor reviews all files to ensure compliance with policy. Before the cheque is

issued, the Unit Supervisor reviews the file, including the Assessor's comments.

These procedures are currently under severe strain due to an increase of 36% in clients from 1982 to 1983.

It goes on. They gave us a very full response, indicating that they were typing up procedures but that ultimately the new computer system would greatly assist this. My point is that it will need a combination of both manual effort and the computer system; the computer system in itself won't solve the problem.

MR. NELSON: A supplementary to Mr. Rogers, through the Chair. Do you have a mechanism in place that you can physically audit the input from the social worker or whoever inputs it from the various regional offices so that the information is being placed on the computer, or where it presently has to go, in the quickest possible manner, so as to ensure that both the overpayments and other payments are not being kept in hand and that files on these people are completely up to date? Do you have a mechanism to audit this?

MR. ROGERS: The auditing we do has disclosed to us that very often this information is stale, that it isn't updated as quickly as it should be. That was our observation to the department. There is no way we can track individual transactions on a transaction-by-transaction basis. Our audit is more focussed on procedures, on the system employed. It was the need to tighten this system that was really the basis of this recommendation.

MR. NELSON: How much time lag was being developed? In other words, what was the average length of time between the reporting and the actual client/social worker relationship?

MR. ROGERS: It varied considerably. I wouldn't like to quote any times, except to say that when payments were made, a month later the changes that had been noted had not got through to the system, so consequently were not taken into account when the following payment was made. I can't offhand put a time lag on it, except to say that it was not in the system and available in time to prevent subsequent payments being made in excess of what they should have been.

MR. NELSON: Thank you.

MR. PAPROSKI: For clarification, Mr. Chairman, how many questions -- when we ask a question as a supplementary . . .

MR. CHAIRMAN: Two supplementaries.

MR. PAPROSKI: On one specific area? May I ask a question?

MR. CHAIRMAN: I won't count that one.

MR. PAPROSKI: Thank you.

Mr. Rogers, regarding 2.3.7 on pages 16 and 17, fixed assets control. I see that whole section has created horrendous problems. It's very, very difficult to keep track of all our fixed assets. It seems it's been a festering sore for a number of years. What dollar numbers are we talking about? Can you allude to that a little bit?

Secondly, since the report has been issued . . .

MR. CHAIRMAN: We'll just do one at a time -- it gets a little confusing -- then we can come back.

MR. ROGERS: I think the problem is that we don't really know. If we look at the assets of the government at large by taking all departments into account, we're talking of many hundreds of millions of dollars. But because of the lack of recording those expenditures over the years that have resulted in assets and the fact that those assets are not recorded, we really don't know the value we are talking about. But I would like to make one thing quite clear. When we're talking about compliance with the Treasury manual, which does call for these assets to be inventoried and for their physical presence to be substantiated by someone who wasn't involved in preparing the inventory -- when all these things are called for and there is lack of compliance, we obviously have to comment on the lack of compliance.

We also said on more than one occasion, as we do here, that if the control, the inventorying and ascertaining that the assets are there, is more than the assets are worth -- in other words, either that or they're of such a type that they're not going to go anywhere -- then I think there's every reason, and I know this is now being done, for Treasury to give the department or branch dispensation to not have to comply with the letter of the regulations included in the manual. Control that is pointless is not doing anyone any good. But the control I'm talking about here is necessary to ensure that departments can protect government's assets by knowing what they're supposed to have and being able to know when those assets are missing, which is not always the case right now. If that is the case, then they know that they should do something about those controls that are designed to protect assets. That is the whole exercise, if you will. It isn't an accounting or something that should be nice to have; it's a matter of protecting assets that have been bought with public funds.

MR. PAPROSKI: My first supplementary deals with your relationship with the Treasury Department. Since this document has been issued, has there been an opportunity to further discuss this one area? Are there any resolutions that you see in the near future?

MR. ROGERS: As you know, this has been in every report I've issued since '78-79, which was the first report. If you look at the paragraph on page 17, I say:

In response to recommendations by the Auditor General in past years that fixed asset control systems be improved, the Provincial Treasurer acknowledged the problem but offered little in the way of a solution. In the main, efforts by the Controller's Office to solve the problem appear to have been limited to providing more detailed guidelines in the Treasury Department's Manual of Financial Administration. Not surprisingly, this had limited effect since the problem is that many departments, funds and agencies fail to adhere to the guidelines, not that the guidelines are deficient.

Really, it is a matter that a policy decision should be made as to whether or not these assets are going to be inventoried and their physical presence verified. If not, then let it be said that that is the case.

MR. CHAIRMAN: Are there any other questions on section 2.3?

Seeing none, I'll move to section 2.4, which begins on page 25. Mr. Rogers, do you have any initial comments?

MR. ROGERS: Mr. Chairman, these are basically systems weaknesses and deficiencies and are reported subsequent to the Auditor General Act, section

19(2)(d) and (e). This section allows me discretion in reporting, where I'm satisfied, that corrective action is being taken by a department. Now that is only discretion. If the matter is of considerable significance, then I report it regardless. In cases where I feel a department is making extreme efforts to correct the situation, I will perhaps let it go for a couple of years or longer, if that is the length of time it would reasonably take to clear a situation. It is very much a judgment call. But perhaps we can now get into questions on these matters.

MR. PAHL: Mr. Chairman, I recall about a year ago a television news report that outlined a virtual horror story of thefts in oil fields in the United States and, by implication, loss of royalties to the owners, and those cases would be more private. I don't know if you're familiar with the precise instance. Could you indicate to the committee whether there is a global control that makes it less likely that, from the point of view of the provincial government, there would be opportunities for loss of royalties through theft of product from Crown-owned lands? Are the Petroleum Marketing Commission and other systems set up such that the prospect is not so likely, more likely, or equally likely in Alberta?

MR. ROGERS: I think one would be very foolish to say that there could not be any theft. And for that matter, you can have a system where the controls are just 100 per cent, and yet on occasion those controls can fail you if they are circumvented. That applies to this whole thing. Because we have evaluated controls as being adequate, it is not impossible to circumvent those controls if the intent is to commit a criminal act. To deliberately circumvent them is fairly easy in any system.

Addressing the question you asked, I would say that the situation here is such that it is highly probable that if thefts of a material amount or on a considerable scale were taking place which were causing us significant loss of revenue, it would be detected by the system. The system has several aspects to it. One of the important ones is the work of the ERCB, because they monitor or keep tabs on production. Single instances of anomalies could obviously escape them. That's where the control may fail. But I think that if it were taking place on any large scale, they would become aware of it.

The whole royalty system is based on a matching of production data we obtain from the ERCB and the reports to the APMC -- bringing all these things together. Consequently, I think our control, especially on oil royalty, is reasonable. In the case of the gas royalty system, I don't think it is at the same level yet -- hence this particular report item -- because the system did fail for the reasons stated. Perhaps I'm getting beyond the answer to the question.

MR. PAHL: Thank you, it does answer the question. I guess the supplementary would be: thanks to the national energy program, we have new oil and old oil, and there is a considerable price differential between the two. Would that cause you as Auditor, Mr. Rogers, to sharpen up the antennas in certain areas in future years or, in fact, starting with this year?

MR. ROGERS: It is a matter we are addressing. In the case of oil, production is on a well-by-well basis, and we have data bases that have recorded those well. We do know which is new and old oil. I don't think that is a particular problem to us. It has very definitely been discussed in our planning for our audit work.

MR. GOGO: Mr. Rogers, I draw your attention to 2.4.2 with regard to grant overpayments. I don't want to be nit-picky, but we see an overpayment of

about \$10 million. I guess it's the foregone revenue that I'm going to address my question to. I don't know what the interest rates were during that period of time. But assuming they were 1 per cent a month, there's about \$8,000 a month; so \$150,000 in foregone revenue. There were obviously some assumptions made, and it would appear it was caught within about four or five weeks.

I think most of us are aware, at least until the 1983-84 estimates, that in fact budgetary deficits were picked up by the government. So one could safely assume that when Holy Cross hospital and Rockyview applied for their deficit, they opened their books. One would assume that the hospital boards had received that revenue, so it really wasn't foregone revenue. That might sound somewhat nit-picking, but I don't think one could make the assumption that the general revenue of the province of Alberta went without \$150,000. I just raise that to point out there are two sides to every coin.

MR. ROGERS: Incidentally, the department responded on this matter.

The circumstances surrounding the duplicate global budget payments have been reviewed, and steps have been taken to prevent a similar occurrence in the future. The hospital is being approached to determine if "windfall" revenue has been received. Once this has been verified, a decision will be taken concerning recovery.

I think the \$150,000 is a concern, because it was in their bank earning interest revenue for them, whereas we weren't getting that revenue.

MR. GOGO: I hope one or two patients got better as a result of it.

MR. NELSON: Mr. Rogers, I have some very severe concerns relevant to your report on the Department of the Solicitor General, especially in the area of financial management and control. Could you indicate if the Solicitor General's Department -- subsequent to your discussions with him in this report being made -- has these areas somewhat under control? This is just a disastrous report.

MR. ROGERS: I can give you a flavor of their response. I have the responses regarding the Edmonton Remand Centre and St. Paul Correctional Centre. Their responses are satisfactory in that they have corrected the matters we found. But I think the thing that concerned us most was the fact that the department had not applied themselves to the necessary hand-holding of a fairly new administration. As there are others to come, we felt the lesson should be learned on the basis of the experience in these two institutions. I have every reason to believe that will be done in the future. I think the lesson has been learned.

MR. NELSON: Because of the development of two further institutions, is there any possibility of a follow-up comment prior to those institutions opening so we can ensure the financial difficulties experienced here are not experienced then? In other words, let's get at it beforehand rather than as an afterthought.

MR. ROGERS: I think that is a good point, Mr. Chairman. Before those institutions come on-line, I will make sure my staff is involved in review of the work the department is carrying out.

MR. ALGER: Mr. Rogers, if I could, I'd like to backtrack just a little into 2.4.1, with regard to the royalty system. If you think you've got headaches

now, I wonder how you are going to react to the fact that Imperial Oil has been producing gas for an awful long time in the Devon field and pumping it into the Golden Spike field as a process of storage, plus the fact it builds up the ability to recover oil from Golden Spike. But as the gas is produced, my understanding is that they pay the royalty on it as it comes out of the ground, whether it be sold or not, but pumped back into Golden Spike. There'll be a time in our history when they can produce gas for about 10 years, free of royalty to this province. I wonder if we've ever given that any thought?

MR. ROGERS: Mr. Chairman, I have to admit ignorance on this particular point.

MR. ALGER: It's like paying your dues to a club in advance. And there will be a time when that gas will be brought out of the ground, sold completely to the benefit of Esso, and justifiably, I guess. I wonder if the government has ever considered the fact that there'll be no revenue from many millions -- billions, in fact -- of cubic feet of gas?

MR. ROGERS: Mr. Chairman, I would like to take that under advisement.

MR. ALGER: It's thought provoking.

MR. PAPROSKI: Mr. Chairman, my question to Mr. Rogers pertains to 2.4.11, regarding security over centrally stored computer data and programs, and I add to that the whole concept of electronic data processing computers. Since this publication, do you feel there are changes, do you feel improved supervision over the whole concept of utilization of computers in our government is being looked at? Are you content with that? A supplementary now would be: who do you believe should have overall responsibility in our government for the whole concept of computer technology? Should there be a particular department that should have more impact than others?

MR. ROGERS: Mr. Chairman, how long do we have? I think this is a very big topic. I'll try to deal with the main aspects of it. I believe the information processing centre, or the division of what is now Public Works, Supply and Services, has the responsibility of providing the tools. The tools in this case are the security systems that are available. But having made those available, I believe the user or the owner of the data, whether it's the department or branch, has the responsibility for evaluating the importance of that data and ensuring that the systems that are going to process and store it take advantage of the provisions in the security system that are necessary, depending on the level of importance of the data; in other words, restricting the individuals or terminals that can access data, further restricting even those who can update it, as opposed to those who can read it.

In this way, I believe the responsibility goes back to the user department, the user branch, or whoever has the data. Although it's in a computer, the principle involved is really no different from the onus on those people if the data were on pieces of paper in their files. They have the responsibility for seeing that doors and filing cabinets are locked, and so on and so forth. In the same way, they should take the necessary precautions to ensure that their data that is in a computer system, is adequately protected. But the provision of that protection is the job of the central processing people, in the same way that it's Public Work's job to put locks on the doors. Does that help?

MR. CHAIRMAN: If I could just intervene, I'll come back. The people here are from the Forum for Young Albertans. I didn't get a chance to introduce them, but they're just on the way out.

Mr. Paproski, do you have a supplementary? Next on my list is Mr. Nelson.

MR. NELSON: Mr. Chairman, it's kind of a tricky one, I guess. I don't really know how to ask it without maybe getting somebody into trouble here. First of all, Mr. Rogers, through the Chair, do you audit the AGT activities?

MR. ROGERS: Yes.

MR. NELSON: Would you be able to determine if there is a purchased asset lying idle in a warehouse somewhere, that should either be up for sale or written off in some fashion, and might be an embarrassment to anybody?

MR. ROGERS: I think, Mr. Chairman, there are limitations on what an auditor can do. With an organization the size of AGT, I think we would have to be lucky, if you will, to find such a situation.

MR. NELSON: Thank you.

DR. CARTER: Mr. Chairman, two brief questions with respect to 2.4.4; then I really would like to go over to 2.4.6. But first with electronic data processing systems, I wonder if the Auditor General and his department have any comments as to whether the various computers already in place in the various departments of government have compatibility with each other in terms of their systems. Or do we find that we have various departments using different computer languages? I appreciate your comments with respect to security of data, but there is the other side of the coin with respect to interchange of data when required from department to department, which may or may not have an effect upon your own accounting procedures. I wonder if you might also comment about use of computers in your own department.

MR. ROGERS: Mr. Chairman, for many years in this province we were highly centralized at a time when that was the most economical way to process data. As teleprocessing and the use of fairly cheap -- because the price of hardware over the years came down to a very considerable extent, it became practical to place processing capability where it was needed, as opposed to having all transactions coming to a central facility, then the results of processing going out in the form of paper printout. It has now become practical and economical to input data from various departments to a central processor and for that processor then to give the results of processing to a department. Printing can take place locally. In this government, there is a combination of all aspects of that. Insofar as departments have processing that is handled by the overall network, you have full compatibility.

I think perhaps one area where we are getting into a variety of different computers -- now I'm not sure this is a bad thing -- is in the area of microcomputers, the desk-top, stand-alone computer that is not necessarily connected to any other computer but is used by management for jobs where they enter their own data and get their own results. I see a day when those will be networked. Then I think the compatibility, one with another, will perhaps become more important. But I have a feeling that will be a subsequent generation of computers, because this is a very fast-moving technology. Almost every year sees advances take place in the power and capability of those machines, as we all know. I believe that we will eventually have to address that. But I think the system of control that has been exercised by Treasury and the information systems division of Public Works, Supply and Services has done an admirable job in controlling the growth of EDP without restricting that growth unnecessarily. That's the fine line that has to be walked.

Coming back to my own office, we have a Data General installation which, while it isn't made by the same manufacturer as the central system, is nevertheless compatible. Indeed our computer does act as a HASP terminal to the main computers in the Department of Public Works, Supply and Services. However, the reason for having a separate facility is that there is always the concern -- and for 13 years I was in charge of the data processing of this province -- on the part of an auditor, or at least there should be, that when he processes his own audit programs on the computer of those he is auditing, there is always the risk that he may get back the results the 'auditee' wishes him to see, not the ones he should be getting. Without being paranoid about it, I think that it's necessary for an auditor to have his own environment in which to carry out at least a portion of his audit activity. The computer in our office does permit us to do that.

MR. CHAIRMAN: We're near the end. It's 11:30. I have a suggestion. I have a number of people to speak. I would come back to you, Dr. Carter, right at the start. I have Mr. Moore, Mr. Pahl, and Mr. McPherson -- if you can remember your questions.

What I propose to do is finish off section 2.4 when we come back, then revert to section 2 for those reports the next day, if that's agreed with the committee.

HON. MEMBERS: Agreed.

MR. CHAIRMAN: I'll write your names down, and you remember anyhow. The next meeting would be Wednesday, May 11, at 10. Agreed?

HON. MEMBERS: Agreed.

MR. GOGO: On a point of order, Mr. Chairman and members of the committee. Looking at the minutes of the last meeting, April 20, I wanted to raise a point with regard to members present, members absent. I've looked at the minutes for the past three years, and I see there's an inconsistency. We indicate members present, then those in attendance. On two occasions we indicate members absent. It would be my suggestion to the committee, if it's acceptable, that some members are not here for very good reasons and that we simply list members present at our committee meetings.

MR. CHAIRMAN: I have no objection. Is that agreeable with the rest of the committee?

HON. MEMBERS: Agreed.

MR. CHAIRMAN: Would somebody like to move adjournment? It's been moved. All agreed?

HON. MEMBERS: Agreed.

The committee adjourned at 11:30 a.m.