

[Chairman: Mr. Pashak]

[10:02 a.m.]

MR. CHAIRMAN: I'd like to call the meeting of the Public Accounts Committee to order. We have with us again today our usual guest, Mr. Donald Salmon, the Auditor General, and Michael Morgan, the executive director from the office of the Auditor General.

The first item of business on today's agenda is the approval of the minutes of April 1, 1987. Do I have a motion to that effect? Okay. So moved by Ms Laing. Any discussion on the minutes then? Is there agreement that they should be approved as distributed? Agreed?

HON. MEMBERS: Agreed.

MR. CHAIRMAN: I would just like to make a comment before we begin. Last day a number of the questions that were put to the Auditor General really were of a political nature, and it's my inclination to rule such questions out of order in the future. I mean, the Auditor General is here to comment on his report and provide further background information, but questions that are clearly of a political nature -- that is, questions that deal with government policy -- should be properly, in my view at least, addressed to the minister when he appears before this committee.

With that, I think the Auditor General has a correction that he would like to make -- or not a correction, but an enlargement with respect to an issue that developed last day.

MR. SALMON: Thank you, Mr. Chairman. The question was asked, although it was not directly in our Auditor's report of 1986, whether or not the Workers' Compensation Board had an unfunded liability or whether it was fully funded. To clarify the position of the WCB, I went back to the office and reviewed the annual report. As at December 31, 1985, the Workers' Compensation Board recorded on their balance sheet a deficit of \$129 million in their accident fund balance. This is the shortfall of all liabilities less assets of WCB and includes the actuarial valuation of pension liabilities. The Workers' Compensation Board fully records all of their liabilities on their balance sheet.

There was a statement in the annual report of the Workers' Compensation Board which said that at year end 1985 the board held \$1.27 billion in assets to meet almost \$1.4 billion in estimated future obligations. The resulting unfunded liability of \$129 million, or 90.8 percent of the fully funded position, is not of major concern due to its very long-run nature. On page 31 of the annual report is an actuarial opinion on the liabilities of the claims and the pension fund of the board at December 31, 1985, which indicates by the actuary that the liabilities totaled \$1.3 billion. These liabilities of course are offset by assets, leaving the \$129 million deficit mentioned before and included on the balance sheet.

To further clarify some of the questions that were asked, the benefits payable by the Workers' Compensation Board are not guaranteed by the province. However, the General Revenue Fund does cover payments made under certain sections of the Act, which are supplemental amounts paid in respect of accidents which occurred prior to January 1974. In 1985 this statement of course shows that that total was \$16 million.

I believe, Mr. Chairman, that will clarify the concerns that one of the members had last week.

MR. CHAIRMAN: Thank you very much, Auditor General.

With the concurrence of the committee, especially Mr. Mitchell, who is first up, I would accept questions relative to comments that the Auditor General made at this point.

Carrying on then, Mr. Mitchell, did you want to ask a question? [interjection] You are on the list, Mr. Moore.

MR. R. MOORE: I'm on the question list, yes.

MR. CHAIRMAN: Okay. Mr. Mitchell, you're first up.

MR. MITCHELL: Thank you, Mr. Chairman. The small business equity corporations program on page 32, section 2.9.1 of the Auditor General's report. To Mr. Salmon. You mentioned that it took several months before compliance procedures were established after the commencement of the program. Could you give us some idea of what compliance procedures have been established now?

MR. SALMON: Well, without going into details, Mr. Chairman, as the program commenced fairly quickly after being established, their actual procedures within the office had not been clarified, and there was some time when some of the actual transactional work of the program was done without following some of the outlined procedures that are now in place. We feel now that the controls that are in place are sufficient to take care of the concerns that we had. But we felt that because this earlier period had not been yet resolved, some of the problems with respect to the processing, we would leave it as a comment here without a recommendation, because they are presently working on those concerns to resolve those issues.

MR. MITCHELL: What was the nature of those concerns?

MR. SALMON: Because of the nature of some of those findings and some of the problems connected with it, we did not feel it would be wise to comment further, and therefore I do not wish to go beyond what's in this item here because of some investigative work that was being done.

MR. MITCHELL: As a point of order, I respect that. I guess that if we want to go further, we go with the minister in question period. Okay.

Thirdly, one of the concerns that we had had last year . . . I think the NDs -- and if they hadn't, we would have -- asked for information on where the SBEC money was being invested. And the minister had said, "That's not public information and we're not going to tell you." And yet compliance under the SBEC provisions hinges upon where that SBEC money is taken and invested, to some extent. Are you able to review documents or records indicating where SBEC money is invested or are you not, as the Auditor General?

MR. SALMON: No. We actually are given the access to any documentation with respect to any of the transactions, including all of the organizations that money is being provided to. Again, of course, it's confidential because it's within our own working papers, and unless it's in an annual report of the department or of that nature or in Public Accounts itself, we wouldn't be able to provide it either.

MR. CHAIRMAN: Mr. Ady.

MR. ADY: Thank you. My question is on page 64 of the

Auditor General's report, and it has to do with the trust account set up for the Metis settlements. I note that you make mention that there are some irregularities, to the point that it may not even be legally constituted. Could you give us some idea of what needs to be done to make that trust account legal?

MR. SALMON: I believe, Mr. Chairman, that the explanation is here, maybe not sufficient to pull out all the details. But I recall a number of years now we have been concerned with the way the boards have been established, the actual Metis boards, and the way they are elected, and something contrary to the way the actual Act lays out that they should be established, and also the way honoraria are paid and so forth. There's a lot of things that have developed within this particular trust account that are not now laid out specifically in their legislation, and what we were looking for, for clarification, was that the noncompliance issues needed to be sorted out.

As indicated in this particular issue here, the development of the legislation has to conform with the settlement or the agreement of the Metis people, and this has not been fully resolved. There is basically a moratorium on not settling the legislation until other matters with respect to the department and the Metis people are resolved. There had been an indication that the Act -- some type of changes -- would have been introduced in 1987, and we are not sure what they have actually done. We've carried this for a number of years because of those noncompliance issues.

MR. ADY: Supplementary. You've answered part of my second question, having to do with irregularities in appointments to the boards and the honoraria and so on, and I suppose it all winds up in the same ball of wax to be dealt with. And so just let me ask one question: is this type of thing isolated to this particular department and this particular issue? Do you find this kind of thing where other trust accounts are set up by government departments, or is this an isolated thing and a unique situation?

MR. SALMON: I don't think it's isolated. We had -- in the report we've indicated some nine areas where there was non-compliance with legislative matters. This one happens to be a long outstanding one because of some claims that were filed against the province and court involvement, and therefore there have been some delays in this particular one.

MR. CHAIRMAN: Thank you. Okay, Mr. Moore.

MR. R. MOORE: Thanks, Mr. Chairman. I noted on pages 36 and 37 your concerns related to the inspectors' reports, and I saw that your office concluded that field inspectors' documents:

- contained insufficient evidence relating to:
 - the inspectors' findings and conclusions,
 - any follow-up procedures employed,
 - the results of action taken, and
 - supervisory review of the files.

Now, what in the world did they report? I think if there was insufficient in those areas, I don't know what they did report.

MR. SALMON: Mr. Chairman, I think you have to take into account what the conservation board considers was essential from their point of view and their Act. Some of the procedures that were being developed with respect to inspection were specifically for verification of royalty data for the department. There hadn't been a good dialogue between the two organiza-

tions for a number of years as to agreeing on what should be done. And I believe their decision this year to finally put together a task force, whereby they could actually work out some terms of reference and develop and agree upon those procedures that should be done to give them the assurance that the data information supplied to the department was realistic and able to be used for the purposes of royalty calculations, is a good step, whereas in the past it was sort of partially done but not necessarily done to the satisfaction of the department and to ourselves as auditors.

MR. R. MOORE: A supplementary, Mr. Chairman. This task force that's being set up to look at this: have you input to it, or did you make recommendations as to the format that you saw necessary, or are you leaving that up to them?

MR. SALMON: Yes. We sat in on the initial task force meeting -- actually, it was in our office -- and all three of the parties were there as well as ourselves. Then they've gone ahead and are working on it, and we're monitoring what's happening.

MR. R. MOORE: So you identified the areas you had concern with, and they can identify theirs. That's fine. Another supplementary?

MR. CHAIRMAN: Fine.

MR. R. MOORE: It is of concern to me when I see this in this important area, and that's a major area: that we as a government have inspectors going out there and coming back, evidently with a job to do, and yet we're not getting the information back that we had sent them out to get. We do this in many areas. Do you find that this is a process within our government? Our inspectors -- we have them out there for a purpose, and yet we're not getting the end results which we thought we were when we put them in place.

MR. CHAIRMAN: I'm not sure whether that's a political question or not.

MR. SALMON: I think that's a good question, Mr. Chairman. I think that many times where the inspectors are going out specifically to do specific things for a department or a Crown corporation, their assignment can be well defined. The problem with this one, of course, was that you have a board or a Crown corporation doing work for another party, and they did not feel within their legal rights or their legislation that they were really required to do it. But over the years, as the royalty processes have been developed, there was a greater need to have more clarification between the two organizations. And that's really where the problem was arising, in that one was looking for something and the other wasn't providing it, from not understanding each other's position.

MR. CHAIRMAN: Mr. Nelson.

MR. NELSON: I'll pass for now, Mr. Chairman. Thanks.

MR. CHAIRMAN: Okay, Mr. Musgrove.

MR. MUSGROVE: My question is on recommendation 11. And as I understand from the follow-up of that recommendation, Medicine Hat College has been putting surpluses into reserves

and then not declaring them as income in next year's financial budget. Now is that -- first off, have I got the proper picture there?

MR. SALMON: Just to clarify, Medicine Hat's method of accounting for their reserves was to deduct them as an expenditure in the year prior to calculating their surplus.

Now, that is contrary to good accounting practices, and the other colleges are conforming to setting up their reserves after their surplus for the year is calculated. In other words, Medicine Hat was using the reserves as an expenditure in the year. They have refused to change their statement's presentation, and because of the inappropriate method of presentation, we have been placing a reservation on the Auditor's opinion each year identifying that concern. I believe possibly we may have a breakthrough this year -- I'm not sure -- but we've been really working hard with them and hoping that we can see a swing away from that, because they are the only college that presently are doing it under this method.

MR. MUSGROVE: I have to presume that you are not the exclusive auditor for Medicine Hat College, that the audit is done by another auditing firm and then you follow up on that.

MR. SALMON: Mr. Chairman, we are the auditors of all the colleges. However, under our own legislation we have the right to hire by our office agencies, and in this case we are using a firm in Medicine Hat to do the audit for us.

MR. MUSGROVE: How does this differ from a school board audit?

MR. SALMON: Well, we do not do any school boards ourselves. In the case of school board audits, like public school boards in Edmonton or in many of the school boards throughout the province, my understanding is that the school boards themselves have the right to appoint their own audit firm to perform their audit. By legislation the colleges and the universities of course are provincial agencies, and therefore the Auditor General is the auditor. But we have been able to provide service to these outlying areas particularly, although we even use agencies in Edmonton and Calgary to do some of our auditing work so that we do not end up ourselves increasing our staff level, and have funds available for the use of agencies to do some of this work. In the colleges we're pretty well using -- I think there are eight out of 10, I believe, where we're using agencies to actually do the audits for us. But they work for us, not for the college, because the Auditor General still must sign the statements.

MR. MUSGROVE: Well, one question. Not knowing a lot about audits, in the following year then, how would this reserve show up in their following audit? It would have to come in there as income somewhere, wouldn't it?

MR. SALMON: Well, what we would like them to do, of course, would be, as they spend the dollars, to put that through as expenditure and not show the reserve as expenditure right from the start. What they're doing, of course, is reducing their reserves as they're spending them.

MR. MUSGROVE: Thank you.

MS LAING: I have a couple of questions in regard to Social

Services. On page 70, just above the second paragraph above recommendation 37, I see that \$12.3 million was not received from the Canada assistance program because they incurred expenditures by institutions which had not been approved by the government of Canada. Could you tell me the reason for that, that refusal to approve those expenditures?

MR. SALMON: Mr. Chairman, I don't believe it's the expenditures that are not approved. In these particular cases it's the widows' pension plan as well as some other institutions that have not been approved. In other words, the department must go to the government of Canada to get the institution or the program approved, and then they can submit the expenditures in accordance with that approval.

MS LAING: So are you saying that they haven't gone with these expenditures to the government for approval, or that the government has not approved these institutions; that is, has refused to approve them?

MR. SALMON: It could be either way. With the \$12.3 million, these expenditures are sort of put on holding patterns until the approval of the organizations so that they can then submit the claims to Canada for recovery.

MS LAING: Okay. What kinds of reason are there for not approving institutions?

MR. SALMON: I don't know the specific reasons; all I know is that they're not yet approved, and therefore they're holding them.

MS LAING: So you don't have that information. Okay. Do I have another one? In regard to recommendation 41, in which residential facilities -- there are not good procedures for determining the expenditures. What kind of monitoring mechanisms are now in place?

MR. SALMON: One of the problems with this, Mr. Chairman, was that this was one we reported in the previous year and we received a response from the Provincial Treasurer indicating that they had initiated some new procedures with regard to handling these residential facilities and entering into contracts with them. However, when we had completed the '85-86 audit, which was this year, they had not been in place, and then we were in a position where we have to go back and will be going back shortly with respect to reporting in another year. So we're in a sort of limbo position of not knowing whether or not they really are in effect yet. We assume they are, based on the reply, but when we finished last year's audit they hadn't been. So there's a timing problem. We're assuming that they'll be all right, but until we finish the audits and are able to report again, we can't say.

MS LAING: We had a recent report of what seems to be inappropriate spending in regard to a residential treatment centre, so I'm concerned about the methods of monitoring and ensuring that there is in fact service delivery for them on these paid out.

MR. SALMON: I think that's a good question, and I believe the department could answer that today, whereas I'll have to wait till we finish our audit.

MR. CHAIRMAN: Okay, Mr. Mitchell.

MR. MITCHELL: Thank you, Mr. Chairman. Back to small business equity corporations.

MR. CHAIRMAN: Could you tell us which page you're on?

MR. MITCHELL: Yes. What page did I say originally? Page 32. Yes, section 2.9.1. You indicated that you have the authority or the mandate to review documents indicating where SBEC money has been placed. Did you do that for the year 1985-86, or was that applicable during that year at all?

MR. SALMON: Yes, we performed an audit on this program in that particular year, and our concern of course is strictly that there had been those weaknesses in those early months of that particular program. Because of the extensive review that is presently being carried on, we felt no further comment could be made at this time.

MR. MITCHELL: I'd like to clarify that question without using one of my supplementaries. What I'm really getting at is: did you actually go to the Churchill SBEC, for example . . . Say they put \$1 million into Acme corporation or XYZ corporation, did you look at that investment and determine whether that was within the guidelines of the SBEC program, and did you do that for all SBECs?

MR. SALMON: We do not examine every document in all programs. We would have been doing a selective basis, and on that selection we would determine whether or not we felt they were in compliance with what they are allowed to do and are spending. I think that's really where we are. I couldn't tell you specific ones we examined in our test.

MR. MITCHELL: Okay. But the fact is that you did examine some, and they were all within the guidelines for it? Great, okay.

To the Wild Rose Foundation. I don't know exactly what page that's on. I didn't put that down. Here it is. I think it's about page 44. Could you please explain what the relationship is between the board and the government? The reason I'm asking this is that the government declined to reveal to the House . . . I'm sorry.

MR. CHAIRMAN: I think I showed perhaps too much tolerance with Ms Laing's statement just a few minutes ago. I don't think we should be talking about what went on in the House. I think we should be dealing with the Auditor General's report and asking a question directly out of it.

HON. MEMBERS: Agreed.

MR. MITCHELL: But it is critical, given that there are a variety of instances of noncompliance with respect to the Wild Rose Foundation. And it seems that they may be justified, given the overly restrictive legislation. What I would like to know: what is the relationship between the government and the Wild Rose Foundation? Does the government, for example, appoint the board? If so, for what period of time and at their discretion? Does the government have some say in the bylaws of that organization and so on?

MR. SALMON: Mr. Chairman, I'm now going a little off here, but the Wild Rose Foundation annual report is out. I know that. I also know that the board is appointed by order in council, Lieutenant Governor, and there's a period of time in which each member serves, which means that under the authority of the Act that board would then function and operate in accordance with the legislation as well as the regulations established. That's where we ran into situations of actually determining whether or not the items they were spending their funds on were legitimate with respect to the regulations, and that's where we ran into the noncompliance issues. My understanding is that they are going to make every effort they can to resolve the difficulty of interpretation, because it is very restrictive in the way it's presently established.

MR. MITCHELL: The funds collected by the Wild Rose Foundation are, if I'm not mistaken -- and I'm asking you to confirm -- construed as part of Alberta's general revenues, are they not? Are they not treated in the same way legally or . . .

MR. SALMON: Wild Rose is an organization unto itself by the legislation. They have a separate financial statement and do an annual report and report to the Legislature. It's included in the Public Accounts, so it's published there. It's a lot like a lot of the other foundations, in fact. In this particular item on page 44, we listed a number of organizations where they were not supposed to be funding, according to their legislation, any of the same types of things as these other seven or so organizations fund, and they're similar to these other foundations.

MR. CHAIRMAN: Mr. Brassard.

MR. BRASSARD: It's primarily one of clarification. On page 60 under the Alberta Mortgage and Housing Corporation, you mention that

the Corporation does not account for and report its land programs in accordance with generally accepted accounting principles,

but basically the results are the same. Could you elaborate on that just a little bit? I see in your recommendation that you recommend they do "adopt an accounting policy of valuing land."

MR. SALMON: Mr. Chairman, that was answered last week. I must clarify that I will mention the fact that yes, it's true, that as we looked at the valuation and determined how they were treating the land held for sale and the land-banking inventory and inventory in land, in the current year of March 31, 1986, which we're reporting on here, generally accepted accounting principles and the method they were using were not different. Our concern, as indicated, is that potentially that could become extreme in time. Therefore we felt that because of the acceptance of generally accepted accounting principles as a more reasonable way in which to value the land, they ought to do their best to conform to generally accepted accounting principles. And we are suggesting that they make sure that in comparing their values of land between the two types of inventory, they cautiously look at how to value it and use GAAP in the future because of the potential to be extremely different and then having difficulty to explain what that value really is.

MR. BRASSARD: Then in a supplemental, do you feel that there are adequate accounting procedures in place to not only truly represent the current value but also contain the flexibility

to recognize the increase in value? I recognize the need to report actual value on land, but is there flexibility in the system to accommodate the increase in value that we seem to be experiencing right now?

MR. SALMON: I believe that with respect to the corporation, if they will follow the procedures on a consistent basis and use GAAP where they can so that it's some basis on which they can be compared with other types of organizations that are also valuing such properties, yes, there is an ability to do that. I believe, though, that one must recognize it's each year at their year-end. As auditors, our office of course will make sure that in order to give an opinion on financial statements, the values they are using are acceptable, and we can give an opinion to that effect. It certainly is not something the corporation is ignoring. They are carefully examining all of their assets and are very concerned about the values at each year-end and as to how they're going to handle these properties. Our concern is that they will match what we as auditors can report upon.

MR. CHAIRMAN: Thank you. Supplemental? Thank you. Mr. Ady?

He's temporarily left the Chamber. Mr. Moore.

MR. R. MOORE: Thank you, Mr. Chairman. I'd like to just go to page 14 under the Students Finance Board because over a number of years there's been a concern in that area. I note you make no recommendation, although you say that you reviewed the systems procedure used by the board to verify accuracy of information received from banks relating to loan balances and repayments. This was an excellent program. It turns out a lot of young professionals in a system to become young professionals, but when they get out there, over the past years we've noted that they're a little slow in repaying their loans. You say you reviewed the procedures related to repayments. Do you feel that those procedures are adequate?

I admit, Mr. Chairman, that I could wrap all my questions in one because the answer will relate to all areas. Do you feel that the procedures are adequate? Do you feel that we have an outstanding balance there or a growing outstanding balance or a diminishing outstanding balance? Where are we going in this repayment? Because it was quite a concern here over the past years that sure, they get out there, they get their education, and then they seem to forget they have a small debt back here to the citizens of Alberta.

MR. SALMON: Yes, Mr. Chairman, there are procedures outlined as to when those loans are repayable, and there are also efforts made to collect those loans on a regular basis. In fact, any student must start to repay, I believe, within six months of graduation. The other thing that will occur -- and of course that's why we're satisfied and have no recommendation, as they are following the procedures that they have outlined and established by the board. If they have collections that are not being made in a prompt fashion and are difficult to collect or many times maybe can't be found, because that's the other thing that will occur, these loans are then turned over to the Treasury Department, which has a collection area for such delinquent accounts, and then they're pursued a little more vigorously, you might say, than what the board can do because of the lack of staff and the ability to follow through on the ones that can't be located and this kind of thing. Treasury eventually too, if it's still difficult, will even go so far as to turn them over to a collec-

tion agency. Therefore, we feel that the procedures are adequate even though you may not collect all the dollars.

MR. CHAIRMAN: My guess is that Mr. Moore would like to find out what percentage of those loans are in fact paid back. But I think that would be a question that would be more properly put to the Minister of Advanced Education.

MR. R. MOORE: I'll wait for that one.

MR. CHAIRMAN: Right. Mr. Mitchell.

MR. MITCHELL: Thank you, Mr. Chairman. Could the Auditor General please inform us of the value at which AGT is carried on the books of the government? I probably could find that, but it would be easier if you could just . . .

MR. SALMON: Public Accounts.

MR. MITCHELL: While that question is being pursued, I would like to ask a second question about AGT. It's my understanding that there is a fundamental accounting difference between Canadian governments and, say, Britain. Britain carries its Crown corporations generally on the books at no value. Therefore, when they sell it, the cash that they receive is net new cash and it can be applied to reducing the deficit therefore. My understanding is that the same circumstance would not apply in Canada, in Alberta, and that were we to carry the AGT, for example, on the books at \$2.5 billion and we sold it for \$2.5 billion, it would do nothing to our deficit. If we sold it for less, it would increase our deficit; if we sold it for more, it would decrease our deficit to that extent. Could you confirm that?

MR. SALMON: Mr. Chairman, you're into the realm of setting a policy that I believe -- I would probably get involved in some discussions, if that were to occur, with the Controller of Treasury in the way they would be wanting to present such funds in the General Revenue Fund or however they would want to record them. Till that comes about -- I have not been in any discussion whatsoever on that -- I really wouldn't want to comment. But if you want to know the value of AGT, now you're talking about-- the portion that came into the consolidation is \$1.6 billion? Yes, billion, that's right, in 1986. Bottom-line figure.

MR. CHAIRMAN: Are you asking where that \$1.6 billion is carried in the financial statements of the province?

MR. MITCHELL: No, I wanted to know at just what value AGT was being carried and, therefore, what its implications are for selling.

MR. CHAIRMAN: You asked the question about the implications of selling, and I think the Auditor General has answered the question about the value that's carried on the book.

MR. MITCHELL: Yes, he said that he doesn't want to discuss the implications of selling because it may be a subject of his discussions.

MR. CHAIRMAN: That's a political question.

MR. MITCHELL: I'm not sure it is a political question. I don't

want to put the Auditor General on the spot; I respect his position. I'm not sure it is a political question; it is an accounting question at this time. If it's carried on the books at \$1.6 billion and we sell it at \$1.6 billion, under generally accepted accounting principles we get \$1.6 billion cash to replace a \$1.6 billion asset. Therefore, we have equivalent assets; they do nothing to our deficit.

MR. CHAIRMAN: There's a point of order that I have to . . .

MR. SALMON: [Inaudible] to get into this for a minute. The other thing is that the \$1.6 billion is now cash in the hands of the province, and it's what do they do with the \$1.6 billion? [interjection]

MR. CHAIRMAN: Excuse me, member. I've got a point of order that I have to deal with first. It's by Mr. Moore.

MR. R. MOORE: Point of order, Mr. Chairman. We aren't here to deal with hypothetical questions; we're here to deal with the Auditor's report.

MR. CHAIRMAN: Right. I think we've tried to establish that. Do you have a further question, Mr. Mitchell?

MR. MITCHELL: Yes I do. I appreciate the response I got from the Auditor General on those questions.

Another question concerns the review of expense claims by ministers. Does the Auditor General's audit look at the detail of ministerial expense claims to determine whether they are in keeping with prudent expenditure guidelines, or do you look at them at all? What I'm getting at is that we see it summarized; you know, XYZ minister went to London, England, and spent \$5,000. Do you see more detail than that?

MR. SALMON: Mr. Chairman, I can answer that on the basis that we may, because in examination of all the expenditures in the various departments, including ministerial expenditures, we would be examining certain detailed documentation on a selective basis. We would not necessarily be looking at all of the ministerial expenditures because we would only be doing those that we are selecting on our sample. Following that, if there was a concern, we would maybe look at something that has arisen.

MR. CHAIRMAN: Okay. Mr. Ewasiuk.

MR. EWASIUK: Mr. Chairman, I have two questions. The first one is regarding the AMHC. Just a follow-up for questions asked earlier. Mine is regarding the housing inventory or the housing stock that this corporation holds. There is no reference in your report to that. Can you tell me why there isn't, or how do we check on that portion of this corporation?

MR. SALMON: Mr. Chairman, clarification on this. The number of homes that they are . . .

MR. EWASIUK: Yes, for example, or hold an inventory because they haven't been disposed of and so on.

MR. SALMON: Mr. Chairman, in the actual financial statements that are included in the Public Accounts, in the notes to those financial statements is described the valuation method for those homes and how they are treating them on the balance

sheet.

MR. EWASIUK: Okay. Over to Manpower, page 63, your recommendation 34. I'm not sure I understand the recommendation. Are you saying that there is no accountability, or you can't account for the special employment programs?

MR. SALMON: No, what we're saying is that at the year-end of March 31, 1986, they had difficulty with the cutoff, or the determining of what the expenditures are for that year versus whether or not they are applicable to the next year. And there was an overstatement in the figures that were supplied for audit purposes of approximately \$3 million. The difficulty with that cutoff is that Public Accounts itself could be misreported because of the errors in the actual calculation, you might say, of the actual costs of this particular program. We have had this problem in the past, in previous years, and they have made efforts to correct the problem at the year end, but something else seems to come up every year and they end up with the same problem. So we were encouraging them to make sure that they are very cautious in their figures at the year-end so that the public accounts will be accurately reported.

MR. EWASIUK: Thank you, sir.

MR. CHAIRMAN: Mr. Nelson.

MR. NELSON: Thank you, Chairman. I would like to deal with Alberta Mortgage and Housing Corporation, reflecting some of the comments on pages 60, 61 in the Auditor General's report.

Does the Auditor General have the ability, through legislation or otherwise, to have the inventory that is kept for Alberta Mortgage and Housing Corporation, either for sale or for development, to go out and get an independent survey as to its real value? In other words, do you have the ability to audit this properly, to go out and hire appraisers or other people that may effectively give a true value of the inventory that is held by the corporation?

MR. SALMON: Mr. Chairman, I suppose the answer could be yes, except for the implications of moving into other areas of how to audit these figures. Our prime concern has been to examine what their appraisal figures are, and in some cases they have legitimate appraisals. Others there are legitimate, you might say, in the sense that management has determined the value. Our concern has always been that proper presentation of those values and the basis on which they are valued be in accordance with generally accepted principles, and we certainly have ensured ourselves that we are satisfied with those values at a particular year-end, if you're talking about March 31, 1986, or any prior years.

There are, of course, the constant changes that occur in valuations and, of course, then each year we would re-examine again those appraisals or those other values that they've placed upon them to determine whether or not they are reasonable under the circumstances. I suppose if we had a real strong concern we would probably suggest to them that their valuations aren't sufficient to prove to us that they are accurate, and that would require them to go outside and seek for that outside confirmation, if there is a case of where there is a difference between the two of us. Otherwise we would end up with a reservation on the financial statements that we're not satisfied with the valuations

that they have made.

MR. NELSON: At the close of business, as stated in here: At March 31, 1986, of the \$237 million provided by the Corporation for potential losses on its land and real estate investments . . . \$100 million was for enduring declines in the value of its land programs.

Is the corporation setting aside these moneys through profits in their own organization, or is it money that's actually being transferred into their organization through the Heritage Savings Trust Fund from the general revenues of the province?

MR. SALMON: Mr. Chairman, the answer is probably both. In other words, there are funds flowing in the case of the heritage through the debentures that they have obtained funds for to operate. They're all taken into account in the overall accounts of the corporation, and in some cases, although there has been some legislative change and they are now carrying some deficit on the corporation itself and the mortgage fund, the operational deficit is funded by the General Revenue Fund.

MR. NELSON: Mr. Chairman, to the Auditor General. Can it be determined then whether or not the Alberta Mortgage and Housing Corporation is in fact a drain on the Alberta Heritage Savings Trust Fund, rather than a profit centre for that fund?

MR. CHAIRMAN: If we could find another way of putting that question to take the . . .

MR. SALMON: Well, I think I can answer it in this way probably. I realize that there has been some discussion over the spring with respect to the relationship of the heritage fund with those five Crown corporations that were receiving moneys under the Alberta division. What we're faced with, of course, is to follow legislation and, as entities under their own legislation, providing financial statements for that entity itself. The only method whereby presently an accounting is made as to the effect that all of them have together is to consider the overall consolidation of the financial statements of the province, where interrelated transactions are eliminated between one corporation and another and you come up with a bottom line that has the value of the provincial assets and liabilities netted out at a surplus subsequent to eliminating those intercompany transactions. There hasn't been a requirement, nor has it ever been done, to take those five corporations and apply them strictly to the heritage and eliminate them on that basis. It's always been done as a whole.

MR. CHAIRMAN: Mr. Mitchell.

MR. MITCHELL: Thank you. Back to hospitals. Last week I questioned the recurrence -- or at least another case -- of a hospital falsifying financial information, and the response at that time was that this occurred in this latest case because that particular hospital wasn't informed of the Auditor General's concerns or of changing in procedures.

First question: what assurances do you have now that all hospitals do know about this and that the procedure has been adequately communicated so that it won't occur again?

MR. CHAIRMAN: Before the Auditor General answers that question, I'd just like to say that I think we should be cautious about our use of language here. In introducing your question,

you used the word "falsifying" . . .

MR. MITCHELL: It's in the report. It's exactly the word that was used in the report, Mr. Chairman.

MR. CHAIRMAN: All right. I stand corrected.

MR. SALMON: Yes, it's there.

MR. MITCHELL: It says: "submitted falsified financial information."

MR. SALMON: Mr. Chairman, I understand -- and this is an understanding that we have -- we will not be able to verify completely until we have completed the current audit area for '87 that the communication had been made, and there was a bit of a surprise that this one hadn't understood this. It may have been a timing problem more than anything in this particular one, rather than a case of certain hospitals that don't know. So we will know more coming the completion of the current year.

MR. MITCHELL: I am concerned about the word "falsified" to the extent that it is one thing not to know and to make a mistake; it's another thing to imply falsification. Could you clarify: was it a mistake or was it falsified? Falsification seems to imply some intent.

MR. SALMON: Well, Mr. Chairman, the word "falsified" was used in the previous year on several of the hospitals that did the same thing, and our concern in the falsification aspect is the fact that they went to the suppliers and asked for evidence that they had received the goods. That is an intent, and it's really in that aspect that we're saying that there's information supplied to get the money to pay for the equipment that hadn't yet been received by getting that false documentation from a supplier. And that's really what we're using that word for.

MR. MITCHELL: So really it was an effort to get the funds this year, so that they don't lapse.

MR. SALMON: That's right. The equipment had been received.

MR. CHAIRMAN: I might accept that as a clarification, so if you have a third question, you may put it.

MR. MITCHELL: The Alberta Liquor Control Board -- I'm assuming that you do audit it. Could you comment on the adequacy of the new IBM computer system? Is it doing what they wanted it to do? Or has it fallen short of that, and are they looking at purchasing other kinds of computing equipment and software to supplement the IBM system?

MR. SALMON: Mr. Chairman, this is not in the report. My understanding, though, and I have been personally to the -- I don't know whether any of the rest of you have been out to the board and actually seen the system that operates out there in controlling their inventories, but it's a very complicated and very efficient system of inventory control, and very interesting to see what they can do in that large warehouse in St. Albert. But I'm not aware of them looking at other equipment. We have not reported any concerns in the particular system that they have operating.

MR. CHAIRMAN: Mr. Musgrove.

MR. MUSGROVE: Thank you, Mr. Chairman. Getting to the Metis population betterment trust fund Act, I understand there's some concern about the legality of the trust fund. Under whose administration is that carried? It's on page 64.

MR. SALMON: Mr. Chairman, it was under Social Services for a number of years. This has moved, as indicated by the location in the report; it's now under the Department of Municipal Affairs.

MR. MUSGROVE: A board of directors that makes recommendations to the administration of that trust account?

MR. SALMON: Yes, there's a branch of the department that was transferred from Social Services called the Metis branch, and those people involved within that particular branch are the ones that handle the trust account itself.

MR. MUSGROVE: Well, could you elaborate on the legal aspect of the account that the concern is about?

MR. SALMON: Mr. Chairman, it's in the minutes today. Should I do it again? On the Metis trust -- I already did it earlier.

MR. CHAIRMAN: That's right; it's fine. I think if Mr. Musgrove has a further question after reading the minutes, the Auditor General would welcome a question from you.

So, Mr. Moore.

MR. R. MOORE: Thank you, Mr. Chairman. I'm referring to page 28, the Department of the Attorney General. You touched on the trust accounts and the handling of trust accounts, but the courts from time of time will state that moneys will be kept in trust for a period of time -- five years and so on. And this is done within government. I'm talking within government now; I'm not concerned with the court in the private sector. But they'll tell some official in government to hold this in trust for a period of, say, five, 10 years. However, it has been my first-hand experience, being in the government, that there is no follow-up or no compulsion at the end of 10 years, say, to see what happened to those trust funds.

Now, do you feel in your examination that it's sufficient to say, "I examined this and the court said it'll be held in trust, this money"? But the end result of what happens to it is at the end of 10 years, if there's no follow-up -- that judge is dead and everybody that's involved has forgotten about it one year after the court set up that trust fund. There is no follow-up on it. Do you feel that there should be there, or have you followed any of those accounts through to make sure that the terms laid down by the court were followed out?

MR. SALMON: Yes, Mr. Chairman, even personally. When I used to be in the field, I recall being in some of the courts where we actually looked at the documentation to determine whether or not they were in compliance with the court order that laid out the trust funds' being held. Although we are not looking at them all on a regular basis, because there are so many courts and we're doing this on basically a rotational basis in the office, there are compliance issues that have to be examined, and that's part of our normal audit routine. I believe there is a type of

follow-up by the Attorney General's department. I'm not right now able to tell you specifically what it is that they are doing, and that might be a question -- if they are on the list -- to ask. But certainly our own staff in setting out a plan of audit would always be examining for compliance, and that would include attesting for those moneys held in court.

MR. CHAIRMAN: Mr. Nelson.

MR. NELSON: Thank you, Mr. Chairman. I'd like to get back to Alberta Mortgage and Housing, I guess; one of my favourite subjects. To the Auditor General. In your report you talk about generally accepted accounting practices, and I think your question as to whether or not the value of property is in fact ascertained by those accepted practices -- what in your opinion needs to be done to have these practices deemed acceptable by you as the Auditor General?

MR. SALMON: Mr. Chairman, just to clarify. Generally accepted accounting principles are those principles that are acceptable, probably considered in Canada, in valuing these types of assets and issuing auditor opinions on financial statements that have this type of assets in them. It's acceptable to us to realize that in some cases within the jurisdiction of a public-sector organization GAAP might not be the actual best method under some circumstances. But because of the nature of the housing corporation, where there are comparables within other areas outside of government that have similar types of valuation problems, we would consider that generally accepted accounting principles are a good way to go. And those few exceptions that are made should be those where it would be more proper for a public-sector organization to value them on a disclosed basis considered appropriate.

I'm not sure whether that answers your question, but that's the feeling that we have in the office.

MR. NELSON: Mr. Chairman, to the Auditor General. The statement in your report, "The Corporation's present accounting policy is a departure from GAAP," which you've just tried to explain briefly. A corporation as such, even though it's a Crown corporation, is a separate entity to the everyday function of the government insofar as it has its own mandate. Why would they not keep to the generally accepted practice in consideration that the private sector -- and you have to determine that this is supposedly, hopefully, being run similarly to a private-sector corporation. I mean we've got all these business guys over there. They're supposed to be very knowledgeable about how to run a corporation. Why would they not run a corporation similarly to the private sector and show whether there's a profit or loss, rather than possibly considering there may be a drain on the public purse to keep this corporation in business?

MR. SALMON: That's a good question, I believe. I agree with the thinking that you're making on this. I guess what we're saying is that we can live with the non-GAAP value as long as it will not be significantly different from what GAAP would be. Otherwise, we would feel very strongly that it would be better to report it on a basis of generally accepted accounting principles, and if the difference became great and they insist as management that they want to value it differently than GAAP, it's the responsibility of the auditor to weigh whether or not we can be satisfied and report a clean opinion or whether we would want to put a reservation on there. We do not want to put reserva-

tions on there. Our consideration is to try to convince management to change the basis of valuation if it is something that we cannot live with.

MR. NELSON: Chairman, the Auditor General used the term "live with" a couple of times, and I'm just wondering whether "live with" is a good term to use, in that considering that there is a concern with regards to the accounting policy of valuing land, whether it's something that we should live with or something that we should examine more thoroughly to ensure that the possible negative impact on the public purse is not more severely affected by what I would perceive as maybe games being played by the corporation with that public purse.

MR. SALMON: I didn't feel there are any games being played, particularly. It was a preferential method of the management wanting to do it this way for various reasons. Possibly in the future it will make a difference, and then we will maybe have that concern. Because the difference between the two methods in the current year was not extreme, we did not express that concern in the actual auditor's opinion.

MR. MITCHELL: Tax credits. I'm not exactly certain; it's under the Treasury section of the Auditor General's report. The Auditor General has for some time indicated that tax credits should be accounted for differently than they are being accounted for at this time, that in fact the revenue or potential revenue should be recorded as such and the expenditure on the tax credit program should be recorded as an expenditure. Could Mr. Salmon please inform us as to what the practice is in other provinces? Is it generally done this way, or is it done differently in some provinces?

MR. SALMON: Mr. Chairman, it is not generally done differently in other provinces. There is considerable discussion going on at the federal government level as well as in the province of Ontario because of the magnitude of tax expenditures in those particular areas. Our concern of course is similar and, because it's an ongoing discussion matter, feel that we want to keep it in the forefront for discussion purposes and have certainly felt that further consideration should be given by the Treasury Department because of the magnitude of tax credits, recognizing of course that it has no direct effect on the bottom line. It is strictly to give a better picture of what the revenue is and what those expenditures are, so that proper treatment and discussion could take place as to the amounts involved.

MR. MITCHELL: Okay. The Alberta Research Council has invested in some sort of a joint venture or a partnership which doesn't fall within the mandate of its legislation. How serious is that, and are steps being taken to have that reversed in accordance with your recommendation?

MR. SALMON: Mr. Chairman, I'm not sure of the steps being taken yet on the partnership arrangement. This was a case of obtaining a legal opinion from the firm of solicitors that we deal with and finding that it was -- we had some concerns in our own interpretation, and our concern is that under legislation the council can't really enter into this type of a partnership. That's really our concern. I don't recall having received a reply from them yet. [interjection] Okay, we've got a reply, and they've indicated that they will be looking at it very carefully themselves from a legalistic point of view and will make amendments as

necessary.

MR. MITCHELL: A number of cases like this have occurred -- the Alberta Research Council, for example -- where it might be acceptable or within the general intent of their mandate for them to undertake a partnership of this nature, but their legislation doesn't quite allow them to. The Wild Rose Foundation. Reading between the lines of your report, it seems to me they're not doing anything particularly wrong, but they are so restricted in their legislation that they've been unable to act within the intent of their mandate, as it were. Why is it, and I don't mean this to be argumentative in any sense, but . . .

MR. HERON: This means you're going to be.

MR. MITCHELL: No, it doesn't actually. Why is it that a government doesn't move faster to change the legislation to allow that to happen? Is it just because it's so obvious that it's an oversight, or that it's . . .

MR. CHAIRMAN: You're asking about the intent of the government. If you want to frame a question, frame it with respect to the report itself please.

MR. MITCHELL: Are these problems simply not as material? Are they really not material problems, given that anybody applying a reasonable judgment can see that they're consistent with the general mandate of these organizations? Or is it something that frustrates you, that you would like to see a government move quicker to change its legislation?

MR. SALMON: That's a difficult one. I wouldn't report him if I wasn't concerned. In fact, any noncompliance I'm required to report. So that's the concern, and I think that's really what part of the mandate of the Auditor General is, to ensure that the operations of these entities are within the legislation that has been passed by the Legislative Assembly.

MR. CHAIRMAN: I think the Auditor General is showing great forbearance. Mr. Shrake.

MR. SHRAKE: Yes, Mr. Chairman. I just want to go back for a minute to the Alberta Mortgage and Housing Corporation. Whether it's the Alberta Mortgage and Housing Corporation or whether it's the public sector, United Management -- whatever -- or city of Calgary land department, city of Edmonton land department, if they've got hundreds of properties, they don't go and get an independent appraisal every year. This is not a generally accepted accounting principle, with the cost running \$600 to \$1,000 per property. Isn't it a standard, ordinary procedure that they do this when they're either accepting a new mortgage or if they're disposing of the property? Isn't that the normal procedure?

MR. SALMON: Mr. Chairman, the corporation has specific processes for determining their valuations, and that's true; it's not an every-time, every-year occurrence to get an appraisal. They have staff members who are observing and determining where changes are taking place, and when they are concerned, then they will move. Very often it will be on the first issues, to determine what the new value is as they take over properties.

MR. SHRAKE: I find that answer a bit . . . So is it not a fairly

accepted accounting principle that if it's the city of, say, Edmonton or Alberta Mortgage and Housing Corporation or United Management, they use their in-house staff people who are knowledgeable to run their appraisals up until such time as they are disposing or if they're granting new mortgages on the property?

MR. SALMON: That's normal.

MR. CHAIRMAN: I have a question then of the Auditor General. How are loan guarantees handled in accounting statements in general?

MR. SALMON: Loan guarantees are usually indicated in notes to the financial statements.

MR. CHAIRMAN: They're just as notes; they're not . . .

MR. SALMON: They're not recorded on the financial statements themselves, no.

MR. CHAIRMAN: Funds aren't set aside?

MR. SALMON: Just an indication that they've guaranteed so

many dollars worth of types of loans.

MR. CHAIRMAN: Well, there are no further speakers on our list, so we can move to the next item on the agenda, which is other business. If any members have . . .

MR. R. MOORE: I move that we adjourn.

MR. CHAIRMAN: Well, I think we should set the date of the next meeting and who are our guest is. The hon. Minister of the Environment, Mr. Kowalski, is confirmed for next Wednesday at 10 o'clock. Do we have a motion to agree with that? Moved by Mr. Moore. Agreed? A motion for adjournment would be in order.

MR. SHRAKE: Would you ask Mr. Kowalski maybe to bring in samples of the horror stories in my constituency?

MR. CHAIRMAN: Motion to adjourn, Mr. Moore.

HON. MEMBERS: Agreed.

[The committee adjourned at 11:12 a.m.]

