

[Chairman: Mr. Pashak]

[10 a.m.]

MR. CHAIRMAN: Well, I'd like to call this meeting to order. We have with us today, as we've agreed, the Auditor General, and he's brought with him an executive director from the Auditor General's department. His name is Michael Morgan.

The first item of business today is to approve the minutes of the March 25, 1987, meeting. Would anyone care to move the adoption of the minutes? As moved by Brian Strong? Agreed?

HON. MEMBERS: Agreed.

MR. CHAIRMAN: Agreed. Then we can move right into the discussion of the Auditor General's report, and I'd ask the Auditor General if he has any general comments that he'd like to make by way of introducing his report.

MR. SALMON: Thank you, Mr. Chairman. We are delighted to be here today and to be able to give you a short overview of the report and then open it up for any questions anyone would like. At this time I would like to express appreciation. This is the first full report I've been involved in. I've been involved in a lot of the other reports, but this is the report I actually have signed.

As you are aware, we released the report to all MLAs on February 20. Mr. Greg Stevens, chairman of the Standing Committee on Legislative Offices, provided a news release that day, and I had a number of questions that were given to me by press, radio, and TV which I answered, but there was no actual, formal news conference held. The report was released at that time without the session being on because it was printed and available. The Public Accounts had been released on January 30 by the Provincial Treasurer, and we felt there was really no reason to hold the report until the Assembly was meeting if all parties agreed to the release, which they did.

I would like to raise the question -- not asking for any answers but if there are questions or comments with respect to the release or the new format of the report, I would certainly be interested in any of them. We changed the colour of the report this year to give it a new look, and we also rearranged the order in which we made our observations and recommendations. They're in a departmental order. We have the comments of any provincial agencies in the specific departmental sections. Therefore, it is easier to follow through on the various subjects. In prior years all of the reports of the Auditor General had been by subject matter.

This report of course covers the '85-86 year and includes both the departments as well as the provincial agencies which have their year-ends in that same year. The majority of our work of course is done subsequent to the year-end and, therefore, the timing of the release.

We have prepared the report in four sections. The first section gives an overview or an overall assessment which we indicate as to the reaction we have generally to the administration of the government with respect to the financial matters.

In section 2 we have our specific comments on our observations and our recommendations. We had a summary put into the report on pages 3 and 4 which listed the departments and the provincial agencies which have recommendations showing the actual page numbers where those recommendations are. On our pages 5 through 92 is where we actually have the observations and recommendations that we made for this particular year. There are some 50 recommendations, and of those 50 we have

16 that are carry forwards for various reasons from previous reports.

Section 3 is just a review of our reporting criteria, a list of the reservations that we made in opinions on various financial statements and some comments on the audit of public accounts.

Section 4 gives an indication of the role of the Auditor General. It's the audit approaches we have taken and the office organization. And in the index is a list of all the audits that have been performed by the office.

As we look at section 2 particularly, if one were to analyze it generally, we would find that we have made about 12 recommendations to improve accounting policies and about 27 with respect to systems weaknesses that we would recommend some changes. We had nine instances of noncompliance with legislation and two other items that were of consequence where we felt there needed to be a legislative change and another item where there was a delay in issuing statements for some various reasons. In these recommendations we have felt that these that have been made are those that we consider significant enough to report to the Assembly. As you are aware, in our process we have made far more recommendations to management as we have dealt with each individual audit, and these have been given. And where we have received the attention by management to make those corrections we felt were necessary, we have in many cases felt unnecessary to include them in the report. But the ones we've included we felt are significant enough to report.

We find that with the departmental order we can sort of zero in on any particular department and any provincial agencies connected to those departments in some way -- not necessarily directly connected but at least associated with that department -- and get a better flavour of the kind of things that we were running into as we did our audits for this particular year.

On pages 5 and 9 we had two recommendations; one on consolidation, particularly by Treasury, to consider the potential of consolidating the financial statements of those organizations that are presently excluded by means of the Financial Administration Act. We felt that if there was some consideration taken to including the universities and the colleges and the technical institutes and the hospitals that are provincially owned, it would give a much clearer picture of the financial position of the province. Legally we've determined that there really is no reason why they do not include them; however, at the present time it is a policy not to include. We had another one with respect to pension liability. That's not recorded. We've carried that forward. That's one that's been for a number of years, and this is also an accounting policy.

In pages 11 through 23 we have 10 recommendations that are involving the Department of Advanced Education or other entities connected with Advanced Education, such as: the University of Alberta we have one recommendation, University of Calgary we have one, and the Banff Centre, NAIT, and Medicine Hat. In these particular ones, primarily they are in the area of accounting policy or systems improvements, and we feel very strongly that in many of these cases they would have far better accountability if they would make the changes that we have recommended.

In pages 25 to 27, the Department of Agriculture, we had several comments on two of their programs where we found some deficiencies in their systems and have made some direct recommendations with regards to those two programs. We also found that in the Alberta Hail and Crop Insurance Corporation there was a noncompliance issue where they had actually had

some advances from the General Revenue Fund that exceeded the limit that the Act would allow, and we have suggested that they restrict those advances or amend the Act to take care of that excessive amount. We also had a recommendation in the Attorney General's department with respect to a system with regards to reconciling a bank account in the court area, where there had been some weaknesses in not completing some reconciliations for some three years.

In the Department of Education we had two recommendations, one with respect to the school book branch and the School Foundation Program Fund: both of them, again, systems weaknesses which would certainly improve their systems if those things were taken care of.

When we moved into the energy area and combined all of our recommendations from our various audits, we had five recommendations. In this particular one we were quite concerned about the relationship between the Energy Resources Conservation Board, the Petroleum Marketing Commission, and the Department of Energy, with respect to the reliability of production data that was being used by the Department of Energy in calculating royalty. There was a task force put together last year, and the results of that task force have not yet come to our office; they are still working on it. We expect some progress in regard to the interrelationship of the oil and gas production data that we were concerned with.

On pages 46 and 47 we had two items. One, the Wild Rose Foundation, which had a noncompliance issue where they were actually making payments without authority, according to a legal ruling that we had, and they are looking into the matter of making those changes so that that would be taken care of. In the Workers' Compensation Board we had a systems weakness where they were developing a system, put it into place, and then withdrew it because of the difficulties. We were suggesting tightening up the controls with respect to developing the processes for such systems.

In the department of forestry we had a noncompliance issue with legislation with respect to the Fish and Wildlife Trust Fund. It is a bit confusing because it related to the regulations and there's some interpretation of the Act that might say that they would be all right, and we recognize that through our legal opinion that we had. However, we felt very strongly that there should be clarification, to not have any misunderstanding about what they can or cannot do with respect to transfer of funds.

Pages 51 to 59. We had some six recommendations in the Department of Hospitals and Medical Care. Some of those, of course, pertaining to specific hospitals and, again, most of these are systems improvement areas as well.

In the department of housing we had one accounting policy concern with respect to the corporation. Again, it's a case of: we have been discussing this with management, felt that if they would move into GAAP with respect to valuing land as indicated in the item in the report, it would be better. Right now, of course, there is no problem because the amount would be the same whichever way they are recording it.

Department of manpower: we had previously reported and again reported the same cut-off problem with respect to accounts payable at the year end.

Municipal Affairs is an old item with respect to Metis trust, where we have been looking for some legislation change. These are still being worked on, and we have to carry this item until we see that legislation actually take place.

Social Services and Community Health. Of course, that department is now divided, but at the time we were doing the

report, of course, it was all one. And we have indicated in each one of seven recommendations -- and four of those are carry forwards -- which department is affected by that change, and of course we've carried those recommendations, with three new ones and four carry forwards, and again most of those are systems orientated.

In the Department of the Solicitor General we are pleased to report that there was considerable improvement with respect to their computer system on MOVES. We were happy with that and did not report any problems in that area; however, we felt that there was a weakness with respect to controlling the licences that are issued, and there was some tightening up that we recommended in regards to that.

We have in the Research Council one that we've had for a number of years and one which we ran into where our legal opinion obtained from our firm has shown that there is a non-compliance with the Act with respect to the investment in the partnership. And again, either they need to amend the Act or they should remove themselves from being involved in this particular matter if they would be in compliance.

The other areas that we had. Transportation is an old one with respect to control of fixed assets, and they are still working on it and still haven't resolved it. Treasury items we had on page 83 to 85 -- one on tax expenditures, which we had discussed last year and have carried because of the principles involved. And of course there is a difference between myself, the Provincial Treasurer, and a discussion in the Legislative Assembly a few days ago with respect to the treatment of deemed assets. I do not want to comment further on that one.

I believe the other two items that are in the report are -- one is concerning is Gas Alberta. Again, there needs to be clarification of their legislation as to how they're treating some discounts and some costs that are being spent from the fund or not from the fund, which the legislation indicates they should be.

The last one, number 50, is our noncompliance issue on the lottery operations in Alberta where we felt that they need to clarify where those funds should be, and there's been indication that they are working on that as well.

Mr. Chairman, that's a very quick overview, and we could spend considerable time talking about each one, but I believe that will give some flavour of what the report does contain for those that may not be familiar.

MR. CHAIRMAN: Thank you very much, Auditor General. I found that very informative.

I'd just like to just make one comment. You did get the report out, as you say, on February 20. Is that earlier than the report usually comes out? It seems . . .

MR. SALMON: I had a concern about the release of the report because it has not been issued outside of the session. Because after all, I was an officer of the Legislature; I am reporting to the Legislative Assembly. I obtained a legal opinion from our firm, and they indicated a high risk for me to release the report. Therefore, in talking to the chairman of the standing committee, and the legal opinion indicating that if we had permission from each of the parties -- the three opposition parties and the government -- we could then release outside of the session . . . My concern was that if the Public Accounts were out, I really ought not to hold the report and it might be wise to let it go. And so when checking that out, that's happened. So we did really see . . .

MR. CHAIRMAN: But it did come out formally, did it not? And for that I'd like . . .

MR. SALMON: Yes. So now if we can do it this way, we're not tied in with the timing of the session.

MR. CHAIRMAN: I think why I asked the question was to compliment you on the early release of the report.

All right, the first person on my list then for questioning is Mr. Musgrove.

MR. MUSGROVE: Thank you, Mr. Chairman. I would like to start with the first part of the report and recommendation 1. In referring to the public universities, colleges, hospitals, et cetera, should part of the Auditor General's report now -- do they not have an annual audit by an auditing firm required by law?

MR. SALMON: Mr. Chairman, let me clarify. We are the auditors of all of the entities that I'm talking about. By means of the Financial Administration Act and the way that the Provincial Treasurer and the Treasury Department have interpreted it, these particular organizations are not included in the consolidated financial statements. In other words, you take the General Revenue Fund, the heritage fund, and all of the entities that are presently in this volume, and they're consolidated into a financial statement in the front of this volume of Public Accounts.

Now, the University of Alberta and the other universities in Alberta, as well as the 10 colleges, the technical institutes, and the provincially owned hospitals, which we are the auditor of, all of their financial statements are tabled in the Legislative Assembly but not included in the Public Accounts. There really isn't any reason why they're not included, according to a legal opinion I have. It was strictly a policy of Treasury not to include them because they, I guess, don't directly have any involvement with respect to directing how their accounting should be done or any involvement in -- the Financial Administration Act doesn't apply to them. Even though it doesn't apply to them, I see no reason why they don't include them in the consolidation. Now, there may be some ramifications of the boards and so forth not wanting that to happen, but it would give a larger picture of the results of what the province does own. That's really what I'm saying.

MR. MUSGROVE: Supplementary question. Other hospitals that are totally funded by the province, where do they fit into this picture, because they're actually 100 percent funded by the province anyway?

MR. SALMON: Other hospitals are funded by the province, but there are five hospitals that are classified as provincially owned; in other words, 100 percent owned by the province. They include the University of Alberta hospital, the Foothills hospital, the cancer hospital, the Glenrose hospital, and the cancer hospitals. Those five are 100 percent owned, and are audited by the office of the Auditor General.

MR. MUSGROVE: Second supplementary. The \$43 million surplus that could be in the provincial audit, are these held as surpluses by those institutions?

MR. SALMON: Yes.

MR. CHAIRMAN: Okay. Next person to indicate that he'd like to put questions to the Auditor General is Mr. Alger. Oh, no; you wanted . . . [interjection]

MR. ALGER: That's okay, Mr. Chairman, thank you. I do have to leave early and I didn't think I'd get in; that's why I was sort of warning you.

There were some claims at the Alberta children's hospital, and I refer mostly to recommendation 31, Mr. Chairman. These claims indicated that there were some falsifications of invoices for equipment that hadn't been received. It was noted in the report that the reason was explained as being because the hospital thought that their claims would not be reimbursed. You probably remember this. If they received the equipment after the fiscal year and tried to claim it then . . . I'm wondering: have there been any other similar problems in other hospitals resulting from being unaware of the amendment that allows claims to be reimbursed after the fiscal year if necessary? Indeed, Mr. Auditor General, is there any real reason why a fiscal year should be an automatic be-all, end-all date? It seems to me that work carries on after that even though we're late type of an idea.

MR. SALMON: Mr. Chairman, I agree with the member. I think that the change that took place in allowing for that movement of the ability to pay for something that didn't occur until the next year was a good move. In fact, if you remember last year's Auditor General's report, we had several hospitals that had this problem. And the reason we carried this one in this year is because they went ahead and did the same thing as those others, not realizing the regulations had been changed. So they went ahead, and it was equipment that hadn't been received. They went ahead and got their money. They went ahead and asked for the supplier to request invoices, to submit them to say that they had delivered, and they hadn't delivered. We felt it was important that we actually report, although we have given that indication that they just didn't understand that the regulation had been changed. We don't know of any other instances.

MR. ALGER: Supplemental please, Mr. Chairman. To ensure that this kind of falsification doesn't happen again, have all hospitals been made sufficiently aware of the amendment allowing reimbursement to be made on approved capital equipment in the fiscal year following the approval when it's necessary? And who would be the people that would give that style of advice? Would it come from right here, the Minister of Hospitals and Medical Care?

MR. SALMON: Mr. Chairman, that would be information that would go to the hospitals from the department. That's right.

MR. ALGER: And do you think they've all had that information?

MR. SALMON: We understand that's been done.

MR. ADY: My question comes from item 2.4.5. on page 15 under the University of Alberta. I note that 40 percent of the amounts due to the university for housing and food services were still outstanding at the end of the year. Could you tell me: where does that expense accrue from? Is it coming from staff or from students, or who is it that was delinquent in paying their accounts?

MR. SALMON: What this is, Mr. Chairman, is a slowness in recovering the receivables. I believe the receivables would be with anybody that is dealing with food services or where there are costs. It's not just students. And there has been some tightening up since the report in regards to recovery of these items. We just felt that because of the study that was taking place to try to determine ways and means to improve it, it was important that we show the issue, and they are certainly co-operating to try to do what they can.

MR. ADY: Supplementary on that. Could you give us some idea of the amounts we're talking about there?

MR. SALMON: I haven't got the university statements here today because they are not included in Public Accounts. I didn't mean that for purposes of the other item, but they would be shown on the statements.

MR. ADY: Another supplementary. Is there some reason that this item wouldn't be included in your recommendations for correction? Was it because they'd previously indicated that they were making the correction and that they had it under control?

MR. SALMON: That's right. We have been including it in management letters in previous years, and this has been an on-going issue.

MR. CHAIRMAN: Mr. Fischer. Or did you have a further supplemental? Mr. Fischer.

MR. FISCHER: Thank you. My question is on the Alberta Hail and Crop Insurance Corporation and your recommendation 15. You're talking about not exceeding the limits. First of all, could you just give me a little explanation on your reinsurance fund?

MR. SALMON: You mean, what it is?

MR. FISCHER: Yes.

MR. SALMON: The reinsurance fund is established on which they can draw through the monies that are coming in both from Canada and Alberta. There's a reinsurance fund in each government, and as claims exceed the moneys available for payment, then they draw on the reinsurance funds. When the reinsurance funds are gone, of course, they've got to seek funds from elsewhere. These advances, of course, were needed to be able to meet the needs of claims before other moneys were available, and the advances exceeded what was allowed in the legislation. It's strictly the fact there was a \$30 million limit, and they went way over that. A bad year, I suppose, but still that was a case of noncompliance.

MR. FISCHER: A supplementary then. Because it's so variable, how are you going to arrive at a limit that you wouldn't exceed?

MR. SALMON: Oh, I think that's a matter for a legal issue. You can draw this up without specifically setting a dollar figure. They may even set it up much higher than is expected or just in some way in which there can be a check. We were just concerned about the fact that there was no check and they exceeded it without considering the actual -- maybe they need to establish it in a regulation that could be changed a little easier than the

Act itself; that's the other thing they can do.

MR. FISCHER: Well, I guess you've kind of answered my next question, but could you have it so that it's open ended, so that there is no limit?

MR. SALMON: I think it would be up to whoever is designing the legislation and this Assembly to decide that.

MR. FISCHER: Well, in your opinion, then, is that a good policy?

MR. SALMON: I don't usually comment on policy.

MR. CHAIRMAN: With that you've used up your supplementals.

MR. FISCHER: It's a very good political answer though, I might say.

MR. BRASSARD: Well, I think we're all in awe of an auditor and the amount of paper that you must have to peruse and go through. And I guess my questions are very general. I wondered if you feel that you've received the full co-operation of the departments in your compilation of the documents? Do you feel that you've received full co-operation?

MR. SALMON: Yes, Mr. Chairman. In fact, in section 1 and then the last paragraph or so we actually make that very comment, that we have received full co-operation from management, both of the departments as well as of the provincial agencies that we have been the auditor of.

MR. BRASSARD: What then do you feel is the reaction to your recommendations in the various departments? Are they ...

MR. SALMON: Co-operation with respect to completing audits might be different than co-operation with respect to the findings, because findings -- sometimes there are differences of opinion on the actual end results. Certainly though, in the majority of cases that we have indicated in the report there is positive action, and many times the action has been completed before we ever get to the point of reporting. It's a case of making a decision on my part as to what is significant enough to include here. There are many -- in fact, the two volumes, the black volumes that Mr. Morgan has, contain the management letters that we have issued to the various entities, and so they're about this thick, versus this report which is in front of you.

MR. BRASSARD: Well, certainly you're to be complimented, getting this all down to this very readable digest. In light of the co-operation you've received, why then do I find that there are still various recommendations that seem to come back year after year? Could you just very briefly comment on that?

MR. SALMON: I think that in most instances, Mr. Chairman ... The reason for the delay in some of these cases, of course, is legislation not being corrected at this stage. There were, I believe, one or two areas that were going to be done last spring. With the spring session being what it was, that did not get handled. Those kind we have to carry because they're just not corrected yet. In other cases there has been systems develop-

ment that has taken a long time, and it's sort of in stages. And in other cases there have been other priorities as far as management is concerned, and they just haven't been able to get to the concerns that we have expressed in the report. That's basically the things we are finding.

MR. BRASSARD: Thank you very much.

MR. CHAIRMAN: Mr. Moore.

MR. R. MOORE: Thank you, Mr. Chairman. I have for a number of years been very concerned about the unfunded liability in our pension plans, and I appreciated that the Auditor recognized that and went to some great extent to lift it.

The thing that bothers me, though, is that in the Auditor's recommendation, Mr. Chairman, he is more concerned with how it is recorded than the fact that it exists, and that area bothers me. I'd like to ask the Auditor: it's apparently growing; what, in his opinion as an auditor or a protector of the taxpayers' funds, does he see we should be doing?

MR. SALMON: Mr. Chairman, recommendation 2 is what you're looking at, I believe. There are two points to recommendation 2. The first, of course, is the recording, and that has been a long-standing item in the Auditor General's reports for many years. Number two, I believe, is very significant to what you're saying; that is, if they had regular interim valuations every year, they would have an idea of what the value of the unfunded liability or the unrecorded liability is.

If you miss one or two or possibly -- maybe not three, because I think it's scheduled to do an actuarial valuation every three years. If you miss those in-between years, management then, I believe, loses the perspective of what the liability really is, and therefore my concern about knowing every year exactly what it is. Then they can look at it and determine whether or not there needs to be some policy changes, some rate changes, some other kind of changes in a matter of policy-setting. But if you do not know what your liability is, you don't really know whether it's really going up rapidly, or whether it's holding its own and you're quite satisfied with your status quo, or that it's actually benefiting and therefore you're not so worried. But these fluctuate in the economic market today, and of course there are a lot of assumptions in those things as well that one has to take into account. But if you don't know, then I think you've got a concern.

MR. R. MOORE: The mere figure you put in here of unfunded liability at \$5.36 billion should be of concern to everybody.

MR. SALMON: Mr. Chairman, and that's the figure of 1985.

MR. R. MOORE: It could be bigger.

MR. SALMON: But we don't know.

MR. R. MOORE: I was going to have, Mr. Chairman, some supplementals along this line, but I pick up on another area of concern from the questions of the hon. Member for Cardston on accounts receivable in our institutions. It bothers me that when I look at our educational institutions -- and they're requiring funds all the time. They're always short of funds, justifiably so, and especially with this 3 percent cut. They've underlined that very much so. But here they're running on the other end of it.

They're letting money out on their accounts receivable, and that concerns me because that leaves them open for unnecessary losses. With any accounts receivable there are always some that you can't collect. I feel that this is not acceptable, but my question is: how widespread is it? You've identified it in one area. Are all the institutions running accounts receivable out there?

MR. SALMON: Well, I believe, Mr. Chairman, if you looked at the financial statements, you'd find they'd all have some receivables -- you bet. In our auditing, of course, we're looking at the receivables as part of the process to ensure we can determine their collectability, because we want to make sure that they are also valued properly. If you've got some bad ones, then they should at least be reserved -- have an allowance for them.

MR. CHAIRMAN: You've used [inaudible]

MR. R. MOORE: Have I a supplementary on that one?

MR. CHAIRMAN: Fine.

MR. R. MOORE: Supplementary, through the Chair. I don't notice you're recommending they set up a reserve for bad debts, and that would really emphasize what they're into. But on these, is it within their mandate, as far as an auditor when you're looking at their mandate, to have accounts receivable?

MR. SALMON: Well, partly the reason for the receivables is just as a matter of collection timing. I mean, you may have moneys that are due to you that you have not yet got; then it'll just be a matter of time and you will receive them, so at the year-end they'll be sitting there. They may have been collected subsequently within the next 90 days even. So each type of receivable has to be looked at. I don't think you're referring to the other item that we have in here, and that is with respect to the reserves that they're establishing. Of course, that's been our other concern, where they actually are establishing reserves or, in other words, funds set aside for their own use. And that's of course where we've felt there needs to be some tightening up with respect to the department and the minister knowing what was going on in those areas.

MR. CHAIRMAN: Mr. Downey.

MR. DOWNEY: Thank you, Mr. Chairman. I have some questions relating to -- just to understand your function a little better, Mr. Auditor General -- the extent of the examination that you make into Crown corporations and specifically with the Alberta Agricultural Development Corporation. I note in your report that your comments are very brief; everything seems to be hunky-dory over there. I wonder, just to begin, if you could give me -- there's only one figure that I can find in the Public Accounts relating to AADC's budget and support by government, and that's listed under grants, of roughly \$101 million and change. What are the components of that grant?

MR. SALMON: Mr. Chairman, you're now asking me a question directly out of Public Accounts.

MR. CHAIRMAN: Would it be better for the minister to answer that question?

MR. SALMON: Just a minute; we've got statements here.

You're looking at Public Accounts? Or are you looking from the point of view of what we show in here as -- contributions from the province is what they are. In other words, it's coming directly from the Department of Agriculture and debentures from heritage. Corporations, operations are funded through the sale of debentures to the Alberta Heritage Savings Trust Fund and the contribution from the GRF. In other words, it's the combination of both.

MR. DOWNEY: I think -- and this isn't a supplemental; I'll just clarify if I could. What is the extent of your examination of the Alberta Agricultural Development Corporation? What items do you specifically look at in order to be confident that it is being properly operated?

MR. SALMON: We do what you call a financial audit of the corporation. In other words, we're determining that the values of the assets and the liabilities as well as the revenues and the expenditures incurred by the organization are fully authorized and are of the right value, including looking at all of their loans and the status of loans. We issue an opinion on those financial statements, and we give a clear opinion, which is included in Public Accounts on page 5.3. The reason I just went to there is to remember where the -- because the 101 figure is the contributions by the province shown on those statements, and it's explained in note 3 to those financial statements. So we do a financial audit, as we do on all other organizations, where we actually issue an auditor's opinion, which I must sign.

MR. DOWNEY: A supplementary then. How detailed an analysis do you make of their loan portfolio and their provisions for loss?

MR. SALMON: We do extensive enough work to be satisfied with the evaluation of those loans and whether or not the reserve or the allowance for doubtful loans is proper. That is standard procedure in all of our audits, including this organization or the Opportunity Company or Treasury Branches or any other organization that deals in loans.

MR. CHAIRMAN: Is there a further supplementary?

MR. DOWNEY: We'll take it by the briefness of your comments you're satisfied that that is being properly looked after.

I note then in your report you do make mention of Lambco, a division of Alberta Agricultural Development Corporation. I'm wondering, considering the significant portion of the portfolio held by Northern Alberta Rapeseed Processors, whether you made any special audit or investigation into that particular account?

MR. SALMON: I believe that you mentioned Lambco. We do, of course, Lambco, as well as a separate audit and then of course include that with ADC. As far as your direct item, I couldn't tell you without going back to the working paper file to see specifically. It did not come up specifically as an issue for reporting as far as I can remember in the management letter, but certainly it would have been examined if there was a concern while we were specifically doing the audit.

MR. CHAIRMAN: Mr. Mitchell.

MR. MITCHELL: Thank you, Mr. Chairman. I have a number

of questions for the Auditor General.

First of all, in your report on page 61 you indicate that the Alberta Mortgage and Housing Corporation does not use generally accepted accounting principles. Under what authority is it that that is possible, and what difference would it make to the value of their assets were they to use generally accepted accounting principles?

MR. SALMON: Mr. Chairman, there needs to be clarification on this item. The Auditor General's office, our office, issues two types of auditor's opinions: one in which we can issue a generally accepted accounting principle report, and another one where we issue what we call disclosed basis of accounting considered appropriate in the circumstances. And in all of those financial statements, in note 2 we would describe how they are in generally accepted accounting principles, except for certain items which we'd consider appropriate.

In this particular item, which I believe is fairly explained, we are talking about an item of the land held for sale and the land banking inventory, which is different than generally accepted accounting principles. And the current year, this year of '86, in taking either the way they're doing it or GAAP, there was very little difference, and therefore we did not have the problem in issuing the opinion for '86, because we had looked at all the values and determined that the '86 figures were proper for us to issue the opinion.

Our concern on this item is that should they continue, there could be potentially a possibility of being a fairly extreme difference between GAAP, or generally accepted accounting principles, and the method they're presently using, and we wanted them to be alerted to that and to take into consideration that, and we would recommend they go GAAP so that it's fairly presented. These are the potential -- it's a potential rather than actual.

MR. MITCHELL: Why would they not use generally accepted accounting principles in that particular case? Who would have made that decision, and why would they have made that decision?

MR. SALMON: Those, Mr. Chairman, are all management decisions at senior level which we have discussed fairly extensively with them in our exit conferences, and many times have included these kinds of issues in management letters as well. Again, we must weigh those issues as to whether or not we can report or whether we need to give a reservation or whether we can live with a disclosed basis.

In public-sector auditing we have to recognize that there are no specific standards of generally accepted accounting principles that need to be followed. In fact, you'll find in the public sector there is a very big variety of that across Canada. The Canadian Institute of Chartered Accountants is developing through a committee some guidelines, and I believe in time we'll have some in which we can measure against those, whereas right now we feel with the tightness that we operate with those two types of reports, we can display the adjustment that is sometimes necessary in a public sector area, where GAAP just doesn't fit, and is sometimes acceptable because of the nature of the organization, such as we don't depreciate in government. And that really is contrary to generally accepted accounting principles for profit organizations.

MR. MITCHELL: Great. Could you please explain how the

powers accorded to the Auditor General of Alberta differ from what I believe to be the broader powers accorded to the Auditor General of Canada?

MR. CHAIRMAN: Does the committee want that? The question is irrelevant, because we have the Auditor General here to comment on his report, and that's really outside the scope of his report. But I'll leave it with . . .

MR. MITCHELL: It isn't necessarily outside that scope. It is a question that is asking about the quality of the report.

MR. CHAIRMAN: Why not leave it up to the Auditor General? If he wishes to answer the question in some brief way, fine.

MR. MITCHELL: Okay.

MR. SALMON: I can answer briefly, probably, if you'd like. And that is that under section 19 of our Act, we are responsible to not only perform financial audits -- I'm going to do this generally now -- but also can make comments on systems designed to ensure economy and efficiency, or where systems are in place, whether or not they are as work being done with respect to effectiveness. Now, we are strictly commenting on the appropriateness and reasonableness of procedures to measure these things and not measuring them ourselves. We do not have the mandate to comment on value for money. The Auditor General of Canada can comment on due regard for economy and efficiency. That is not in ours, because ours is systems oriented.

MR. CHAIRMAN: You'll have to get back to the bottom of the list. Would you like me to add your name at the bottom of the list, Mr. Mitchell?

MR. MITCHELL: Yes, please.

MR. CHAIRMAN: Okay. Mr. Strong.

MR. STRONG: Thank you, Mr. Chairman. My question concerns the unfunded liabilities in the seven pension plans that are administered by or guaranteed by the province. The one that I'm particularly interested in is the Teachers' Retirement Fund. Has there been an actuarial evaluation done on that plan in 1986? Was there one done in 1986?

MR. SALMON: No, Mr. Chairman. They have a policy to have an actuarial evaluation every five years. We've been encouraging them to get on the same basis -- or trying to get Treasury to get them to be on the same basis -- as Treasury is, of every three. But theirs is every five, and I believe it was '83, so I think it's next year. It's not quite due, anyway, for the the fifth one -- '83.

MR. STRONG: A supplementary to the Auditor General. Why is it that the teachers' plan falls outside the scope of the pensions benefit branch? Basically that demands and dictates that every three years actuarial evaluations be done on pension plans.

MR. SALMON: Mr. Chairman, it's a matter of what their actuary allows them to do; it's strictly on authority.

MR. CHAIRMAN: Supplementary.

MR. STRONG: You indicate that of the seven plans that are controlled by the government, there are six of them that are normally done under the same actuarial accounting basis and the one -- again, the Teachers' Retirement Fund plan -- differs in the assumptions that are made. Can you explain which ways they differ?

MR. SALMON: Mr. Chairman, the question was that they were controlled. Actually, the seventh plan is guaranteed by the province; the six plans are controlled by Treasury. And because it's an independent . . . There's an Act; they have a board, but the province is guaranteeing the pensions. They have their own actuaries; they are not the same actuaries as the government, and therefore when you have different actuaries, you find different assumptions and different bases on which they are done. Although we've compared those in our own audit, and the differences are not great, there are some differences.

MR. CHAIRMAN: Did you want me to add your name to the bottom of the list, Mr. Strong?

MR. STRONG: No, I want clarification of the question, Mr. Chairman. And the question was: what different accounting principles, or accrual principles, do they use in the teachers' fund? What makes it different from the other six?

MR. SALMON: Strictly on actuarial assumptions.

MR. CHAIRMAN: Now my name is actually -- I've added it to the bottom of the list, so I assume that I have the right to put a few questions to the Auditor General.

MR. STRONG: I didn't get my question answered. I'd like the question answered.

MR. CHAIRMAN: I assumed that it had been answered.

MR. STRONG: It wasn't answered. It says that, you know -- and we're talking basically recommendation 1 here, which says: Although the economic assumptions used when valuing the Teachers' Retirement Fund . . . differ from the assumptions used when valuing the six other plans . . . Now how do they differ?

MR. SALMON: I'd like not to answer that question, because the actual differences are listed in a management letter, not in our working papers, and I have not included them here. I think it is the principle of the thing rather than the detail.

MR. CHAIRMAN: Let me just clarify something here. Is that public information? It's not public information.

MR. STRONG: Well, then why is it listed in Public Accounts or the annual report of the Auditor General?

MR. SALMON: Speaking as the Auditor General, I don't see why the background detail is essential; I'm sorry.

MR. STRONG: [Inaudible]

MR. CHAIRMAN: Excuse me, member. The sense of this is this, that the Auditor General prepares a report based on decisions that are made within a legal framework. If you have some

concerns or questions about the law as it affects the Auditor General's report, then I think that the proper person to direct those questions to is the relevant minister.

MR. STRONG: Are there any relevant ministers?

MR. CHAIRMAN: Well, I think the next question would be to say, "Which minister has authority over the Teachers' Retirement Fund?" And there is a minister that has that authority. The question that you're putting to the Auditor General should be put to the . . .

MR. STRONG: Put me on the bottom of the list and I'll ask it again.

MR. CHAIRMAN: All right.

I, too, would like to ask a general question about this unfunded liability of \$5.6 billion. I think you draw our attention to that, if I'm not mistaken, for two reasons. One is that it would make better accounting sense, or it would be more in keeping with general accounting principles, to have that so recorded. But in addition to that, is there a potential problem for the Provincial Treasury as a result of having an unfunded liability of this magnitude?

MR. SALMON: Well, I believe what you're getting into is what would Treasury have to do. And of course the actual question that raises is: should they fund or should they not fund? Certainly, that is not my concern, because that is strictly a policy decision, but I think the awareness of the magnitude of the liability is important, and possibly recording it on the actual financial statements themselves indicates that much broader than just in the note. However, there is no obligation to do that, and I think the way the report is written, definitely that's clear, that it's no obligation. But we're just saying that we just think it would be better if it was there.

MR. CHAIRMAN: Thank you. Mr. Moore.

MR. R. MOORE: Ah, back up already. What was I going to ask here? Yes, Mr. Chairman. I notice on page 53 of your report, related to the sample of claim payments on the Workers' Compensation, you turned up an estimated 4.2 million total of overpayments or nonrecovery items. When you say "sample claim," I take it you took a small segment and looked at it and you uncovered this. That would indicate to me that this is basically a common occurrence through the system. Is that your opinion or . . .?

MR. SALMON: Well, this was an estimate. Taking the errors that were found in the sample and extrapolating the estimates that we had within the sample, we came up to the 4.2. This was actually done by the internal audit branch of the department, and then our examination verified what they had done. Basically, it's because of the backlog and the heavy workload. In order to process the claims in the proper time, they use override codes and therefore they don't end up doing all the checks and balances that they should. It was a projected figure, and it was certainly supported by the internal audit of the department, and we were satisfied. It was to give a flavour of what we were finding in this backlog of claims. It wasn't saying that that was the actual loss; that was just strictly a figure.

MR. R. MOORE: Mr. Chairman, are you satisfied, in the recovery policies of the Workers' Compensation, to recover that?

MR. SALMON: There is a recovery process, and a lot of this would be corrected; that's right. We follow through on that as well.

MR. CHAIRMAN: Mr. Mitchell.

MR. MITCHELL: Thank you, Mr. Chairman. Supplementary to my question on the roles and mandates of the Canadian versus Alberta Auditor Generals. The Auditor General indicated that one of the differences was the ability of the Canadian Auditor General to review government functions with a due regard for efficiencies. Could you please clarify that? Could you give us an example of what that would involve; say, something you could do in Alberta with that mandate that you're not doing now, that you would love to do?

MR. SALMON: Mr. Chairman, I'm not sure I want to do that, because I think what happens is that they start to get into the aspect of making a comment on value for money and whether or not the money that was spent was spent for value, versus saying that the money was spent for the purpose intended. Now, that's totally different, because you get into a judgmental thing, and I know that if you look at the Auditor General's report, there's quite a few instances where they have specifically come out with those kinds of comments. I leave that to be the judge of anybody who wants to read his report.

I don't want to be critical of his report, because he has a different mandate than we do. But certainly the kind of thing that we do is to look at the systems, and of course you can judge also management by whether or not the systems are operating well or whether there's weaknesses within the operations. But in this office we do not comment on management as such and whether management actually did a good job or a bad job. We comment on whether the systems are weak or bad or so forth, and you draw your own conclusions from those.

MR. MITCHELL: Thank you. With respect to the Department of Hospitals and Medical Care, this year we see that you have had concerns with certain accounting practices of the Alberta children's hospital, where it appears that they misled the government in the hospitals, and I quote page 55:

The Hospital submitted falsified financial information in support of claims for capital funding from the Department of Hospitals and Medical Care.

AN HON. MEMBER: That's a serious allegation.

MR. MITCHELL: That is a serious allegation. I recall that last year and the year before there were similar instances with different institutions. I questioned last year concerning what steps had been taken to ensure that it wouldn't happen again. It has happened again. Could you comment on the systems in place by the Department of Hospitals and Medical Care, systems of follow-up to these kinds of infractions, and essentially what is being done to assure that this is being corrected throughout the system?

MR. SALMON: Mr. Chairman, this question was answered earlier in this meeting. If you look at page 55, in the second-last paragraph, starting with the sentence:

Regulations were amended in March 1986 to allow the Minister to make payments in respect of approved capital equipment in whole or in part during the fiscal year in which the approval was given or in the fiscal year immediately following.

However, in this case, this hospital was not aware of that regulation change, and therefore they thought that they would lose the opportunity for those funds and went ahead and did exactly what those other hospitals did in the previous year, which we reported.

MR. MITCHELL: Can I ask a question on this book, because it isn't specifically a department; it's an accounting . . .

MR. CHAIRMAN: Put the question, and we'll see.

MR. MITCHELL: On page 1.5 of volume 1, statement 1.2, the consolidated statement of revenue and expenditure for the province of Alberta, I note that the full nonrenewable resource revenue to the province of \$4.9 billion is included in revenue, and when that is compared to total expenditure, the net expenditure of the province is \$40.631 million to the good. However, as I understand it, about one-third of the \$4.9 billion in nonrenewable resource revenue went to the Heritage Savings Trust Fund. Should that \$1.3 billion therefore be consolidated in this revenue and expenditure statement? Or is this revenue and expenditure statement overstated by \$1.3 billion, and who makes the decision to consolidate in this way? Is that a government decision or an Auditor General's decision?

MR. SALMON: Mr. Chairman, it's not the Auditor General's decision as to how it's consolidated. It's the Auditor General's responsibility to report whether or not he's satisfied with the consolidation statements.

One has to recall -- and if one would look at note 1, talking about consolidation and what they do, the method of consolidation is in (b). The heritage fund is included in the consolidation, and therefore that's why it's grossed up. Because all of the statements, both the heritage and the General Revenue Fund and all of the other entities that are in the back of the book are included; that's why it's grossed up. In the consolidation you have to think about it as a whole.

MR. CHAIRMAN: Mr. Strong.

MR. STRONG: Thank you, Mr. Chairman. I'll come back again to recommendation 1 and the seven plans administered or guaranteed by the province.

Now the reason I asked the question on the differing assumptions used when valuating the teachers' retirement plan is that if the assumptions vary even a minute amount, what we could be seeing here is that the estimate of the unfunded liability of \$1.62 billion at March 31, 1986, could be understated. Now, my question to the Auditor General is: is that statement true? Could there be a larger number there than what you have listed because of those valuation processes differing?

MR. SALMON: I guess off the top of my head I'd say yes, that's possible. However, I believe that the figure we're using in here is one which the actuaries projected, and of course their projection is going back to '83, and therefore we're not sure how stable it is. That's right. So I think we're back to the business of: if we had either some interim evaluation, adjust the

values obtained, or an actuarial evaluation in full done more often, they would be more sure of where they are. But I still feel that if all of the seven plans were done on the same basis, not necessarily the same actuary but on the same basis, then they would be better for comparative purposes.

MR. STRONG: Again, if they projected these numbers from 1983, I would suggest to you that they are significantly different due to the fact that we have seen a very, very serious de-escalation in the cost of commercial land, and all those other things, if they had a great deal of that money invested here in the province of Alberta.

Supplementary to the Auditor General. It's my understanding that this pension fund is funded by both parties, the employers and the employee. Which party is significantly underfunded when it comes to putting money into the plan to pay the benefits that are guaranteed out at the end as pensions?

MR. SALMON: I'm not sure I understand the question. You're talking about the employer or the employees?

MR. STRONG: Yes. Just for clarification, normally if you have a plan that's set up like the teachers' is set up, it could be funded perhaps on a fifty-fifty basis. And I know that the commitment from the teachers themselves, the employees, was increased here, I think last year or the year before that, to decrease that unfunded liability in the plan. Now, was that matched by the province to reduce the unfunded liability in that pension plan?

MR. SALMON: Mr. Chairman, no, it's not matched by the province.

MR. CHAIRMAN: If I might intervene here for a moment, I think the member's actually looking for an explanation of what happens to the pension contributions of members of these plans. My understanding is that they go into the general revenues of the province, and the province . . .

MR. SALMON: Not in this case. The teachers' is on its own.

MR. CHAIRMAN: On its own?

MR. SALMON: They have their own fund.

MR. CHAIRMAN: In the case of the other plans, is that . . .

MR. SALMON: In the case of the other plans, the contributions go to the General Revenue Fund. Well, they go to the pension fund actually. It's a complicated accounting process, but they end up in the pension fund now.

MR. CHAIRMAN: That wasn't the account. Okay. No, no.

MR. STRONG: Mr. Chairman . . .

MR. CHAIRMAN: I'm just confusing things further that . . .

MR. STRONG: Yes, you are.

MR. CHAIRMAN: Do you want to try one more question?

MR. STRONG: Well, I didn't get the answer to the last one yet.

MR. CHAIRMAN: Restate the question.

MR. STRONG: Okay. I still get my last one though? What I asked was: who was underfunding? Are the teachers paying their portion? And is the government not paying their portion as a contribution into that plan to pay the benefit out as pensions when those teachers retire? Who's not paying?

MR. SALMON: I understand his question, but I don't know the answer. I think you've got to look at the fund itself as a whole, and I think you'd have to get into the -- off my head, I can't tell you specifically whether . . . You're trying to say the teachers should be paying more or the employers should pay more. I can answer that the province does not pay into the fund. They are guaranteeing, if there was a need, they would be guaranteeing the payment to the pensioners.

MR. CHAIRMAN: Then . . .

MR. DOWNEY: Mr. Chairman, could I give a little clarification for the hon. member?

MR. CHAIRMAN: We'll hear a clarification. Hopefully it is a clarification and not a red herring, from Mr. Downey.

MR. DOWNEY: It's a clarification here. The hon. member seems to think that the province is matching the teacher contributions to the pension fund when in actual fact it is the employer, which is the local school boards, which matches the teacher contributions. Does that answer your question, sir?

MR. STRONG: If that's the case. But it's still guaranteed by the government.

MR. CHAIRMAN: I think Mr. Strong has one supplemental left.

MR. STRONG: To the auditor general: what is the Provincial Treasurer doing to control these obviously rising unfunded liabilities in these seven pension plans? I'll give you an example of what I'm talking about. Has he made any attempt to move to some common evaluation process for those seven plans to start with, so that he can truly find out what exactly the unfunded liability portion is in those plans?

MR. SALMON: Mr. Chairman, the Provincial Treasurer has the six plans done by the same actuary. They were going to do an interim evaluation last year and then decided not to because of timing and cost, I believe. And there have been some discussions I'm aware of with the board of the Teachers' Retirement Fund with respect to this problem. But I'm not aware of anything beyond those discussions. I don't know the results of that.

MR. CHAIRMAN: Ms Laing.

MS LAING: First of all, I would like to register a protest. We have not yet received the public accounts report, and it's very hard to deal with this without that. I don't know where they are, but in fact I have not received and I don't think anyone in our office has.

MR. CHAIRMAN: Excuse me. Just let me check on that. I think they were tabled in the House.

MR. SALMON: That, Mr. Chairman, should have come from the Treasurer. I don't know whether they've issued them all, but I know that they were issued and they've been tabled.

MS LAING: We don't have ours.

MR. SALMON: They were issued to all MLAs on January 30.

MR. CHAIRMAN: Every MLA should have them, and if we don't have them in our offices, it's a problem in our offices.

MS LAING: But I checked it out yesterday, and they were not there.

MR. CHAIRMAN: I will assume the responsibility for finding out what happened and make sure that every member has the public accounts statements. Is there anyone besides Ms Laing that doesn't have these documents? All right.

MS LAING: Looking at the workmen's compensation, page 53 again, I note there was overpayment of \$4 million in regard to -- that would be practitioners. That would be deliverers of service to claimants, i.e. workers who have been injured. Is that what that means? Page 53, the last line of the second paragraph.

MR. SALMON: It was incorrect payments to practitioners, right.

MS LAING: One of the big concerns we all have in our constituency offices is the difficulty of injured workers in getting benefits. I see the use of override codes, and I'm wondering if there has been any kind of audit to look at the workers receiving benefits and evaluating the validity of the judgments made at that level. Is that a possibility?

MR. SALMON: Mr. Chairman, that's stepping into the aspect that the other member was raising with respect to making some judgmental decisions on whether management is handling things properly. I think that certainly in our examination from this point of view, we have been more concerned with the flow of the claims, the backlog, and the problems of bypassing controls.

MS LAING: Okay. I also note -- and I'm having trouble sorting this out actually. One of the issues raised constantly in the Legislature is the increasing costs of medical care, and again it would seem that overpayment would add significantly to that. I'm wondering if you have in fact detected this in terms of general medical care claims.

MR. SALMON: No, we haven't, Mr. Chairman.

MR. CHAIRMAN: Mr. Ewasiuk.

MR. EWASIUK: Mr. Chairman, my questions are on page 64, relative to Metis population betterment trust account, and I note that the Auditors General dating back to 1983-84 have had a problem with this particular account. In your report now you're suggesting in fact it might well not be legal. And in 1983-84 again, when the Auditor recommended action, the words he used in his recommendations were that something be done "as soon as practical." I guess that's a few years ago. Nothing has been done, and I see a new recommendation. Again, you're using the words "as soon as practical." Is there a reason for using

those words? It doesn't seem to be strong enough after something has been sort of hanging there for that many years.

MR. SALMON: Mr. Chairman, the Department of Municipal Affairs told us shortly before we issued this report that although there's a moratorium on legislative amendments, there is some continuation in their development of new legislation. I believe it's something to do with some -- I'm not aware of all of the implications, but there are some legal matters that need to be resolved before the legislation can come in. Until those legal matters are resolved with the Metis people, the new legislation will not be introduced, although they have been talking of potentially having that introduced. It was talked about, as we've indicated, introduced in '87, and we're still not sure what is going to happen in the current year. That's really why we keep using the word. They keep telling us we can't do it.

MR. CHAIRMAN: Did you have a supplemental? Mr. Mitchell.

MR. MITCHELL: Yes, thank you, Mr. Chairman, to pursue the Teachers' Retirement Fund and generally the pension liability, when we say that the government guarantees that pension liability in total, does that mean that at some point over time funds from the general revenues of this province will very likely have to pay pension obligations?

MR. SALMON: I suppose, Mr. Chairman, you have to use the word "potential." Really, it's potential; it's like a guarantee loan. If the organization can meet the payments and resolve the issue, then there's no cost to the government. But if percentually something goes wrong and there are additional funds needed, then the government would be called upon.

MR. MITCHELL: At the point at which payments by subscribers to the pension plus earnings on the assets in the pension fund now, which are only one-third of the total obligation -- at the point at which those two things did not cover the demands for pension payments, then the government would be responsible for dipping into the General Revenue Fund and making those payments.

MR. SALMON: That would be a fair scenario. Right.

MR. MITCHELL: Therefore there's a strong argument, given the demographics -- people of our province and of our country, young people, are not replacing people who are getting older quicker. There is a strong argument, then, for saying that it is inappropriate to put a \$5.5 billion liability, such as this is, in a footnote when in some respects it could be construed in the same light as a \$3.5 billion dollar deficit. That is to say, if you add those two together, we could be arguing that this province actually has something in the order of an eight or nine billion dollar deficit.

MR. SALMON: Well, Mr. Chairman, the problem with that, though, is the fact that the unrecorded or the unfunded liability is over a longer period of time, whereas the other deficit you talked about is immediate.

MR. MITCHELL: The other deficit would be over a 20-year or a 25-year amortization. In effect, this being present valued to \$5.5 billion -- the concept of present value inherently implies an

amortization of some long period of time, whatever the period over which you have discounted that liability. So it is in that way very similar to a debt that is amortized over a long period of time.

MR. SALMON: Well, in my own mind there is a little bit of difference, because one is a debt and the other is potential payments in the future, depending on when the pensions are called for when people retire.

MR. MITCHELL: Except that the actuarial provisions . . .

MR. DOWNEY: Point of order.

MR. CHAIRMAN: Yes.

MR. DOWNEY: The hon. member is inviting debate in his questioning of the Auditor General in this committee, I believe.

MR. CHAIRMAN: Well, I've been giving the Auditor General a fair amount of scope in this debate to decide whether he thinks the questions are within the scope of his report or whether they're political questions. I could intervene more quickly if you'd like me to do that.

MR. DOWNEY: Mr. Chairman, on the point of order, I haven't heard a question from the hon. member. He's debating the actual . . .

MR. MITCHELL: Is it not the case that given the actuarial premises that are used -- that is to say, they know how long people live, they know on average when they retire, and they therefore know what the pension obligation is very likely to be -- those assumptions are strong assumptions borne out by experience, and therefore the \$5.5 billion liability is not all that hypothetical. I'm asking: is it not the fact that that \$5.5 billion liability is not all that hypothetical, but in fact it is very, very likely that this government will have to pay it?

MR. SALMON: Mr. Chairman, on page 7 in the second paragraph following the chart we have made the comment that it is the consolidated surplus -- and make sure you understand that it is the consolidated surplus -- in '86 would be reduced by the \$5.4 billion if you were to record it. I believe that's the liability as it exists, as we know it, even though it's the '85 figure. The thing to keep in mind is that that's the liability. When the liability is to be paid is another thing.

MR. MITCHELL: [Inaudible].

MR. CHAIRMAN: I think you've finished your supplementals. You've finished your supplementals. I'll put you at the bottom of the list.

Mr. Strong.

MR. STRONG: Thank you, Mr. Chairman. My questions surround the Workers' Compensation Board. Could the Auditor General tell me whether the Workers' Compensation Board has an unfunded liability, or it is fully funded?

MR. SALMON: You're talking about the WCB's pension, or are you talking about the WCB?

MR. STRONG: The WCB in total pension, whatever.

MR. SALMON: I believe the pension is fully funded.

MR. STRONG: The programs are fully funded?

MR. SALMON: I'm talking about the pension fund of the WCB. They have an investment in bonds and so forth.

MR. STRONG: For future claims? That is fully funded?

MR. SALMON: I'm not sure. We'll check the statement. It's close, but I'm not sure where it is. That is again a guarantee. There is a provincial payment for those under certain sections of the Act that comes from the province. I believe other than that, they're covered.

MR. STRONG: Then I'll get into my next question while we're looking up the answer. Supplementary. Could the Auditor General indicate to me the latest actuarial valuation of those reserves, what the rate of return on those moneys was set at?

MR. SALMON: I do not know the answer, Mr. Chairman. The actuaries are there. They have an actuary there all the time, and also they seek outside actuaries to come and look. We are privy to that information and we're aware of it in our audit, but I do not have it, because it's not something we have been reporting here.

MR. CHAIRMAN: Auditor General, would it not be more appropriate to put those questions to the minister who is responsible for the Workers' Compensation Board?

MR. SALMON: Yes, they can bring those kinds of answers with them because of the background detail that they will carry with them, whereas our working papers are really not brought here to dig those kind of details up.

AN HON. MEMBER: I thought you'd know.

MR. CHAIRMAN: Well, we can't expect them to, because a lot of those, as he's pointed out, are outside the scope of the audits that are done by your office.

MR. SALMON: We're examining those particular areas, but we don't get them specifically laid out.

MR. CHAIRMAN: Final supplementary, Mr. Strong.

MR. STRONG: Supplementary. Could you please get me a letter indicating the answers to those two questions that I asked? The minister might not answer them for me, so I'm going to ask you.

MR. CHAIRMAN: I think that remark is inappropriate. I think it's an inappropriate request to put to the . . .

MR. SALMON: Mr. Chairman, I don't want to write letters to all members.

MR. CHAIRMAN: If we could move along. I had my name on the list before anyone showed up. I'd just like to ask a question with respect to your recommendations on the Department of

Energy. You've indicated in your report that as much as \$9 million could have been lost as a result of not handling old and new gas information in an acceptable way. How valid is that \$9 million estimate? Is that the maximum amount of money that could have been lost, or is that your best guess on the amount of money that was actually lost, or could the figure be below it?

MR. SALMON: When you consider some of the methods we use in doing our audits, Mr. Chairman, we are actually doing selective examination of information by computer. We actually put forth all of this information on the old and new gas and rerun it, and we recalculated the royalty based on the information that was on their file, using our own computer. This was the difference. Now it's a case of the department, as they are looking at it, going back and examining where those differences are and then recovering where there has been an understatement.

MR. ADY: I'd like to go back to the teachers' pension fund again. As I understand it, the province is liable to fund the teachers' pension fund, bottom line. But I also understand that the Teachers' Association has control of their contributions to invest as they see fit within their association. So does it follow, then, that if they make bad investments and lose money and fall short, the government in effect has to make up a bad investment on the part of the Alberta Teachers' Association?

MR. SALMON: Mr. Chairman, let me clarify one thing. It's not the ATA that has the control; it's the Teachers' Retirement Fund board. There's a separate board from the ATA board who actually do the investing or the control of the investing of the pension plan and pension fund. You're right, though, in the rest of it.

MR. ADY: Okay, then. Supplementary on that. What happened two years ago when that same group made a poor investment and then wanted someone to make up the shortfall because the place they'd invested -- I've forgotten whether it was a trust company or something that went broke. Do you recall who picked up the shortfall there?

MR. SALMON: Mr. Chairman, that reduces the value of the Teachers' Retirement Fund. If you have a bad investment, that just reduces your value; if you make a good investment, that increases your value.

MR. ADY: They have a very ironclad deal, to me. Thank you.

MR. CHAIRMAN: Mr. Ady, do you have one further supplemental?

MR. ADY: No.

MR. CHAIRMAN: Mr. Mitchell.

MR. MITCHELL: Back to the Heritage Savings Trust Fund consolidation. It seems to me that in a sense the government has its cake and eats it too in the way that this has been consolidated. On the statement of assets and liabilities for the Heritage Saving Trust Fund, implicit in that statement is the fact that \$685 million of income went from nonrenewable resource revenue to the fund. So it seems to me that that's gone or that it is now assets which allow the government to say that there are \$15 billion in assets in the fund.

On the other hand, when we go back to the consolidated statement of revenue and expenditure, we see that that \$685 million is counted as revenue which is written off against normal expenditures, reducing the government's net operating deficit for the year to \$40 million. It seems to me that in fact -- and could you confirm this, please; I'm making this a question now, so put a question mark at the end of this sentence -- the government's operating deficit for the year 1985-86 would be \$685 million plus the \$40 million that they have recorded on their consolidated revenue and expenditure sheet, and that in fact their operating deficit would be over \$700 million.

MR. SALMON: Mr. Chairman, I'd like to see that on paper, so I could see which figures he's using. I tend to -- because I sign the auditor's opinions on each of the financial statements that are designed by legislation to be issued as separate entities, I satisfy myself on each entity on its own. Now, I'm not here to debate whether or not that is correct, because that's the way the legislation is. Then the consolidation comes along and takes those financial statements and combines them in a sense. The results are as indicated in the consolidated finance statements. And I really do not want to comment on the scenario of the dollars.

MR. MITCHELL: Is the statement on page 1.5, statement 1.2, a new way of consolidating? Does it represent a change in accounting practice by this government in the year 1985-86 over previous years?

MR. SALMON: Mr. Chairman, it is not a change. This is the same way we've consolidated, or the Treasury has consolidated, I should say, and we have given an opinion on since 1978.

MR. CHAIRMAN: Supplementary?

MR. MITCHELL: Yes, back to the Alberta Research Council. I believe for seven or eight years you have been unhappy with, or not prepared to, endorse or approve the accounting practices of the Alberta Research Council. Do you feel that progress is being made by that organization in improving their reporting? Do you feel that the government is doing all it can do to this point to improve their reporting? Eight years seems a long time.

MR. CHAIRMAN: I'm sorry to have to intervene here at this point, but I don't think you can reasonably make the assertion that the Auditor General is unhappy about some reporting practice. I think you can talk about the fact that he has recommended over a period of time that changes be made, and I think your question really is in fact: what progress is being in terms of implementing the Auditor General's recommendations? Is that fair enough? Auditor General.

MR. MITCHELL: Yes.

MR. SALMON: I believe, if you're on page 79, we did say that this is a long-standing problem. There have been a number of issues that have been corrected over those years. These items have not been corrected. There has been a tremendous length of

time in developing the kind of an accounting system, computer system, that they want in place. And they have not yet arrived at that stage to be able to implement some of these things.

We have been concerned for a number of years, particularly because of the value of assets in contracts, as to whether they belong to the council or not. And that is the reason why we've had that reservation on the financial statements, because it's not known whether the figure shown belongs to them or not. They have indicated in this new system that they'll be able to identify that a lot sooner, but that system has still not come to full fruition, and therefore we're still waiting.

MR. CHAIRMAN: Mr. Moore, I think. [interjection] No, you're finished your supplementals. Mr. Moore.

MR. R. MOORE: Mr. Chairman, because we've reached the end of our time, I move we adjourn.

MR. CHAIRMAN: Before we accept the motion to adjourn, I think we have a little bit of outstanding business that we must conclude.

The first item would be whether or not we wish to invite the Auditor General back next [Wednesday] to complete a further series of questioning. Moved by Mr. Mitchell that we do proceed that way. Is there any debate on his motion that we do this? Those in favour of inviting the Auditor General back next week? Are you agreed?

HON. MEMBERS: Agreed.

MR. CHAIRMAN: And we have an item of new business on the agenda. Is there any new business that anyone would like to raise? Ms. Laing.

MS LAING: Mr. Chairman, I would like to look at the order of departments that are going to be looked at by this committee. In the last meeting it was suggested that we extend the meetings of this committee to out-of-session time. The argument against that motion by Mr. Bradley was that in fact over a two-year period we would be able to look at all of the departments. In view of that, I would note that four of the departments on this year's list were in fact looked at last year, and if we do duplicate departments or do the same departments year after year, that means we do not get to some departments. Therefore I would like to move that we change the list and that in place of the department of economic development, which we looked at in 1986, we put in Community and Occupational Health, in place of Agriculture we put in Career Development and Employment, in place of hospitals and health care we put in Education, and in place of Recreation and Parks we put in Municipal Affairs.

MR. CHAIRMAN: Questions? Those in favour of the motion? Those opposed? The motion is defeated.

The date of next meeting is next Wednesday at 10 o'clock. Agreed? Agreed. Motion to adjourn? Mr. R. Moore made a motion to adjourn. Those in favour? Agreed.

[The committee adjourned at 11:32 a.m.]

