

[Chairman: Mr. Pashak]

[10:20 a.m.]

MR. CHAIRMAN: I'd like to call the meeting of Public Accounts to order if I may. We are a little late getting started this morning, and I do want to apologize on behalf of the committee to Mr. Salmon, the Auditor General. I know he's a very, very busy man.

Mr. Salmon has brought with him today one of his assistants, Mr. Andrew Wingate. I assume that his title is Assistant Auditor General. I was just informed that there are three assistants to the Auditor General. We may want to ask questions later on about how his department functions.

We have an agenda. May I have a motion to approve the agenda as distributed? Anyone care to move the agenda as distributed?

MR. STRONG: So moved.

MR. CHAIRMAN: Minutes have been distributed. Is there any discussion arising out of the minutes?

MR. SHRAKE: I move that we adopt them.

MR. CHAIRMAN: Any discussion? Is it agreed that we adopt the minutes?

HON. MEMBERS: Agreed.

MR. CHAIRMAN: The next item on the agenda is the discussion of the Report of the Auditor General for the year ended March 31, 1985. We had made some progress. I think we were up to section 3.5 when we left off last day, so I invite Mr. Salmon to introduce the next section of his report.

MR. SALMON: Thank you, Mr. Chairman. We'll start on page 61. Prior to the commencement of the discussion on these items, I would like to clarify one question from the meeting of July 30. I believe Mr. Nelson asked why the Workers' Compensation Board was included as a commercial entity within the consolidated financial statements. We answered that partially last time. Just to clarify, on page 7.2 of the first volume of the public accounts, Treasury has included an explanation of the commercial organizations and why they've included them there. Basically, they are "of

full cost supported . . . with no subsidy from the General Revenue Fund." They are incorporated within the consolidated financial statements of the province on an equity basis; in other words, they include the unremitted earnings or the surplus of those organizations.

We recognize that the Workers' Compensation Board might be a little bit different than the other five. However, because they are a government corporation or provincial agency with regulations and a board appointed by the Lieutenant Governor in Council, they've included them within that grouping. Basically, they want to include them on an equity basis rather than on a full consolidated basis.

I hope that will answer that question. If not, we will discuss it, or we can go on with the next point.

MR. CHAIRMAN: I'll ask Mr. Nelson if he has any further follow-up questions on that point.

MR. NELSON: I won't ask until I've fully digested the answer, and then if I have a question I'll ask it. Thank you.

MR. SALMON: The first item we have in our report under Inappropriate Accounting Policies and Inadequate Disclosures, for the year ended March 31, 1985, is an item that had been reported in 1978-79, with the reply from the government, who rejected the recommendation because it pertained to the Heritage Savings Trust Fund and the deemed assets, which has been a discussion of this Legislature as well as Public Accounts and the standing committee on the Heritage Savings Trust Fund for a number of years. The Auditor General, Mr. Rogers, wanted it put back in this year because we had found a number of instances where in quoting the value of the fund, it was quoted at the full value rather than the value less the deemed assets. Deemed assets are getting to be a fairly large amount, being the cost of the capital projects that have been paid for out of the fund. In excess of \$2 billion at that time, they are even greater now.

The recommendation was that further consideration be given to not reporting them this way, and we've had some discussion with the Treasury Department relative to government policy on this. We will await a

further reply when this particular item is officially reported to the Public Accounts Committee. It was basically because of the increased size of the deemed assets over the years and the fact that the media, as well as others, tend to quote the full value. We would like to separate those from the regular financial statements and show them in a different way, although legislatively they have shown them this way for all the years it's been in operation.

MR. MITCHELL: While we're discussing the question of accounting for assets in the fund, I wonder if I could ask Mr. Salmon: do you know the accounting policy that is being utilized now for accounting for assets such as mortgages; for example, in the debenture to the Alberta Mortgage and Housing Corporation? Do you know whether they are carrying those at book value, have written them down to appraised value, or are capitalizing interest?

MR. SALMON: Mr. Chairman, the member could refer to the financial statements. If you've seen those financial statements, which are included within the public accounts each year and tabled in the Legislature, the actual financial statements include notes that give full disclosure as to the valuations. We have gone through that ourselves in order that we can be satisfied that we can give an opinion on those financial statements. So they are fully disclosed.

MR. MITCHELL: Are you convinced that they are using generally accepted accounting principles for mortgages? They are writing them down to appraised value.

MR. SALMON: Yes, we've been satisfied with the way the notes are now presented, that they are giving full disclosure. We know that over the years we've spent considerable time examining the basis and valuation of those mortgages and the assets of the corporation.

MR. MITCHELL: Could I just pursue it one step further? Say that they had done a mortgage for \$100,000 which they then foreclosed on, and it's now appraised at \$45,000. Is it on the books at \$100,000, or is it on the books at \$45,000?

MR. SALMON: That's not a simple question to answer, Mr. Chairman. Depending on how they

are treating those assets on the balance sheet, they have broken that down as to how they valued each part, whether or not they are going to put them on the market to sell or keep them for rental purposes. That's all disclosed in the notes.

MR. CHAIRMAN: Are there any further questions on recommendation 32? I think that's essentially what we're dealing with.

MR. ALGER: Mr. Chairman, I'd just like the Auditor General, if he would, to give me another little rundown on deemed assets and what he seems to think they are. I'm confused about that.

MR. CHAIRMAN: I think that might be in order. Could you give us a little explanation about exactly what deemed assets are?

MR. ALGER: Is it still a deemed asset if nobody wants the damn thing? I just kind of wonder.

MR. SALMON: Mr. Chairman, in the first paragraph of the item we describe:

"Deemed assets" represent the accumulated nonrecoverable expenditures of the Trust Fund's Capital Projects Division.

All those projects are listed in the financial statements.

Section 6(8) of the Alberta Heritage Savings Trust Fund Act actually states that investments in the Capital Projects Division shall be deemed to be assets of the Trust Fund with a value equal to the amounts expended.

In other words, those deemed assets are at the actual cost of those assets, and they have remained in those financial statements on that basis. They are segregated on the balance sheet if one looks at it, although both the assets and the deemed assets are totalled on that balance sheet. That's where there is maybe some confusion because that brings it up to the full value.

MR. MITCHELL: So they include things such as . . .

MR. CHAIRMAN: Wait a minute. I think Mr. Alger is entitled to pursue this. You've actually

used your question privileges at the moment. Mr. Heron is recognized next.

MR. HERON: Mr. Chairman, being a newly elected MLA, I look at page 61 and recommendation 32 and ask the question: what would be the rationale for including the capital projects in the heritage fund in the first place? It's my perception that by capitalizing an overpass, for example, it should be treated as a fiscal expenditure. Going back a few years, Mr. Chairman, what would be the rationale for including such things as the Walter C. Mackenzie or the Kananaskis golf course or airports as assets in the first place? It doesn't seem to fit with generally accepted accounting principles in my training and background.

MR. CHAIRMAN: I'm sure that Mr. Salmon will be delighted to answer that question.

MR. SALMON: Mr. Chairman, I think I'll agree with the member, but I believe that some of the older members of the Legislature might like to go into the history of that. The development of the legislation included the particular paragraph that started that. We'll leave it with him.

MR. CHAIRMAN: Do you have any further follow-up questions?

MR. HERON: Is recommendation 32 to be acted upon? What is the status of recommendation 32, Mr. Chairman?

MR. SALMON: The status of recommendation 32, Mr. Chairman, is that we feel consideration should again be given to not including the deemed assets on the actual financial statements, and we make a recommendation as to what could be done to display those costs for the public without actually including them in the financial statements.

MR. NELSON: Mr. Chairman, first of all, is it not true that the financial statement presently done by the Heritage Savings Trust Fund separates those deemed assets even though they are also included on the bottom line as part of that report?

MR. SALMON: Mr. Chairman, that is correct. They are segregated, and that's the reason we can give the opinion that we do on those

financial statements. However, as an auditor we would feel that they are somewhat misleading, because of the nature of the asset.

MR. NELSON: Mr. Chairman, I agree that they're misleading; there's no question about that. They're misleading to the public and what have you.

The other question I have is relative to the Heritage Savings Trust Fund, while we're talking about deemed assets and various other things. Has there been any discussion between the Auditor General's office and the Treasury insofar as the assets of the fund are concerned; for example, the land holdings, the shares that are held in various corporations, and what have you? Have there been any discussions relevant to these types of assets that are not updated on a regular basis as to their true value so as to know exactly what the value of that fund really is?

MR. SALMON: Mr. Chairman, if one would examine the financial statements, I believe the only ones that are kept at full cost are the deemed assets. The others are looked upon on value each year.

MR. NELSON: How is that value calculated? If it is not a real value, for proper accounting procedures should that not be adjusted on an annual basis to ensure that we have a real value with the assets of that fund?

MR. SALMON: Mr. Chairman, on the basis of the financial statement notes, note 2 describes the basis of valuing all the assets of the heritage fund. It's based on disclosure that we can actually give the opinion. It may be the opinion of some individuals relative to how to value, but because they're fully disclosed and it's acceptable on the basis of those as being either generally accepted accounting principles or a disclosed basis, it's appropriate. We have gone along with those valuations.

MR. PAYNE: I originally indicated that I was going to get in, Mr. Chairman. I'm still not so sure that I should. Perhaps I could say that another select committee, the Alberta Heritage Savings Trust Fund committee, has of course addressed itself in previous years to the public misconceptions that were engendered by the inclusion of these so-called deemed assets in

the total heritage fund pot. I was not a member of this Assembly in 1976, so I don't know that I'm qualified to respond to Mr. Heron's question, but I think there must have been a concern back in 1976 in anticipation of such capital investments, that if they were somehow segregated, there was a risk that they might be overlooked or regarded differently and there might be some public dissatisfaction with the size and growth of the fund. That's a supposition on my part, and perhaps others who were in the House in '76 could amplify for Mr. Heron's benefit.

I return to my second point, which is that the select committee on the Alberta Heritage Savings Trust Fund has on more than one occasion addressed itself to the risk of public misunderstanding when these assets are not treated differently.

MR. KROEGER: Mr. Chairman, I was here when the fund was set up, and there was a good deal of discussion about the concept of the fund, even as to whether it should be there or not. There has been major revenue where there was an inflow of funding related to energy in other parts of the world: Texas, Alaska, and, if you like, even Saskatchewan to a degree. Of course, the question was: should you spend it as it comes in or should you save part of it? Our decision was to save part of it.

MR. CHAIRMAN: May I just interrupt for a minute. I'm beginning to feel a little uncomfortable. I think we're debating the wisdom of establishing the heritage trust fund. If the committee agrees and wants to pursue this, that's fine with me too, but is this . . .

MR. KROEGER: Mr. Chairman, that question came up. Why was . . .

MR. CHAIRMAN: Okay; I just wanted to get the sense of the committee.

MR. HERON: Mr. Chairman, since I asked the question, a concern has been expressed by constituents that this visualizes a \$5 billion pool of money that can be dipped into. From an accounting point of view, I think that this is misleading to our Alberta constituents. I asked the question very deliberately. If it is misleading and is not in accordance with generally accepted accounting practices,

perhaps we could have some background as to why it was established in this manner. I used the illustration of an overpass as being a fiscal expenditure and off the books. I would appreciate some elaboration on this, Mr. Chairman, if it's possible.

MR. CHAIRMAN: I find the discussion very interesting as well. Maybe we can go back then to Mr. Kroeger and let him finish his point. I'm sorry.

MR. KROEGER: When you have a debate as to whether to spend or save or to save part of it — and 30 percent of that income was designated to be saved — then to ease people's concern as to why we weren't just spending it to build hospitals or whatever, the decision was to identify what that fund was for and then start doing certain things with it. At that time, I suppose as part of the justification, it was decided to include those things. Whether it was a thousand hopper cars or the Kananaskis development, it ought to be identified that the fund is working, that this is what it's doing for you; you have it; these things stay; things like the Walter Mackenzie hospital, if you like, are all here.

I suppose that 10 years later the question is valid: do we need to continue to keep these visible nonsalable assets as part of the fund? I think it's worth debating, but that's part of what led into it. Fred, you were there in those days. You might want to expand on this.

MR. BRADLEY: I think both Mr. Payne and Mr. Kroeger have outlined very well the rationale at the time. I will just add two comments to this in support of what Mr. Payne said. There's another select committee of this Legislature, the Heritage Savings Trust Fund committee, which reviews the investments and has addressed this question in the past. I think that it would be appropriate for that committee to dwell on this matter in more detail, if they so wish.

The other comment is that that specific provision is in the legislation, the Heritage Savings Trust Fund Act, as I recollect. So it would take a legislative amendment to change that, and I think it's more appropriately discussed by the Heritage Savings Trust Fund committee.

MR. CHAIRMAN: I wonder if Mr. Salmon would care to make an additional comment in light of this discussion.

MR. SALMON: Mr. Chairman, there's just one comment that I'd like to make. Yes, it is included in the Act. We have considered it in light of that and have gone along with that over the years. It's described in the notes under note 2 as: generally accepted principles except for . . . So the deemed assets are an "except for," and then in our own auditor's report on those financial statements, we classified it as a "disclosed basis of accounting . . . appropriate in the circumstances," and based on that fact that it is included in legislation. We are just making the point in our report to have it further considered; that's all.

MR. SHRAKE: Mr. Chairman, just a little point. I would hope that somewhere along the way we would come up with better terminology than "deemed assets." There's almost a connotation to the words that maybe they're not assets. The golf course is an asset; it has a value. It will produce revenue as long as it's there, the next 100 years or whatever. Is there not a public service type of project, some terminology to properly describe that? The layman and the public would really wonder: "What the heck is this deemed asset? Is it not really an asset? Is it a phony or a fake or something?" Hopefully you'll come up with the terminology. I guess this is probably accounting talk.

MR. SALMON: No, Mr. Chairman, that is right out of the Act. That's the term that was used right from the beginning.

MR. CHAIRMAN: I'm a little hesitant to recognize Mr. Mitchell on this, because our agreement was that a member would be allowed one question and two supplementaries.

MR. MITCHELL: Mr. Chairman, on a point of order.

MR. CHAIRMAN: A point of order. Certainly.

MR. MITCHELL: I'm just wondering if can we build this into a recommendation to the Legislature. I support Mr. Heron's point, for example. Is there a motion there that says that

deemed assets should be excluded from the accounting of the heritage trust fund in accordance with the Auditor General's consistent recommendation to do so?

MR. CHAIRMAN: I'm going to check with my adviser here. I don't think it is our business to make recommendations to other bodies. That would have to be dealt with in the Assembly, would it not?

After consulting with my expert here, it is perfectly within the rules or the procedures for you to make such a motion at this point in time.

MR. MITCHELL: In the interest of accounting for heritage trust fund assets properly, to avoid any misconception by constituents, the residents of Alberta, about the value of that fund, to avoid any misconception in the rest of Canada about the value of that fund, which can have implications for our negotiations on redressing oil revenue imbalances and the like, I would move that we recommend to the Legislature that deemed assets be excluded from the heritage trust fund in accordance with the Auditor General's recommendation 32.

MR. CHAIRMAN: You've heard the motion. Now the debate will be on the motion.

MR. R. MOORE: Mr. Chairman, I'd like to make an amendment to that motion. I would like it to read as its preamble went but that that recommendation go to the select committee on the heritage trust fund rather than to the Legislature.

MR. CHAIRMAN: The motion has been amended to send this recommendation to the select committee on the heritage trust fund rather than to the Assembly. So we'll debate the amendment now. Currently I'm getting a point of information here.

I've just been informed, Mr. Moore, that I'll have to rule your amendment out of order on the basis that one committee of the Assembly cannot make a recommendation to another committee. They can only make their recommendation to the Assembly itself. So we're back on the main question.

MR. NELSON: Mr. Chairman, this is a recommendation that has been put forward by the Heritage Savings Trust Fund committee, I

believe, for the last number of years. At this particular time I would not support the motion to the extent that I think we can deal with it much more easily in the Heritage Savings Trust Fund committee when they're discussing the Heritage Savings Trust Fund and its utilization in a more extensive manner over a period of six to eight weeks, which will probably take place very shortly. Secondly, during the next number of weeks we will be discussing in the Legislature over a period of 12 days estimates of the Heritage Savings Trust Fund.

Even though this is a very important item relative to the Auditor General's report, I feel that it would be better discussed in those two forums so that we can get on with the discussion of the rest of this report and get into our ministries to discuss their particular operations rather than taking up a lot of time on this particular item, which we could do when we will have considerable time, 12 days in the House and probably six to eight weeks discussing heritage fund situations at a later date with the trust committee. I think we should defeat the motion at this time.

MR. R. MOORE: Mr. Chairman, basically my thoughts are the same. The select committee on the Heritage Trust Fund was set up specifically to examine all facets of the Heritage Trust Fund, and this falls right within that perimeter. That's what they're set up for. Rather than bringing this back into the Legislature, that committee should handle it. They in turn will report to the Legislature after they've done an in-depth study, instead of putting it through the Legislature, where it gets bandied around for political reasons or whatever and we really don't get all the facts out. I think it should go directly there and be discussed in that area.

While I'm talking, can I speak on a point of order?

MR. CHAIRMAN: Yes.

MR. R. MOORE: On a point of order. In our mandate as Public Accounts we're to be examining the Auditor's report for the year ended March 31, 1985, and the recommendations thereof. I'm wondering whether we aren't outside our mandate now in this discussion, which we've taken 15 minutes of our valuable time on.

MR. CHAIRMAN: On the point of order. I think the motion and the discussion are in order because this issue is raised on page 61 of the Auditor General's report. Unless there is a challenge to the Chair, which could get us really bogged down, I think I'm going to rule the discussion in order.

MR. MITCHELL: Mr. Chairman?

MR. CHAIRMAN: There are other people who would like to speak on the motion. If I recognize you, that will probably mean that the discussion on this question is terminated.

MR. BRADLEY: On a point of procedure, Mr. Chairman. It has been some time since I've sat on this committee, but I thought we proceeded to discuss recommendations at a certain point in time rather than doing it ad hoc, that we set aside some time after we've heard the various presentations and then discuss recommendations rather than taking them forward as we go through. We could have a great number of debates every time we discuss a certain ministry or report. In terms of procedure, perhaps we should have an opportunity to discuss that.

I would like to make a motion to table this particular recommendation until we've . . .

MR. CHAIRMAN: The motion to table is a dilatory motion under Beauchesne, as I understand it, and therefore is out of order. I think it would be easier to deal with it.

MR. BRADLEY: I think there is a more appropriate point in time to sit down and discuss recommendations.

MR. CHAIRMAN: If you want to move a motion to that effect later on, it might be in order to establish that as a procedure for the committee. But I checked with my learned colleague on my right, who informed me that that motion wouldn't be in order. I rely on his judgment on this matter.

MR. BRADLEY: I thought a tabling motion was always in order.

MR. CHAIRMAN: Not in the parliamentary system. We're dealing with two separate issues now. I've already said that a tabling motion is

not in order in the parliamentary system, but I went back to your other point about whether the motion by Mr. Mitchell was appropriate or not, and I was informed that his motion was in fact appropriate.

AN HON. MEMBER: Question.

MR. CHAIRMAN: Question has been called on the motion. I recognize Mr. Mitchell.

MR. MITCHELL: I'd like to make some final points. It seems that those who are speaking against this motion are saying: "Why discuss it here? It can be discussed in the Legislature." We set a very dangerous precedent for the mandate and effectiveness of this committee if we say we can't make recommendations on something that will be discussed in the Legislature. At some point everything we discuss in this committee can, probably will be, or has been discussed in the Legislature. That is not a reason for voting against this motion.

Secondly, if we're saying that this should fall within the realm of the Alberta Heritage Savings Trust Fund committee and that we therefore shouldn't discuss it again, we're limiting our mandate and, I think, shirking our responsibility. This is a recommendation of the Auditor General, and we discuss that. For that reason I think the motion is legitimate.

The other point to make about the Heritage Savings Trust Fund committee is that they've been discussing this for eight years and we still have deemed assets. I think we have a responsibility. There's some feeling in this committee that this is an important initiative, and therefore we should support this motion.

MR. R. MOORE: Mr. Chairman, I don't know whether it's a point of information or a point of order but either way. The hon. Member for Edmonton Meadowlark has brought up the statement that he feels we should not be sidetracking from bringing this to the Legislature. That was not the intent of my discussion or my understanding of my colleagues; it was that there is a proper area through the heritage trust fund that will examine it in depth and come to the Legislature with their recommendations. We are not bypassing or saying we shouldn't come to the Legislature. We just say that there is another platform that will go into it in depth, far more

than taking it directly to the Legislature. It will have its full day in the Legislature when the the select committee of the heritage trust fund reports.

MR. CHAIRMAN: Is there any further discussion on this question? Those in favour of the motion? Those opposed? The motion is defeated.

Mr. Salmon, would you care to go ahead with your report?

MR. SALMON: You bet. Item 3.5.2, the Alberta Hospital, Edmonton . . .

MR. STRONG: Before we get off the report of the Heritage Savings Trust Fund, I note that the assets are \$14.436 billion. Could you give us the rate of return on that fund for the 1985 calendar year?

MR. SALMON: Mr. Chairman, I can't give you that figure off the top of my head. Are you talking about section 10 or are you talking about -- let's just clarify. Part of the heritage financial statements is invested in regular investments, but a lot of the heritage fund is involved in specific investments that are percentagewise and are disclosed in the statement.

MR. CHAIRMAN: I appreciate the fact that Mr. Salmon answered that question, but your question is out of order. The only discussion that's appropriate at this point in time is recommendation 32 and the information preceding that recommendation.

MR. STRONG: Why would that be out of order?

MR. SALMON: From a point of interest, Mr. Chairman, you may find in the annual report of the heritage fund some comment on the rate of return. Treasury looks into that and discloses it, I think, by division.

MR. STRONG: Is the rate of return based on division by division by division? It would be very difficult to get a rate of return on a nonsalable asset that's held as part and parcel of the heritage trust fund. It gives a very false impression.

MR. SALMON: I don't think you can talk about

rates of return on those. I think it's strictly on section 10.

MR. STRONG: Could you bring those rates of return back to us?

MR. SALMON: I think it would be much more preferable if that came out of Treasury rather than the Auditor General.

MR. MITCHELL: I would like to ask a question. This is a different issue.

MR. CHAIRMAN: In terms of the rules that we've established, you'd be out of order as long as we're dealing with this section of the report. What we decided at a previous meeting of this committee was that a member would be allowed one question and two supplementals on each section, and you've already had your question and your two supplementals. Much as I dislike ruling you out of order, I think I have to do that.

Is there anyone who has not yet spoken on this section of the the Auditor General's report who has questions they'd like to present to the Auditor General? Seeing no one wishing to do that, I would ask the Auditor General to proceed.

MR. SALMON: We had an item in the '84-85 year where the Alberta Hospital, Edmonton, had ...

MR. CHAIRMAN: Just a minute; Mr. Ewasiuk has some questions. I guess I didn't recognize him earlier. I didn't see him.

MR. EWASIUK: Mr. Chairman, I think the amount of earnings is very important to this particular fund. Can the Auditor General tell us the earnings that were generated from the fund over the past year that are available to the citizens of this province?

MR. SALMON: I'm not sure what the question is. Are you looking for the rate of return or are you looking for the actual?

MR. CHAIRMAN: As I understand Mr. Ewasiuk's comment, he's suggesting that these questions are in order. In terms of my understanding of the proceedings of this committee, those questions are more

appropriately raised in the select committee on the heritage trust fund itself. In that context I would have to rule you out of order.

Back to the Auditor General's report.

MR. SALMON: Alberta Hospital, Edmonton, had established through their board a special purpose fund which was to receive interest earned on income invested by the board on funds other than capital funds that they had on hand, and from the date that the fund was created in March of '85, they earned some \$317,000. Our concern was one of inappropriate presentation where they actually made a transfer of those interest moneys directly to this special fund and did not show them as revenue of the hospital.

We had some disagreement on that, and we gave a reservation of opinion on the financial statements because of the inappropriate presentation and felt it necessary to make a recommendation within the Auditor's report that they present those financial statements in the proper way, showing that interest as income of the hospital and then appropriating that to the special fund subsequent to arriving at a surplus for the year. From our issue of our financial statements for the current year, they have reversed their stand on this particular point, so we'll be able to clear it out on the report of '86. There's really not any more concern over that.

Item 3.5.3 is a clearing out item on the Department of Agriculture relative to their annual report, which had some errors in it, and we felt it necessary in '83-84 to comment on that problem of presentation. We observed no errors or problems within their annual report for '84-85; in fact, they gave us drafts to examine prior to their actual printing.

MR. R. MOORE: On Agriculture, Mr. Chairman, for the year '84-85, I'd like to ask the Auditor General about the losses we incurred with about \$8 million in the estimated market value of the properties held, and then we had the provision for doubtful accounts of \$34 million, another write-off. Do you think that ADC is doing everything possible to renegotiate in order to reduce these foreclosures and losses?

MR. SALMON: Mr. Chairman, I guess I would comment on the aspect of our reporting on the

financial statement presentation. We certainly have had the co-operation of the corporation relative to valuation of those assets and loans, and we have no problem because of the report that we've issued as indicated. However, to comment whether or not they're doing all that they should do is a matter of opinion and probably one the Auditor General ought not to comment on.

MR. HERON: Mr. Chairman, during these tougher economic times I think it's important that a company such as the Agricultural Development Corporation take a good look at their outstanding loans in terms of reporting the value, and I was wondering if our Auditor General could comment on some of the ways in which an outstanding loan is valued. For example, at what point does it become noncurrent, unproductive in terms of, say, the last payment made or when it ceases to earn interest? What are some of the rules and tests generally applied to valuing outstanding loans within that portfolio?

MR. SALMON: Mr. Chairman, that becomes a fairly technical question. If we look at the notes in the financial statements again, we always make sure that the disclosures on the basis of valuation are there. If you want the specific mechanics as to how those valuations are arrived at, that becomes a matter of accounting and is not usually disclosed. I would not want to get into that kind of detail unless it's really wanted by the committee. I would prefer to talk from the point of view of what is now public and what we can discuss in the way of . . . We certainly are not unhappy with the valuations; otherwise, we would've had our reservation on those financial statements. We are happy with the valuations.

MR. HERON: Given that outline and description, Mr. Chairman, I'm quite prepared to accept that and reserve my comments perhaps for a time when the minister is before us. Thank you.

MR. CHAIRMAN: No further questions on this section?

MR. SALMON: The next one is on the Department of Manpower. This item had been in for two years, actually two different

situations. We had it in '83-84 as well as in '84-85. It is also a problem relative to their year end on the accruals that were established and our going in and examining the accruals that they had reported. We found some errors. In one case, particularly in '84-85, there was some \$6 million, which was corrected prior to the publication of public accounts. There was a problem with respect to the Alberta vocational training courses expenditure being duplicated, which was not corrected and couldn't be done at the time of the public accounts being printed. We are recommending in this particular section that there be assurance that year-end accruals are properly reported so the public accounts will disclose those facts as they should be. In reply to letters they have indicated to us that they would do everything they could to ensure that. It would appear to be somewhat of a problem in their year-end cutoffs.

Number 3.5.5 is a problem we had in the previous year with respect to the Special Areas Trust Account financial statements being included in the annual report of the Department of Municipal Affairs. They did not include all the information they should have. In other words, they were not the same financial statements we had issued an opinion upon. I would let the committee know that in the one following this they included the full financial statements that we had issued an opinion on; therefore, they will not have the problem in the subsequent year.

Number 3.5.6 is with respect to the Foothills Provincial General hospital agreeing with the hospitals department on the eligibility of certain geographical appointment positions in the hospital. The Foothills hospital receives funding from the department for physicians working at the university and other hospitals in Calgary. They basically operate these geographical appointments with respect to dealing with the department on the funding. Over a number of years the accumulation of the accounts receivable from the department had risen to \$2.3 million, and there did not seem to be a resolution as to the funding of that matter. Therefore, we included a reservation on the financial statements of the Foothills hospital because of the unsurety of that receivable, which they insisted on including within the financial statements. We made a recommendation in this report that the hospital and the department resolve the dispute between

them with regard to funding the geographic appointments. We do not officially have any word, but we understand that that negotiation has been settled. We're not sure exactly what it is, but we'll report as we clear that up in this next year.

Number 3.5.7 is the pension liability. I believe we discussed it somewhat at our meeting two weeks ago. The recommendations are found on page 67. There are three of them. One is to record the liability on the financial statements. Two is to encourage the province to have interim valuations on the plans. They have had two in a row. We hope that that will maybe not necessarily be every year, but periodically, ensuring that valuations are proper each year and they know what is happening to the unfunded liability. The third one is with respect to being sure that the Teachers' Retirement Fund is on a similar basis to the six plans of the province. This item has been reported a number of years previously with some of those recommendations. We have not yet received a reply to this particular one.

MR. CHAIRMAN: I think there are a number of questions on this section, Mr. Salmon.

MR. HERON: Mr. Chairman, in looking through pages 66 and 67, there is an implied concern with the unfunded liability of the pension plan. I can appreciate that it also says in here that the services of qualified actuarial consultants have been engaged. However, it is my experience that a good part of their report focusses on the inflationary expectation or the projected rates of inflation, which then perk through the interest systems and that. I was wondering if our Auditor would care to comment on whether this problem could be self-correcting and that many of the problems contained within the recommendations, whether implicit or explicit, could be dealt with by a much lower rate of interest, which we've experienced, say, in the last year.

MR. SALMON: Mr. Chairman, a valuation was done in this particular year by different actuaries. Of course, they have various assumptions and methods. That includes the inflationary rates and so forth. In this particular one, one of the main increases in the unfunded liability was the result of using a different mortality table. I don't wish to

describe or go into details with respect to what those actuaries use, but this is what the liability is at a point in time. I think it's important that the liability be watched. The change in interest rates or economic situations would have some effect.

Looking at it on a yearly basis in some way will give some indication as to which way that is going, based on the number of employees, the number of people retired, and the time of death. Mortality tables, of course, change. These kinds of things are all taken into account by the actuaries. As an auditor I'm concerned that this be looked at from the point of view of whether it's getting out of hand or is under control. Those recommendations are there for that purpose.

MR. HERON: Thank you.

MR. MITCHELL: I wonder if I could ask several questions about the management of these pension funds. Are these managed internally by government, or are private-sector managers utilized? Would you know that?

MR. SALMON: Mr. Chairman, the pension fund is administered by Treasury. Of course, they had lots of those funds involved in various places within Canada. It is administered internally.

MR. MITCHELL: Do they hire outside investment consultants or companies to actually administer portions of the fund under asset selection guidelines, return objectives, that kind of thing? Would you know that?

MR. SALMON: If one were to examine the pension fund financial statements themselves, I believe you would get fairly good detail on that.

MR. MITCHELL: I don't know whether you can answer this question or not: can a provincial civil servant request information and expect to receive it on, for example, what his pension funds are being invested in? Is that publicly disclosed or disclosed to people who are participating in the pension fund?

MR. SALMON: To make sure there's no misunderstanding, Mr. Chairman, we're talking about six pension plans versus a financial statement called a pension fund. Those are not

related. The fund that is set aside by the province is not related to the six plans. In this particular item, we're talking about the six plans and the liability connection with those plans after the pension fund assets are deducted.

MR. CHAIRMAN: Are there any further questions?

MR. SHRAKE: I have a question or two on this one item. It seems to me -- I have a very poor memory on these things. This is an audit of the year ended 1985, but I thought there was a transfer of funds last year to more or less stabilize these pension plans. I remember some discussion of this by the Provincial Treasurer at that time, Lou Hyndman. Was there not also an increase in the contributions on the part of the people participating in these funds? Did they not raise the amount of contributions a year ago?

MR. SALMON: Mr. Chairman, I believe if we examine this in detail -- I don't know if I can find the specific line -- we talk about the increase in contributions that took place. The actual fund was set aside several years ago, and one would then look at the pension fund itself in the public accounts to find the date when that fund was established, which started out at \$1.1 billion and of course has been invested since. I think there is confusion when you talk about the plans and the liability versus talking about the fund. They are separate.

There was an increase in contributions. That increase in contributions, as you know, on the basis of the fund, which we're not talking about here, is transferred from the General Revenue Fund. The difference between pensions and contributions is transferred to the pension fund each year. That's described in notes to the fund. It was only in several plans, I believe, that the rates increased slightly, and there has been a graduated increase for a number of years that's now laid out in legislation.

MR. SHRAKE: Will that not cover some of the unfunded portion? As far as liability, won't that have . . .

MR. SALMON: With respect to the particular plans, yes. The purpose of the increase was to offset an apparent increase that was extremely

high in some cases. I know Treasury is looking at those in relation to what is specifically happening in each plan.

MR. SHRAKE: The other part of my question is: was there a large transfer of funds last year? Somehow this keeps striking my mind, some horrendous amount of money being transferred, yet I don't notice it mentioned here.

MR. SALMON: My mind recalls only the one transfer of \$1.1 billion, which was several years ago.

MR. SHRAKE: A billion here, a billion there. Pretty soon it adds up to some pretty serious money. I thought that was a large amount.

MR. SALMON: That came from the General Revenue Fund to the pension fund.

MR. R. MOORE: Mr. Chairman, I think we touched on the unfunded liability, which is a major concern to me, the last time around. I know there was an increase in the rate paid into it. I'd like to ask the Auditor General: did that have any impact on the unfunded liability? Is the unfunded liability increasing greater than what we increased the other?

MR. SALMON: Mr. Chairman, if you're looking at the statement at the bottom of page 65 with the figures, we have the total valuations at March 31, 1985, at \$6.4 billion, with a deduction of pension fund assets of \$2.57 billion. That would include the \$1.1 billion transfer from the General Revenue Fund several years ago, plus interest earned on that money, plus contributions transferred since that date. So any increase in contributions would have been taken into account in that \$2.57 billion.

MR. CHAIRMAN: Do you want to follow that up, Mr. Moore?

MR. R. MOORE: We still haven't solved our problem of unfunded liability. It's growing, and I am hopeful that the Auditor General will keep that in mind and press Treasury to do something about it.

MR. CHAIRMAN: I'd like to ask a question, if I may, about unfunded liability. Would the true

financial position of this province be better revealed by a statement that would include not only our assets in the heritage trust fund but those assets less the unfunded liability of these pension plans?

MR. SALMON: Mr. Chairman, on page 66: recording the province's full pension liability. About the fifth line of the first paragraph it says:

Recording the \$5.35 billion liability in the consolidated . . . statements of the Province, would reduce the . . . surplus at March 31, 1985 from \$12.60 billion to \$7.25 billion.

That's the statement that was recorded on the balance sheet.

MR. CHAIRMAN: I guess what I'm hearing you say, Mr. Auditor General, is that would in a sense be a more realistic reflection of the province's true economic strength. Is that it?

MR. SALMON: I guess what I'm saying as the Auditor General is that if you're going to classify it as a liability, you ought to think about it as a liability.

MR. JONSON: Mr. Chairman, since we're on this type of discussion, if it's in his information bank, could the Auditor General indicate whether any province fully funds its pension plans? My understanding is that this practice of paying out of current revenue and carrying an unfunded portion of liability is very common to governments.

MR. SALMON: My understanding is that it's very common to government. Quebec has a fairly large pension plan that takes into consideration quite a few aspects of it. I forget what it is; Caisse des depot or something like that. I believe Ontario has some funding, not full funding, and they use some of their own paper, you might say, to fund some of their plans. They're all somewhat different. But you're right; I think most of them do not fund it and pay right out of general revenues.

MR. HERON: With due respect to the Chair, I think you did leave us with a bit of a misconception that could perhaps be cleared up by our Auditor. When you speak of the Heritage Savings Trust Fund, you're talking about an

actual historical cost and an actual market value and the reporting of that. But when you compare that and start netting it out with an unfunded liability of a pension fund — when you speak of an unfunded liability, I think you're talking about a snapshot in time based on your best estimate of what the future will look like: how many people are going to die, what the interest rate will be, and most importantly, what your expectations for the inflation rate are for those adjusted pensions.

I might just add that this is not an unacceptable practice for, I think, most North American companies, and perhaps the Auditor would like to comment on this too. If you were to incorporate their unfunded liabilities on their corporate pension plans into their balance sheet, in many cases you may be facing an insolvent company. Perhaps we could ask that our Auditor General comment on those comments against the misconception which might have been left on the record by your previous comments.

MR. SALMON: I would make one comment, Mr. Chairman; that is, as we discussed two weeks ago, there is some debate generally as to how unfunded liabilities should be shown. Generally speaking in financial statements, because of the size of such liabilities, they are included in notes to the financial statements. There is part of the business community that discusses it from the point of including it, and I think it is a debatable thing still going on in Canada. The Canadian Institute of Chartered Accountants has made some recommendations, and further studies are still taking place in the pension area generally. So I believe further discussion will take place in the future as well. This is really bringing it to the forefront to be conscious of what's happening.

MR. CHAIRMAN: Mr. Moore, did you have a . . .

MR. R. MOORE: No. The question that Mr. Heron asked was along the same lines.

MR. CHAIRMAN: Any further questions on this section?

MR. MITCHELL: Just one question I think. The only pension fund liability recorded is that amount which is equal to the amount of pension

fund assets. Is that right?

MR. SALMON: That is correct.

MR. MITCHELL: So we have \$2.5 billion in pension fund assets, and therefore we would record \$2.5 billion in pension fund liabilities. If we had another \$5 billion in pension fund assets, we'd record that liability as well. It almost seems that the real liability is the one which isn't offset against any asset, and that's the one . . . I mean, in a sense, if you want to talk about quality of liability.

MR. SALMON: Mr. Chairman, if one could look at the General Revenue Fund of the province, the basis of recording the actual pension liability is described in the notes.

MR. CHAIRMAN: I guess we can move on to the next section then.

MR. SALMON: We had two public colleges that had at the '84 year end -- they have a June year end -- what we considered inappropriate accounting presentations, where they had taken significant amounts of dollars and transferred them from operating funds to restricted funds. The method of making those transfers, however, had been as deductions before arriving at the surpluses, which is considered inappropriate from a generally accepted accounting principles point of view. Therefore, we reserved on both the financial statements based on the large sums involved. Transfers of this type really cannot be considered normal annual operating transactions and should be reported as transfers after we have the surplus. Therefore, we have made a recommendation in this report to include them, to suggest that the colleges include all normal annual operating transactions in their statements of revenue and not put such transfers as a normal transaction. We also asked that they consider that these transfers be excluded from the determination of surplus. These are for '84-85. These are the June 30, 1984, statements of the colleges. The June 30, 1985, statements of the colleges also have a reservation to the same effect, because they did not make the change in that year either.

MR. NELSON: Mr. Chairman, to the Auditor General. I was going to jump in earlier with the hospital, but I knew we were coming to this

particular item, and I guess I want to be a little general. Have the departments themselves developed or do they have a policy or policies relevant to the particular issue at hand, of burying moneys that belong to the taxpayers of the province to enhance the position of the hospital, college, or whatever entity may be there? Do we in fact know what those moneys may be at all times?

MR. SALMON: Mr. Chairman, it is the concern of our office that we make sure the disclosure on all the financial statements of these types of institutions are clear as to where these various moneys and funds are. Our concern in this particular case is the way in which they were set up. Therefore, we had to identify them as a reservation. In examination of the colleges or the universities, I believe one can see where there are some restricted funds being established, fairly large amounts for various reasons. I believe that the department does take into consideration, through a review of their financial statements, where those funds are. Whether they include them when they're doing their actual funding to those colleges is a different subject, one on which you may hear more from the Auditor General in the future. But it was not a discussion on this particular issue.

MR. NELSON: May I ask what responses the office of the Auditor General has had from Treasury or from the ministers concerned insofar as the correction of these inaccuracies in the reporting of these financial statements and these moneys that seem to be misappropriated, if I should use that term?

MR. SALMON: It's basically classification as to how they've done it. Mr. Chairman, the reporting aspect of our audits with the colleges and the universities is that we report to management our concerns through a management letter which goes, of course, to the chairman of the board. The colleges and universities are exempted by section 2(5) of the Financial Administration Act from direct involvement by Treasury and therefore not included in the public accounts. Because of that quasi independence of the boards, we do not directly issue those management letters to the minister of the department. We are of course concerned in light of this whole problem

and address that directly to the department when we are doing the actual audit of the department. We are still not to the point where we've brought that whole subject up in public accounts or in our annual report, but it is something we are looking into, because there are a number of them that are now doing this kind of thing.

MR. NELSON: Considering that, Mr. Chairman, does the Auditor General have a mandate, for example, either through their own auditors within the department or going outside that department and hiring a private-sector auditor, to go into a college, hospital, or whatever the case might be, and do a complete, full-blown audit — albeit it might take six months to a year — and then report to the minister who is ultimately responsible for the budgetary concerns of those particular institutions, to in fact go out and take the bull by the horns and make sure that those facilities have in fact looked after in a proper fashion those expenditures offered to them by the particular departments concerned?

MR. SALMON: Mr. Chairman, we do the audits of all the colleges and universities. We do use agencies in some cases. We are of course issuing financial statements of opinion on all those entities individually. Under the Auditor General Act with respect to expenditures, I believe we review from the point of view of the General Revenue Fund of the province. We can get into that aspect. It's a big subject. In some ways we have to be careful that we're not delving on the policy side, and we do not delve on the policy side as to how the department funds. Our concern would be more to whether or not the funds that are flowing and being set aside are being properly handled in accordance with the legislative provisions that the colleges have or that the department has established in their own regulations. We would report if it was not in conformity.

MR. CHAIRMAN: Before I recognize Mr. Alger, I'd just like to say that it is drawing toward the time that we normally adjourn. I might just ask Mr. Salmon how much time he would require, after we finish this sequence of questions, to complete his report.

MR. SALMON: If you'll give me one minute,

we'll talk about 3.5.9, and then it's open to the committee as to how they would want to question us or whether they would like to go to ministries and go through that way with us present.

MR. CHAIRMAN: So it's conceivable that we could be finished in another five or 10 minutes. Is that correct? I would just ask for the agreement of the committee members that we continue for another five to 10 minutes. Is that agreed?

HON. MEMBERS: Agreed.

MR. ALGER: I'm on the same general text as Mr. Nelson, Mr. Chairman. In view of the fact that these appropriations and amounts of money are always in the half-million-dollar range that seems to slip and slide from one area to another with nobody's apparent authority, I'm confused. I'd have to guess that — are there not accountants of some type, preferably chartered accountants, looking after these moneys and taking care of these books? Do they not have the good common sense not to do the things that you don't agree with? Surely you've all been trained similarly. I would think there would be a little more control, Mr. Auditor.

MR. SALMON: Mr. Chairman, just to clarify the thinking of that question. We are concerned with the way in which they have treated the transfers. The boards have actually approved the decision to set up these reserves, if you want to call them that, by transferring from their operating funds to these reserve funds.

MR. ALGER: But doesn't their chartered accountant say, "No, you can't do that" or "It's not a recognizable treatment"?

MR. SALMON: In the accounting profession I suppose you'll find some views that are somewhat different. We have had difficulty convincing them that they ought not to be treated as a normal expenditure. That's why we're reporting it.

MR. ALGER: I see the difficulty, but I think I'd put a little more teeth in it if I were in control.

MR. CHAIRMAN: I wish we could speed this up. We've got about five minutes here.

MR. MUSGROVE: I'm a bit confused about these transfers to reserves. I suspect colleges are funded a little differently than school boards in the fact that there is one more aspect of their funding; that is, donations that are matched. To transfer these into a reserve account for particular reasons, I think, would be different from their being transferred, particularly where the funding is coming from. Is the source of funding identified when they transfer these into reserve accounts?

MR. SALMON: Mr. Chairman, these are normal funds that the colleges receive. They are segregating them for specific purposes. In order to understand the funds available to the college to spend, you need to take into consideration their surpluses and all these reserves together. It's a segregation process that they're doing. We have no problem with the actual segregation as long as it's properly disclosed. We have problems showing it as a normal expenditure.

MR. MITCHELL: I was just going to ask what in fact these restricted funds are used for. Are they put away to build something for the university? Is there some indication of what they're used for?

MR. SALMON: Yes, they'll be described in the notes.

MR. CHAIRMAN: Do you have a last item?

MR. SALMON: The last item, if we may, is a fairly big subject, one which I'm sure this committee could debate a long time. We'll just mention that we felt the need to raise the issue of tax expenditures. Tax expenditures are a growing thing. It's a fairly big discussion across Canada in the various governments. Ontario, for instance, has supplied an actual document, which I have a copy of, of tax expenditures that are growing within their province. Our concern is that tax expenditures per se are growing. If you want to know a definition of tax expenditures, we basically lay that particular item out in the second paragraph. We would like to see some type of consideration to the treatment of these expenditures as normal government expenditures so they go through the same process as other types of expenditure from the point of view of control. That's really

an issue. It's being debated in various governments, and I believe that the future will hold further discussion of tax expenditures.

MR. ALGER: Mr. Chairman, are tax expenditures as well referring to the tax man that spends so many millions of dollars trying to find out how we've beaten him on the income tax? That type of thing? Is tax expenditure part of the assessment situation in the municipal world? Those aren't tax expenditures?

MR. SALMON: No, tax expenditures are, as we've got here: "government revenues foregone through special provisions of the tax system." It's when you provide credits and so forth within the tax system. That's what they now term a tax expenditure.

MR. CHAIRMAN: We may want to come back to this topic later.

MR. ALGER: With reference to my question, what is that called? We spend a lot of money ferreting out why we're not getting more tax dollars in. We spend a lot of money sending assessors all over the country every year. What would be the phrase for that? That's a tax expenditure, if ever I heard one.

MR. SALMON: That's what they refer to as the "tax gap." That's the part you haven't got.

MR. R. MOORE: Mr. Chairman, now that the Auditor General has completed his overview, I move adjournment.

MR. CHAIRMAN: Before I accept that motion, could we do one thing first? Could we agree to meet next Wednesday and invite Mr. Larry Shaben, the Minister of Economic Development and Trade, to be in attendance? Agreed?

HON. MEMBERS: Agreed.

MR. CHAIRMAN: The motion to adjourn is in order. Those in favour are signalling by walking out.

HON. MEMBERS: Agreed.

[The committee adjourned at 11:34 a.m.]

