

[Chairman: Mr. Martin]

[10:02 a.m.]

MR. CHAIRMAN: If we could, I'd like to get started. First of all, I believe the minutes of our meeting of April 4 were circulated. Are there any errors or omissions? Seeing none, all those agreed to adopting the minutes?

HON. MEMBERS: Agreed.

MR. CHAIRMAN: Before we get into the Auditor General's report, Mr. Pahl, I think you're acting as vice-chairman today.

MR. PAHL: Yes.

MR. CHAIRMAN: Do you have any recommendations? Perhaps I could pick those up from you and talk to you briefly after, if that would be okay.

MR. PAHL: Okay, Mr. Chairman. I would be willing to put them on the record.

MR. CHAIRMAN: Okay.

MR. PAHL: The suggestions from our caucus were an interest in discussing revolving funds generally within the government structure. The background there is just that it could become a significant part of the overall accounts, and we think it might be well to get out an appreciation as to what they are and how they function. In the first instance, and probably exclusively, that would probably involve the Provincial Treasurer. I'm sure he will be responding at some point, so that might just be a flagged item with the Provincial Treasurer when he comes to meet with us.

Second is the Department of Transportation. Our third preference would be Utilities and Telecommunications; the fourth preference, Advanced Education; and fifth, the Minister responsible for Personnel Administration. That would be our priority too, Mr. Chairman, in terms of scheduling and alternating.

MR. CHAIRMAN: I'll see what I can do. The Independents have not given us a list yet, but I will report back on theirs. We'll start with your choice then, if I can get them. I'll try to judge how far we get today with the Auditor General's report, and then I'll get a memo out to people.

I think we have a lot of work today, so we will immediately get into the Auditor General's report. To begin with, we'll try to do it section by section so we're not bouncing all over. I call on Mr. Rogers to perhaps introduce his people and make some initial remarks about the overall assessment or whatever direction he might like to go. We'll open up to any questions from there and start going through it section by section.

MR. ROGERS: Thank you, Mr. Chairman. On my right is Neil Henkelman, an assistant Auditor General, and on my left, Michael Morgan, who is a senior principal in the office and, to a very great extent, responsible for the report.

Mr. Chairman, this is the fifth annual report since

the coming into force of legislation relating to the Auditor General. If we could just look at section 1.2, which is on page 2, as in other years this is, in effect, an overall assessment as a result of auditing all the entities that draw their authority directly from and are accountable to this Assembly. In paragraph 1.2.2, I think there is the important statement that the report, by its very nature, is a report by exception; that is, it reports all the bad things. In that sense it isn't fair as a document accounting for findings over the year, because of the many audits, the many, many instances where no serious irregularities were observed. Therefore, as acknowledged in this paragraph, it is considered

that most audits for the 1982-83 fiscal year revealed no shortcomings or irregularities considered worthy of reporting to the Legislative Assembly under section 19 of the Auditor General Act.

The instances that are in this report are the exceptions to the normal.

I think it's fair, and admittedly subjective, that an overall judgment is that

the financial records and controls of most Provincial entities . . .

and that of course includes government departments

. . . have continued to improve in a satisfactory manner. In particular, many of the previously reported problems have now been substantially eliminated, mainly due to the prompt and positive responses that most audit findings and recommendations normally receive from all levels of management.

Over the last number of years, we have increasingly found that there is a desire by management to respond to problem areas that are brought to their attention as a result of the audit. Because of section 19(5) of the Auditor General Act, it's possible that the matters do not get reported in the public report but simply get fixed, and the problem goes away that way.

The matters reported last year were, as you know, responded to by the Provincial Treasurer on behalf of the government. These responses are included as Appendix II at the back of this report.

If we could move on past the overall assessment, Mr. Chairman, before handing it back to section-by-section review, I would like to go very quickly over the results of the operations for 1982-83. On page 4, paragraph 1.3.5, is the Auditor's report, which you can see is a standard auditor's report, on the consolidated financial statements of the province. These consolidated financial statements include all entities, some 70-odd, which include regulated funds, Crown corporations, provincial agencies, and so on and so forth, with the exception of the universities, colleges, hospitals, irrigation districts, and technical institutes. Those are not included in the consolidation. All the other activities of government are consolidated, and the results of operations and the balance sheet at the end of the year are shown in the summary statements of the province, which are the consolidated statements appearing in the blue book, which is the Public Accounts of the province.

For simplicity, I've summarized some of the main features as disclosed by those accounts. On 1.3.8 we

see the revenue as compared with 1981-82, and it's a very surprising difference. There is an increase of \$2 million over the year. I should stress that this, of course, is on a consolidated basis. The graphics then try to explain some of the features of that. We have the personal income taxes shown as graphics comparing the two years. Over the page, we have the same, after eliminating the royalty tax credits and royalty tax rebates, which in this case are offsets of the personal income tax. You can see that it does make a difference to the actual amounts of personal tax collected.

When we look at the corporate taxes, the difference is more significant because the consolidated financial statements show that, whereas there were collections of revenue of \$416 million in '81-82, in '82-83 there was minus \$163 million. If we add back the royalty tax credits and royalty tax rebates, which are really related to nonrenewable resource revenue — although there is some discussion on the tax credits as opposed to the rebates, whether or not they are more associated with tax than the nonrenewable resource revenue; I didn't want to get that back to front — we say that the actual change in the corporate income tax revenue, after taking away anything to do with royalty, is a drop from \$614 million to \$590 million.

On the expenditure side, from 1981 to 1982-83 there has been a change of \$2.929 million, or an increase of 34.8 percent. That is then explained in the subsequent paragraphs. The increase in health is shown with the main reasons for the increase. The increase in education is shown with the main reasons detailed. The increase in social, cultural, and recreational development is shown, again with the major reasons for that change, and the same with economic development, transportation, utilities, and resource management.

Mr. Chairman, if there are any questions, this is probably an appropriate point.

MR. CHAIRMAN: Yes. We're dealing generally with the overall assessment, section 1. If there are any questions on section 1 or on the overall assessment — if you want to follow along, I'm up to page 13.

MRS. KOPER: Mr. Chairman, my question relates to the summary information, the point under 1.3.1, where you commended the Alberta government in regard to reporting practices. What are these reporting practices they have started, and how do they affect the information that's available to the public?

MR. ROGERS: Mr. Chairman, I think we have to go back to the 1977-78 report. Up to and including that year, I was responsible for the preparation of public accounts. I came to that position in 1973. In those early years, like all of us I was learning what it was all about. During that time, I was involved with several committees with CICA, Canadian Institute of Chartered Accountants, and we were looking at reporting practices across the country. That was a happy sort of combination, if you will, of experience and study.

In the report we were preparing, which was later published by the Institute of Chartered Accountants, we recommended that if all the activities of government where there was accountability to a

governing body were brought together in one set of financial statements, it would more clearly show what had really happened. Of course at that time that was not the case in any jurisdiction in Canada. Indeed I think you would be very hard put to find anywhere in the world where that had occurred up to that time. So in my report of '77-78, I had come to the point where I was now convinced that there should be a restructuring of the financial reporting. Up to that time, the General Revenue Fund was looked upon as the financial statements of the province, but it did not include AGT, most of the provincial agencies and, very significantly, it didn't include the Heritage Savings Trust Fund. So here we had a set of financial statements that were called the accounts of the province of Alberta, and yet it really only showed part of the story.

So in my final report, which was a very different sort of report from this one — it was just several pages at the beginning of Public Accounts in those days — I suggested that maybe the government should look at consolidation. Of course the following year, with passage of the new legislation in the fall of '77, Treasury was responsible for the preparation of public accounts. So for the '78-79 year, they adopted the proposals. They also felt the time had come to look at the reporting practices, with the result that I believe Alberta was the first jurisdiction in Canada to, in effect, bring all its activities together, whether those activities had been carried out in departments or provincial agencies, to bring the end results of all those activities together in one set of financial statements. This has now been followed in B.C. and, to some degree, almost the same in Saskatchewan, where they have brought all their Crown corporations together in one set of financial statements and their General Revenue Fund in another.

So to look at the whole picture, you have to look at two sets of financial statements. It is being looked at very closely in other jurisdictions, but it is a fact that Alberta was the first, and I feel that a great deal of credit comes to Treasury. It's one thing to say something should be done; it's quite a different thing to put that into practice. Treasury did a very fine job creating a set of financial statements which have evolved over the last five years, because at first you try things and they can always be improved. I think they've come a long way in that time, and they've done a very fine job. Hence the comment.

MR. PAHL: Mr. Chairman, first I'd like to express my appreciation, and I'm sure my colleagues' appreciation, for the Auditor General's opening comment on the assessment with respect to 1.2.2, where he says auditors' reports are generally bad news and, pointing to the bad news and the irregularities, there weren't any serious irregularities identified and there wasn't cause to report under the Legislative Assembly to section 19 of the Auditor General Act. I appreciate that compliment and also appreciate the acknowledgment in 1.2.5 with respect to staff co-operation. I'm sure the Provincial Treasurer will pass that on with respect to your latest remark.

Mr. Chairman, it's nice to be told you're doing well, but it's probably more important to know how well you're doing compared to the rest of the pack, if you will, across Canada. I know that the Auditor General has an opportunity to meet with his

counterparts across the country and, I guess, on the national scene as well. Could you give us an indication, if you have it, of whether other jurisdictions — and I don't want you to necessarily point fingers and name names, because that's really not the purpose of the question. But how are we relative to other assemblies and parliaments with respect to a similar section 19 and the need to call it on an annual basis with other jurisdictions — if that made sense?

MR. ROGERS: Mr. Chairman, this is a good news/bad news kind of situation. The good news is right at the beginning, but then the rest of the book is the bad news.

MR. PAHL: I'm confident you'll come to that.

MR. ROGERS: Of course that is all reported under section 19.

It is very difficult to assess where we stand in relation to the situation across other jurisdictions, because there are such differences in the local circumstances, if you will, and in the audit reporting. If you look at all the Auditors' reports, they all have a different form to them. I think ours is a little unique in that it is based entirely on recommendations. That flows from the fact that I have a very strong belief that you shouldn't find fault unless you're willing to sort of put your thoughts on the line as to what should be done to correct those faults. It's not good enough to say, hey, you're not doing a very good job, and then not say why or in what way it could be improved.

Perhaps you could describe our report as recommendation driven, because in almost all cases, where we report anything we also make a recommendation. That isn't always the case if you look at various Auditors' reports. So it is very difficult. But I would say that we don't do badly by comparison. If you look at the content of other Auditors' reports, I think we don't do too badly.

MR. PAHL: Just a supplementary, if I may, Mr. Chairman. I appreciate that you've made your task somewhat more difficult. How many of your counterparts across the country follow the recommendation-based method of reporting? Would you have that in general terms?

MR. ROGERS: Auditors' reports, as opposed to the reporting of their governments, as I said, are presently being looked at in a number of jurisdictions. Because our mandates are quite similar, Auditors' reports tend to more or less follow the same pattern. The one difference is on the question of the three Es — efficiency, economy, and effectiveness — in that I think Alberta, the charge that I have, is perhaps a little different from those jurisdictions that do have a charge to look at some of these anyway. In at least three jurisdictions where there are newer audit Acts, there is a charge to the Auditor in his mandate to draw attention to any instance where management has not paid due regard to economy and has not paid due regard to efficiency.

In those two instances we vary significantly, in that my charge is not whether there has been due regard to efficiency and due regard to economy, but rather: are the systems that management employs

adequate, are they there, including those related to economy and efficiency? Are those systems there that should be there? If they are there, are they adequate? And even if they're adequate, are they being complied with? That perhaps is a better charge to an Auditor than observing instances of situations where management has failed to pay due regard to economy or efficiency.

In the case of effectiveness, our charges in at least four of the Acts are the same, and that is to comment on any instance where management could have measured its effectiveness and didn't. I think it's fair to say that although Auditors have that charge, across Canada there is very little reported under that heading, mainly because I think this matter of measuring effectiveness is still highly contentious and perhaps in its infancy yet.

MR. MUSGROVE: Mr. Chairman, I notice that you alluded to the Crown corporation audits, and my question concerns something that happened by the Auditor General of Canada. I was in Regina last summer, and he was speaking to the Commonwealth Parliamentary Association. He actually criticized the lack of regulations on Crown corporation audits. He said there is no consistency in the requirements for these audits and, quite frankly, it made a problem with the federal audit at that point because some of these had reported in various degrees of regulations, and he found that a problem in his audit. Could you tell us how Alberta handles that situation?

MR. ROGERS: Mr. Chairman, under the Auditor General Act, that was passed in the fall of 1977, a unique approach was taken in that the Act calls for the Auditor General to audit all provincial agencies. By definition, wherever there is 100 percent ownership by government — in other words, it's a government entity, whether it be a department or a Crown corporation — it is automatically subject to the full audit by the Auditor General. So there are not those differences that the Auditor General of Canada spoke of.

If there is private-sector interest in any organization, and a good one that comes to mind is PWA, which, when we owned the preponderance of shares — I think it was 99 point something percent. Nevertheless there was a private-sector interest in PWA. Consequently I was not the auditor, but under section 16 of the Auditor General Act, I had certain rights, and that was to consult with the private-sector auditor and satisfy myself. If I had not been satisfied, I could indeed have gone in to do an audit of PWA. In actual fact that was obviously never necessary. In fact it worked out very well in that our annual consultations with the auditors and management of PWA were so open that we had no problems in that area at all.

That applies to any organization where there is over 50 percent and up to 100 percent ownership by the government. It's then called a Crown controlled organization, and in these Crown controlled organizations I may be the auditor — at least I can be appointed the auditor under the Act — but if some other auditor is appointed, I have access rights. If it's 50 percent or less, I have no involvement whatsoever. Consequently I've never been involved with the energy company, for instance. That's the way the Act is. It is different, and it seems to work.

MR. HARLE: When you were talking about consolidated revenues and expenses, and alluding to the situation with regard to Crown agencies of various kinds, PWA and Alberta Energy Company for example, none of their revenues and expenses are included in the consolidation?

MR. ROGERS: No, Mr. Chairman. They are brought in as investments, and what we have invested in them . . .

MR. HARLE: Through the heritage trust fund.

MR. ROGERS: That's right. Or in the case of PWA, it was the General Revenue Fund.

MR. HARLE: With regard to PWA, although we own 90-some percent, their figures were not put into this?

MR. ROGERS: No.

MR. HARLE: Thank you.

MR. CHAIRMAN: Are there any further questions dealing generally with the overall assessment of section 1? If not, we'll move to section 2. I believe that's starting, if you're following in your book, on page 14.

MR. ROGERS: Mr. Chairman, if I could have just a moment or two. There are a few charts that I haven't covered.

MR. CHAIRMAN: Do you want to go back to section 1?

MR. ROGERS: Please, if I may. It won't take but a second or two.

MR. CHAIRMAN: Okay, we'll go back to section 1 to deal with some charts.

MR. ROGERS: If we look at pages 10 and 11, Mr. Chairman, on the left-hand side we see a comparison of three years' revenue, showing the main classifications of revenue, both the percentage of total, which is the first figure in each block, and the per capita, adjusted because we had a differing population over those three years. So you can see on page 10 what happened to revenue. On page 11 you can see what happened to expenditure, again broken down by the main classifications.

On pages 12 and 13, it deals with the nonrenewable resource revenue, and here I took a generic approach, which is not quite the same as the approach that was taken in the consolidated statements, in that instead of the royalty rebates, for instance, affecting corporate tax, I took all those reductions, those incentive programs — whether it was an incentive expenditure or an incentive reduction of revenue — as reductions of revenue, because they apply to the nonrenewable resource revenue.

If you look at the bars on page 12, at 1982-83, the gray one, you can see what has happened to net revenue from nonrenewable resources as compared with previous years. Similarly, we can see the impact of the actions that were taken at the time the economy deteriorated. The result of certain of the actions taken are shown in the pie charts on page

13. The return to the industry by way of the various incentive programs obviously increased from 7.4 percent to 39.8 percent.

Mr. Chairman, that is all on that section.

MR. MARTIN: I'll just check if there are any questions about the charts that have been raised.

MR. CLARK: The first chart on page 12: when you say that the net revenue has fallen in 1982-83, that would be due to the return to the oil and gas industry of the incentive programs we have put out, the \$5.5 billion?

MR. ROGERS: That's right; that is correct. The PIP program of course was very significant, in that I think it was \$684 million on that program alone. Of course there were increases in the drilling incentive programs, well maintenance programs, and so on and so forth. If you take all those into account, then the net from that source was decreased.

MR. MARTIN: Any other questions on the charts? Seeing none, we will start on page 14. This is fairly wide-ranging. Just for your records, section 2 goes from page 14 to page 64, so if you have questions this could be fairly broad-ranging. Are there any initial comments on this section that you would like to make, Mr. Rogers?

MR. ROGERS: Probably the only thing that may be useful, Mr. Chairman, is to comment on pages 14 through 17. These are the Reservations in Auditor's Reports on Financial Statements, and they stem from a number of reasons. There are 13 of them in total, and the reasons for them are given. For instance, six were organizations where part of the revenue was in the form of donations. The problem with donations is that you can really only audit what is recorded. You have no way of knowing if there was anything else. When auditing any such organization, auditors generally reserve opinion on donated revenue.

I think the other reservations are all explained and, in one or two cases, are dealt with in subsequent paragraphs in the report. So if you start on 2.2, Mr. Chairman, which deals with Inadequately Safeguarded Assets and Noncompliance with Legislation, that goes up to page 32.

MR. CHAIRMAN: All right. We'll deal with that section from 2.2 to 2.6 to narrow it down a little, and that's on page — what was it again?

MR. ROGERS: The last item is on page 31, dealing with the Theft of Funds at Public Colleges.

MR. CHAIRMAN: Okay. Are their questions in that area, section 2.2 from page 18 up to page 31?

MR. MUSGROVE: Mr. Chairman, I just notice that a theft is mentioned on page 31 of \$6,400 at Mount Royal College in Calgary. Was that an insured theft?

MR. ROGERS: Yes. I don't think these thefts — the full story isn't known on Mount Royal, is it? I'm not able to give an update on this report. Legal action was in progress for recovery. But they should not be lost because if legal action fails, insurance should cover.

MRS. KOPER: My question to Mr. Rogers is regarding section 2.2.8, overpayments in public assistance grants for the department of social services. I'm wondering if this overpayment is a human factor or a mechanical or technological factor and if there is any way we could perhaps remediate the process. It seems it's an ongoing thing. I would really like to know what the department is doing about the problem.

MR. ROGERS: If I could, Mr. Chairman, I have the response of Social Services and Community Health in front of me. It is two paragraphs. I think it would be in order if I were to read it to give you a flavour of what the department is intending to do about it.

The Department's Remote Data Entry system is currently being implemented. At present approximately 70 percent of the Data Decision Sheets are being validated by this system prior to issuing any payments to clients.

I should point out that I'm reading from a letter dated February 23, 1984, so it is very recent.

It is expected that by June 1984, all Data Decision Sheets will be processed through the Remote Data Entry system, thereby ensuring that payments to clients are based on the latest information. This system will also enable the client files to be updated promptly.

These were two major problem areas that permitted these overpayments to occur. So if that system works as it should, we should see a decrease in subsequent years.

The \$5.2 million increase in receivables comprises \$1.4 million in overpayments, [which is] .4% percent of the total Social Allowance expenditures, and repayments of \$3.8 million. Repayments are loans made to clients to acquire essential services. Overpayments represent payments in excess of authorized needs. Overpayments occur when a client provides incorrect or inadequate financial information. The independent verification of all client financial information is desirable before social allowance is authorized. However, during the past year, caseload has increased dramatically thereby precluding such activity. In the past few months, caseloads have returned to normal levels and we shall be instructing district office staff of the need to verify clients' financial information. This action will assist in reducing the incidence of overpayments.

This response was felt to be a good response, and we are satisfied in our dealings with the department that they are as anxious to see this cleared up as we are to see the item leave our report.

MRS. KOPER: Good. Thank you.

MR. CLARK: Under point 2.2.9, where it covers the Department of Transportation and the grants given to urban transportation assistance, are you saying that the department relies on audits from municipalities

rather than having any check on their own? Is that what you're saying in this report? Or is it because it's too widely spread for the department to really get a handle on it?

MR. ROGERS: Mr. Chairman, the situation we have here is where these grants very often are comingled with the funds of the municipality. I don't think an employee of the Department of Transportation really could do the checking himself. I don't think they could do it very well. It's preferable if you can have an independent auditor give a suitable auditor's report as to what occurred or what happened or how that money was spent.

The problem lies in the fact that in devising this approach, they had worded something they called a certificate, which really didn't tell them what they needed to know, and that was that there had been compliance with the conditions of the grant. I'm working from memory now. It said: I've carried out a review — which right there is different from being an audit — and I certify that the revenue and expenditures are fairly stated. Words like that are nonstandard words and really don't give any assurance, because what it didn't say was that there had been compliance with the terms of the agreement they had with the municipality. When we looked into it, we found there were quite serious misunderstandings between the auditor of the municipality and the department, in that there was a manual in existence that the auditor was not aware of.

So I think we have that straightened out, but it led to a recommendation that such auditor's reports be in compliance with section 5815 of the Canadian Institute of Chartered Accountants Handbook which, as you probably know, is what we all go by, as does business. That particular section of the handbook deals with an independent auditor giving an auditor's report on compliance with terms of an agreement. So that seemed very appropriate for this kind of situation. We feel that this could be used in many areas where there are conditional grants and the department is seeking some confidence or assurance that the conditions have been complied with. It seems that rather than sending out inspectors, who may or may not be able to really achieve very much, it would be better if the independent auditors of whoever received the grant could give an auditor's report in conformity with 5815, in effect saying that he believed there was compliance with the terms of the agreement. In the course of his auditing, he really has a good idea, because he can then work that into his audit. So it shouldn't be something on top; it could be integrated with the annual audit that is carried out in any event.

We've simply advanced that for consideration by the departments who have conditional grants, to see if they may not feel that that gives them more assurance.

MR. CHAIRMAN: Are there any other questions dealing with this section up to page 32?

MR. PAPROSKI: My question deals with recommendation No. 15 on page 32, on theft from within organizations. I'm just wondering if you would comment on how prevalent this is, Mr. Rogers. You talk about Keyano College; you talk about Mount

Royal College. Have you noticed a minor or a substantial increase in the last few years with respect to this?

MR. ROGERS: No. What happened was that this did occur in the two colleges. In each case, it was because of a lifting of controls. Recommendation 15 is simply advice, if you like, rather than a recommendation. As you all know, we are in a period of restraint, a period when resources have to be carefully allocated. All I'm saying is that human nature being what it is, and I know this myself, it is to have those resources that you have at the sharp end dealing with public, delivering programs. In my opinion it's essential, though, if we are to avoid losses occurring, to make sure we don't denude or strip those areas that are involved in controlling, accounting, measuring, and so forth, the administration.

I wouldn't like that to be interpreted as it was at the press conference: does that mean you fire everyone else but not the accountant? No, very definitely not. I think this is an opportunity to look at the way things are done and try to do things more efficiently.

One of the areas we'll be looking at this summer in the course of our audit work is just that, to see if we can isolate instances of overcontrol, overadministration if you will. There must be a happy medium, and this is all this is really saying.

MR. PAPROSKI: Perhaps a further comment then. What you're saying is that in essence you're raising a caution flag; you're indicating: take care, if indeed there is reorganization, that one still has good controls. I'm very pleased to hear, though, that there really hasn't been a major increase. When you talk about the vast number of agencies, departments, et cetera, that handle funds, I think the government should indeed be commended for keeping those controls on at this time.

MR. HARLE: I'm looking at page 39.

MR. CHAIRMAN: We're getting to that section next; I'll put you first on the list. Are there any more in section 2.2, up to page 32?

MR. JONSON: I guess I, too, am not in the right section. I had a question going back to 2.1.5. Has the necessary order in council been passed to bring the assets of the mental hospitals under the regional boards?

MR. ROGERS: To my knowledge, no, not yet. I think we're still working in that area, and I know discussions took place with the officials from Ponoka as late as last week, I believe. But to my knowledge, the order in council has not been passed yet.

MR. JONSON: Thank you.

MR. CHAIRMAN: Are there any other questions dealing with section 2.2, up to page 32? Seeing none, what I'd like to do is move to section 2.3. For your information, that's pages 33 to 38. Are there any general comments about this section, Mr. Rogers?

MR. ROGERS: Not really, Mr. Chairman. I think it's

fairly self-explanatory. These are systems weaknesses and deficiencies.

MR. CHAIRMAN: Any questions on section 2.3 from any members?

MR. HARLE: Mr. Chairman, on page 34, 2.3.3, I gather it's somewhat tied to 2.3.8 on page 37. In other words, we're basically talking about computers and the effect upon government operations of computers. As I understand it, in the comments you've made and in the recommendations the key to making use of computers in an efficient manner is to make sure that senior management has some control over what's happening. Senior management of course are not generally computer experts and, I suppose, just from normal day-to-day language, have to learn and become acquainted with what it is that computer experts are talking about, if they are to have an impact from the point of view of managing what is going on.

Are there any courses or seminars available for senior managers to become updated within government about computers, so that they can carry on a dialogue with computer experts and have a better handle on this management request that you've included in your report?

MR. ROGERS: Perhaps I could give a little bit of the background on this; I think it's a very good question. In my own experience I've been on both sides of the fence, because I ran the computer operations of the government for 13 years. So I've seen it from that side, and of course in the last 10 years or so I've seen it from the user side. I feel very strongly on this point. I would say that a manager, if I can use an analogy, needs to be able to drive a car without knowing how an internal combustion engine works. He should know the limitations. He should know what can be achieved using computer systems. Having said that, I'm not aware of any in-house courses, but very many offers come over my desk for courses put on by private-sector organizations, the main accounting firms for one. There are a number of different organizations that have a course that will take place in Toronto, Calgary, Vancouver, in other words bring it across the country.

I think many of the managers have at some time or other taken basic indoctrination courses, enough to give them a feel for what can happen or what a computer can do for you. But because every situation tends to be different, it really is learning by experience as much as anything. As usual, I think experience is the best teacher in this area. I think we've come a long way in having senior management able to hold their own with the computer experts: just bring them down to earth and say, look, speak English; enough of this jargon. But we do have some weak areas, and this is really addressed to weak areas.

MR. HARLE: I gather, then, that you're in effect satisfied with the efforts departments are making in this area to make sure their senior managers are in fact equipped to deal with the computer from a point of view of overall management. I suspect there have been a lot of mistakes along the way.

MR. ROGERS: I think we've all made mistakes.

When you consider it was 1951 when the first general purpose digital computer was delivered to the U.S. Bureau of Census, when you consider that in just a little over 30 years there have been such vast strides made — during that time yes, a lot of mistakes were made, but I also think we've come a long way in learning from those mistakes.

As this section indicates, within government it ranges from quite poor to very good. It's the ones that are below the line that we want to pay particular attention to, because the losses that can occur through misuse of computers are very substantial.

MR. PAPROSKI: My question also deals with computers, Mr. Rogers, with the section dealing with security over centrally stored computer data. You indicate that there has been an improvement. But it's still disconcerting to me to see that you state in the third or fourth last line that

most departments and agencies that use a central facility have evaluated their computer security requirements.

When you say "most", I'd be interested to know if it's 51 percent of them or a great majority? Are there only two or three departments that really haven't looked into it? I say this because of the proliferation of the use of this system. I believe there should always be a continuance of security and checks, et cetera, et cetera. So when I see the word "most", I just hope that next year it won't be brought back again.

MR. ROGERS: We carried out a review in 1983, and I have the results of it here.

The majority of departments and Provincial agencies have evaluated their security requirements, and based upon those evaluations, they have selected what they considered the most appropriate security systems to protect their data and programs.

All departments where deficiencies were found in the 1982 audit, have taken proper procedures to correct deficiencies.

The Office of the Controller has revised its procedures for reviewing EDP systems. These procedures now include a review to ensure adherence to security standards in both new and existing systems.

I'm satisfied that, to use the words I used a few moments ago, we've come a long way, in that there is now universal recognition that this is the user's problem. It isn't the problem of those people down there. Their job is to provide the means. To use the means is up to the user, in the same way that it was up to the user to put locks on filing cabinets, to make sure he had locks on his doors, and so on and so forth. Security is the responsibility of whoever owns the information, and that is the user.

MR. PAPROSKI: Just a quick supplementary then. Who in government would you say is responsible to communicate with all departments and all officials about this particular area dealing with security checks and balances on the central computer and the utilization of any electronic data, period? Is there

one specific department that plays the major role?

MR. ROGERS: Treasury has issued a manual, as has the computing section of Public Works, Supply and Services. I'm satisfied that this is being actively followed up. In other words the minority, and they're very few, who have yet to really come to grips with this problem are being followed up. It isn't a question of them just lying out there. They are being followed up by Treasury and the computer division of Public Works, Supply and Services.

MR. CLARK: Mr. Chairman, my question is just for clarification really, on workers' compensation, 2.3.9. They seem to have quite a deficit, and I don't know what this deficit is caused from. Why do they run a deficit in workers' compensation? I don't really understand how your recommendation is going to change much in that. Could you explain that to us?

MR. ROGERS: The deficit comes from not raising enough revenue to meet the expenditures incurred through the benefits that have been paid out or the liabilities incurred for that. I suppose what I'm saying is that on the basis of what they had actually allowed by way of benefits, they should have raised the levies on the various industries involved in the Workers' Compensation Board activity. That had not been done.

There had always been an informal understanding that at some time, the deficiencies in the various classes would be recovered from those who contribute to the classes. This is not because of the financial situation we've had in the last year or two. This has not been followed up in the way in which it had been in earlier days, and there is now a substantial deficit.

The problem is that there is no formal — we stress that — there is no formal understanding or formal plan, if you will, for the recovery of the deficits that have been incurred. Consequently I've had discussions with management at the Workers' Compensation Board, and I understand they plan on having such. Through discussions they have informed me that they do plan on a formal plan to recover the deficit of the various classes. Their written response, dated March 14, 1984, with regard to this item says:

It is correct that current practices only address class deficits (or surpluses) in an informal manner, and thus we agree there should be a formal, policy statement on their recovery or distribution. We would add, however, that this should be a flexible policy, as the Board follows a "fairness" principle of not unduly or unfairly burdening the employers in any class with the costs of accidents which have previously happened. A "too-quick" recovery of deficits or "too quick" distribution of surpluses — situations which can arise from costs of previous accidents being more or less than had been expected — would, in our opinion, be more likely to occur under a formal class balance recovery policy and thus be inconsistent with this "fairness" principle.

We also agree there should be a

formal policy to deal with the way other known funding deficiencies, which are not charged to the classes, will be recovered. Similarly there should be a policy for the distribution of a funding surplus.

Several aspects of the current Financial Review deal directly with these issues and will be concluded during the review.

As I say, that letter was March 14 of this year. That review is ongoing, coming to a conclusion quite shortly I presume. I think the matter will be addressed, but it is the sort of thing you don't leave too long because the chickens come home to roost.

MR. CLARK: I guess my concern is the ability to pay at the other end. My concern would be the ability of industry and the people who are doing the hiring to pay. I'm just wondering how that would affect them if we had a formal policy where they had to pay as they go. I can understand now what they mean by the deficit. I thought that by a formal policy maybe you wanted some other way of raising that income.

MR. ROGERS: No. It is just a plan to recover the deficits and distribute the surpluses, if any of the classes are in surplus. I might add that although this talks about fairness, I fully subscribed to the fairness approach. I have been involved with the Workers' Compensation Board in an audit capacity dating way back to the early '50s, so I'm fully aware of the need for a fairness approach in making those assessments.

MR. CHAIRMAN: Just for your information, Mr. Clark, if I might. It doesn't have to do with No. 19 specifically. I see Mr. Moore is here. He and I have been sitting on the committee chaired by Mr. Diachuk. This report will be tabled in the House in this session. You may want to go through that in fairly good detail, because we may answer some of your questions.

MR. McPHERSON: Mr. Chairman, I put my hand up prior to hearing the Auditor General's final remarks, and yours with respect to the select committee report that should be forthcoming in the not too distant future. So my comments have already been made, perhaps with the exception that this deficit really starts to become a policy decision of the department.

I have always understood that workers' compensation is in fact an insured fund that would require premiums to equal the claims on the fund. We are certainly not seeing that to be the case in recent years. In fact one could suggest that workers' compensation has almost taken the outlook of being a social agency as opposed to being an insured fund paid for by employers.

I suppose these are some of the very questions that are going to be raised by the select committee, a member of which I am not. But I am looking forward to seeing that report and the comments by our chairman, who I know sits on that committee. So most of the comments were raised by you, sir, toward the latter part of your comments.

Thank you.

MR. ROGERS: Mr. Chairman, as pointed out, much

of it involves policy, which it is not the Auditor's function to comment on. I'm merely commenting on the need for a formal plan to recover the deficit.

MR. CHAIRMAN: Okay. Are there any other questions on section 2.3, up to page 38?

MR. PAPROSKI: Mr. Chairman, I have a general question for the Auditor General that deals with fixed assets. I just wondered if you could comment, because on a couple of occasions you alluded to lack of controls. I wonder if you could give a general statement with respect to the fixed assets of the provincial government.

MR. ROGERS: Mr. Chairman, I will appear to digress for a moment, but it's necessary background. If we could just jump to page 61 for a moment, I could answer this question. I've opened up a new section this year; it's 2.6. Because we couldn't come up with a better heading, it is headed "matters subject to recommendation in previous annual reports that were either rejected or are not completely resolved". I tried for a short, catchy title like "morgue", "graveyard", or something like that, but decided it would look a little better and more formal if I gave a full heading. You'll notice that one of the items on page 62 is section 2.6.4, Fixed Assets, and it acknowledges that in the '78-79, '80-81, '81-82 reports, observations were made that

the control exercised by the Government of Alberta over much of the Provincially owned furniture and equipment was inadequate and ineffective . . .

The Government agrees with the Auditor General's recommendation and through the Office of the Controller, is encouraging departments and agencies to improve their fixed asset systems. The Audit Office has noticed a gradual improvement in these systems and, as long as this trend continues, the Auditor General will not repeat this recommendation in his annual reports. However, as a normal part of annual audits, the Auditor General will continue to report observed inadequacies in fixed asset control systems to management of the applicable departments . . . and Provincial agencies.

So in answer to your question, I would say we've seen a considerable improvement in this in various departments. There are still some weak areas, but we are satisfied that this is being actively looked at. We'll bring it back into the main body of the report in a year or two, if it seems to be slipping or not continuing to improve.

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

MR. PAPROSKI: Mr. Chairman, if no one else has any more questions, I'd just like to allude back to Recommendation No. 18. That deals with salary payroll and inadequate documentation. Again, you indicate there has been an improvement, but there continue to be some errors and some overpayments occurring. I would like to ask the Auditor General to describe a typical department for me, if possible, and

how these particular payroll situations are handled within the department. What kind of screening occurs when a payroll is to be issued? How does one particular department handle this?

MR. ROGERS: There is usually a personnel function within the department. This group is responsible for raising forms and so on and so forth to pay people, and they are supposed to keep these forms on personnel files so you can subsequently go back and see the complete story on an individual.

Then of course there are increases that are fairly across government. In those cases, the data centre in effect prepares a list that simply goes to the department. They say: if the increases were implemented, these would be the increases; if you don't agree, make any alterations you feel you should. Very often of course nothing is put on file until after the increase, when the system provides printouts back to the department, and those are supposed to be put on the files.

It isn't so much in the gross pay that the problem arises; it's in all the deductions. Very often they will originate a deduction for an individual, and there'll be nothing on the file to indicate it. There has been a significant decrease in the errors we record. For instance, incomplete documentary evidence on personnel files to support withholdings, and the one I just mentioned, dropped from 12 percent to 5 percent incidence; 5 percent is still too high. If I'm one of the 5 percent, I could get a little disturbed if there's a withholding of part of my income and yet there's nothing on file to indicate what it is. Obviously one of the controls is that if someone is getting a salary cheque — I think people really do control the salary cheques to make sure they're getting what they're supposed to get.

It's a little disturbing if the official records don't show what's happening. The inaccurate record of vacation entitlement, casual illness, or temporary absence: as you know, there are controls on how much you can have of each of these things; we found some very poor records, but the incidence of unsatisfactory records decreased from 42 percent to 28 percent. So there is an improvement, but it's still not good enough. A 28 percent inadequacy across the board is still a little disturbing when you realize it could end up with people taking vacation they're not entitled to, not being deducted for sick leave in excess of the limits, things like that.

Miscellaneous kinds of shortcomings in personnel records decreased from 16 percent to 4 percent, which was quite satisfactory. I would stress that we're not really talking about horses on the payroll or people getting pay that is outside the salary plan, getting remuneration they're not entitled to. We're not talking about that. We're mainly talking about record keeping. As I said, even if the withholding was wrong, the individual would look at his paycheque stub and say, what's this. Nevertheless, it is a shortcoming in record keeping which can cause problems. The area of vacation entitlements, sick leave, and those kinds of things, very definitely can result in people getting benefits they're not entitled to.

MR. PAPROSKI: Just one final supplementary dealing with this issue. I wonder if the Auditor General has done any investigation to compare those

departments that are doing these particular tasks manually — i.e. filling out forms by hand — compared to those that are utilizing the microcomputer, for example, to do calculations pertaining to deductions, et cetera. Do you find there are more errors in one or the other, or indeed can you comment in that area?

MR. ROGERS: I really don't have the information with me right now to make a comment in that area. I certainly will keep an eye on it this coming summer, and perhaps I can answer that question in the fall.

MR. PAPROSKI: Mr. Rogers, my reason for asking is that with the development of this technology, I hope it's indeed going to pick up many of these things that could slip by in the past.

MR. ROGERS: I would say, though, that to my knowledge the vast majority of these records are manual records.

MR. CHAIRMAN: Are there any other questions on section 2.3? Seeing none, I notice we have a major section coming up with a lot of pages. Easy on this; we have five more minutes, but my suggestion is that rather than going into section 2.4, we start with this next Wednesday.

MR. HARLE: I move we adjourn.

MR. CHAIRMAN: We'll meet here at 10 o'clock next Wednesday, and we'll start with section 2.4.

[The meeting adjourned at 11:25 a.m.]

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