

8:30 a.m.

[Mr. White in the chair]

THE CHAIRMAN: The meeting is called to order, please.

Ladies and gentleman, we have some new members to welcome today. Mr. Denis Herard is a new member. The others have not arrived yet, so we'll welcome them when they come in.

We do have an agenda before you that's been precirculated. Do we have a motion to accept that agenda as presented?

MR. HERARD: So moved.

THE CHAIRMAN: Moved. Is it agreed?

HON. MEMBERS: Agreed.

THE CHAIRMAN: It's carried.

As members know, we have the Auditor General before us again today with his brand spanking new report. If he would be so kind as to introduce the members of his staff, the numbers that are here.

MR. VALENTINE: Thank you, Mr. Chairman. The office's five assistant auditors general are with me today. On my right is Nick Shandro, responsible for a number of ministries, the largest being Health and Wellness and Learning. On Nick's right is Ken Hoffman, who has overall responsibilities for performance measurement and the ministries of Executive Council and Infrastructure. On Ken's right is Brian Corbishley, responsible for the systems auditing methodology. Brian has led projects and advised on a variety of things that are included in this year's report. On my immediate left is Jim Hug, whose portfolio includes Treasury and Resource Development, and beside Jim is Merwan Saher, who has responsibilities for the office's professional practice and the production of the annual report. In the gallery today are a large number of my colleagues from the office, who are keen to observe your use of their work.

THE CHAIRMAN: On that note, we are to commence in a review of their work. Anything about bonus cheques I'm supposed to do today or something?

MR. VALENTINE: Well, they all understand that you have their bonus cheques in your pocket and that they'll be available at the end of this meeting.

THE CHAIRMAN: Should I not produce, it's going to be difficult for me to leave. Is that what it is? I understand.

We do now have two new members here. We have Ms Kryczka and Mr. Cao. We operate, by and large, fairly informally here. You have other members about and you're all parliamentarians, so I suspect you'll pick up the rules rather rapidly. If you need help with the rules, others are, I'm sure, willing to help.

We have the minutes of May 12, 1999, that were circulated some time ago and again most recently. Do we have a motion for acceptance of those minutes? Okay. Is it agreed?

HON. MEMBERS: Agreed.

THE CHAIRMAN: It's carried. Thank you.

Mr. Valentine, would you like an opening statement of sorts?

MR. VALENTINE: Thank you, Mr. Chairman. We would also like to extend our welcome to the new members of the committee.

Today they begin the important work of acting on behalf of the Members of the Legislative Assembly in examining the government's management and control of public resources.

The purpose of my office is to identify opportunities and propose solutions for improved uses of public resources and to improve and add credibility to performance reporting, including financial reporting to Albertans. The annual report before you is designed to assist all members, both new and returning, in holding the executive accountable. The report also serves to assist government and public agencies in improving their performance.

The other primary input into your deliberations is the public accounts themselves, comprising ministry annual reports and the government of Alberta annual report, including the province's consolidated financial statements and Measuring Up.

On October 5, 1999, I released my 1998-99 annual report. My colleagues and I will now provide you with an overview.

There are 50 recommendations that I have asked the government to respond to in a formal way. Last year the number was 51. Of the 50 numbered recommendations, 28 are new recommendations. The other 22 are designed to maintain focus on previously made recommendations that have not yet been fully implemented. The government has undertaken to provide a formal response in connection with the 1999-2000 second quarter update at the end of this month.

For the benefit of new members one of the reasons I number certain recommendations is to draw them to your attention as being ones that are the most significant. In effect, I'm signaling what the committee may choose to focus on.

On pages 4 and 5 of the report there's an analysis presented of the recommendations in the context of the accountability framework in which the government works. In summary, these two pages show recommendations relating to governance, number 4, comprising 7 percent; recommendations relating to planning what needs to be done to achieve goals, number 20, amounting to 36 percent; recommendations relating to doing the work and monitoring progress, number 15, or 27 percent; reporting on results, number 13 or 24 percent; and compliance with authorities, number 3, or 6 percent. The total of the recommendations in the summary I've just given you is more than 50 because some of the recommendations cover more than one category.

It's interesting to note that crossgovernment, Health, and Learning recommendations account for over 60 percent of the total. Due in part to the government's evolving business practices recommendations arise that, in my view, need to be addressed by a number of ministries or by the government as a whole. To highlight these matters and to assist in their review, we have established a new crossgovernment section in the report.

I'd like to draw your attention to recommendation 9 on page 49. I'm recommending that

the Deputy Minister of Executive Council work with other Ministries to set out governance principles for all agencies, boards and commissions.

Increasingly the government is delegating responsibility for service delivery and administration functions to board-governed organizations. Consequently, most ministers are dependent upon the effectiveness of one or more boards to fulfill their responsibilities. I'm calling for the government to establish its standard for the governance of public resources.

In my first annual report to this Assembly issued four years ago I said the following:

I believe strongly that effective governance will over time contribute to successful performance, although it will not guarantee it. And I am sure that poor governance leads to poor performance.

My views have not changed. In fact, it's clearer to me today that the critical review activity of this Public Accounts Committee is an

integral part of the governance process in the province.

Mr. Chairman, with your permission I'll have Merwan Saher comment on capital asset management.

MR. SAHER: Thank you. Alberta has an investment of nearly \$14 billion in provincial capital assets. This investment has to be managed, and the key is superb planning systems. We have not deviated from the practice of identifying and reporting on those instances in which systems and business practices can be improved. In our view, capital asset management now deserves more attention, considering the size of Alberta's capital base and the significant impacts of capital funding on expenditure decisions by government. In a sentence, the report on pages 6 through 13 is saying that systems to plan capital expenditures are not yet adequate.

Recent media headlines that the Auditor General has called for 6,000 new hospital beds and the spending of \$140 million to upgrade facilities have no basis in what the office has recommended. We are not urging the government to spend more. This is a perception and is not written in the annual report. The only urging the Auditor General has done is to recommend that the government build the systems it needs to assist wise decision-making.

For the record let me convey one example of what was in fact said by means of direct quotation. On page 197, in the middle, we said:

The pressure on long-term care facilities may be considerable. For example, assuming that a Provincial average of 48 long-term care beds per 1,000 population over age 65 is to be maintained, one estimate by PWSS is that additional space would be needed within ten years to accommodate as many as 6,000 more beds. This would represent a 44% growth in current facility capacity. This further illustrates the need for coordinated planning of health facilities in relation to service planning, including reasonable precision as to how many beds should be planned, the cost, and the assessment of funding alternatives.

8:40

The assumption of 48 beds per thousand of population over 65 is just that: an assumption. The ways in which long-term care is provided are changing. The fundamental purpose of an information system is to provide evidence to enlighten decision-making. Instructive capital asset planning systems will provide policymakers with rigorous analysis of all alternative strategies. We acknowledge that capital asset planning systems are being developed and have noted the government's recent initiatives to improve planning from a governmentwide perspective. Our audit plans include following up and reporting on progress.

Mr. Chairman, Ken Hoffman will now brief you on the recommendations relating to business planning.

MR. HOFFMAN: Thank you, Mr. Chairman. It has been drawn to my attention that the French writer Voltaire once said: the best way to be boring is to leave nothing out. As there has been great progress, I can be succinct and concentrate on one particular issue that remains outstanding. The identification of recommendations not yet implemented, which can be found on page 333, points to recommendation 4 in 1994-95, that it's not yet been implemented satisfactorily. Four years ago in his first annual report the Auditor General wrote:

It is recommended that plans, annual reports and financial statements provide information on outputs. It is further recommended that plans and reports provided by organizations to their ministers identify the outputs to be produced and the expected full cost of the outputs.

The issue of costing of outputs is not yet resolved.

For those new to the issue we often use a menu analogy. Imagine being on a tight budget and being handed a menu with no prices. Being used to comparison shopping, you'd be no further ahead if the

waiter returned with a list of prices without proper meal descriptions. What you need, of course, is a menu with proper meal descriptions and prices on each item. Recommendations 2 and 3 in this annual report are following up on the issue of costing outputs or, if you like, pricing meals.

On page 23 we are recommending that "Ministries work with Treasury to develop a strategy to improve the definitions of the components of business plans." We agree that ministries should choose a method of presentation of their business plans that best reflects the nature of the ministry's business, but whatever components are used, they should be defined and interpreted consistently. This is not the case at present. In Budget '99 core businesses are still defined variously in terms of goals, strategies, activities, or performance criteria. Strategies are sometimes defined as desired results rather than broad actions to achieve them. Goals are sometimes defined in terms of activities rather than end results.

On page 24 in recommendation 3 we are asking for income statements to "clearly present the cost of implementing core businesses." Put as simply as possible, we believe that you, as users of business plans and annual reports, should be able to tell from the business plan what achieving the planned results for each core business would cost, and then at the end of the year you should be able to open the financial statements and see the actual costs of each core business.

We look forward to working with the government to achieve what would appear to be relatively simple but in fact is proving difficult to implement.

Now Nick Shandro will brief you on health.

MR. SHANDRO: Thank you. Mr. Chairman, the Ministry of Health and Wellness has the largest budget and the most attention in this report. Overall, the result of audit work continues to show that information and risk management are key to maintaining an accountable health system. While progress is being made, systems still need to be advanced in order to establish clear expectations, maintain budgetary control, and measure and report results for money spent.

Our recommendations are aimed at achieving more cost-effective health services. We have made eight numbered recommendations in the health section beginning on page 179. Of these recommendations number 40 is the only one that is new, and it relates to improving control over health registration. Today I want to draw your attention to recommendation 41 on page 203. In it we recommend that the department

establish methods for measuring how much of a medical service budget variance should be attributed to each of the various factors included in the agreement with the Alberta Medical Association.

We are treating this recommendation as a follow-up of recommendations made in 1995, '96, '97, and '98.

With respect to alternative plans for paying physicians after more than two years of effort, eight projects are to be finalized during 1999-2000 involving about 1 percent of physicians.

In 1995 we recommended that the department foster the implementation of systems that focus on enhancing the health of the population. An effective remuneration system needs to contain several compensation systems since the fee-for-service payment system on its own contains no obvious strategy to promote more cost-effective services. Until methods and measurable benchmarks are established, it is difficult to objectively determine how much of a medical budget variance can or should be attributed to changes in physician numbers or utilization of services. In 1998-99, the first year of the current agreement with the Alberta Medical Association, the budget was overspent by approximately \$19 million. To cover this excess, \$20 million was added to the physician budget cap. At this point in time we believe it is important to clearly establish the

basis and method for measuring how much of the budget variance should be attributed to the change in the physician supply as a basis for increasing the medical services budget. It should be done before the end of the next medical services budget period.

Now Brian Corbishley will brief you on recommendations 18 and 19 relating to the academic health centres.

MR. CORBISHLEY: Thank you. Mr. Chairman, the total cost of academic health in 1997-98 was approximately \$350 million. We participated in a project to assist the Council of Academic Health Centres of Alberta to initiate business planning. The council consists of the deans of the University of Alberta and University of Calgary faculties of medicine, the CEOs of the Capital and Calgary health authorities and of the Alberta Cancer Board. We concluded that academic health is beset with several serious risks, and these risks are as follows. First, there's a lack of understanding of the scope of academic health and lack of transparency of the financing of academic health centres. This may cause funding agencies to be reluctant to accede to requests for proposed solutions to financial issues. Linked to this is a lack of information systems that can clearly present the financial status and performance of academic health centres, and this renders the task of managing resources and effecting the accountability for them extremely difficult.

Then there are complexities and inequities in the remuneration of academic physicians, which may jeopardize the ability to attract and retain them in the future.

Finally, increasing dependence on extramural funding together with the hidden infrastructure costs that that causes and the inadequacy of related information systems at least renders the faculties vulnerable to fluctuations in revenues and at worst may result in inadequate delivery capacity, particularly for research.

We have made a series of recommendations starting on page 89, and in summary, in order to establish a workable governance structure and accountability process for the academic health centres and to put them on a sound financial footing, the council and its members should do a number of things. They should recognize that the scope of academic health, including its financial resources and obligations, is significantly greater than is commonly understood. They should define the boundaries of the entity or entities responsible for academic health and their mandates, roles, and accountabilities. They should develop performance management systems that will provide information to serve accountability processes. They should restructure the methods of remuneration of academic positions, and they should develop and implement a plan to redress infrastructure deficiencies. In our view, with progress on these fronts the academic health system will be on the way to becoming fully accountable.

Jim Hug will now give you an overview of recommendations made to Treasury.

8:50

MR. HUG: Mr. Chairman, a reservation of opinion on a set of financial statements is a serious matter. Although we must exercise considerable judgment as to whether a reservation is necessary, the decision is not arbitrary. We are guided by established standards. As required by statute, we have provided on page 297 details of the reservations of opinion. As the number of reservations is not declining, we have again recommended on page 264 in recommendations 47 and 48 that the Treasury Department "initiate changes to the corporate government accounting policies" and "develop a methodology to allocate all significant costs to the entities responsible for delivering outputs."

Now, I'll just touch on three main causes for these reservations. We've been concerned for a number of years that liabilities for pensions are not allocated to the departments whose service delivery

activities give rise to the obligations. The Treasury Department has indicated that this issue may be resolved as the public-sector pension plans become fully funded, and as a result there will not be a liability to allocate to and within ministries. Our view is that the issue of the allocation of pension liabilities may be replaced with the allocation of pension assets under certain conditions. Further, new accounting recommendations from the Canadian Institute of Chartered Accountants have to be examined to determine their relevance to Alberta's public sector, and we're working closely with Alberta Treasury to resolve our concerns.

Reservations of opinion have also resulted from certain administrative expenses, principally accommodation costs of about \$150 million incurred annually by the Infrastructure department which are not allocated to individual departments benefiting from the accommodation. The Treasury Department has started to review the practical issues related to developing the methodology for cost allocation. We've been involved in this work and continue to discuss with Treasury what can be done to improve the government's reporting of direct costs.

We continue to reserve some Auditor's reports since, in our view, certain entities have been inappropriately excluded from the reporting entity. We continue to believe that regional health authorities, universities and colleges, and school boards should be consolidated. We are currently working with other Canadian legislative audit offices to study whether there are unique circumstances for not applying the Canadian Institute of Chartered Accountants reporting entity standards.

Peter.

MR. VALENTINE: Mr. Chairman, I trust that our opening comments will be of assistance to committee members in preparations for meetings with management groups from various ministries. We're ready for your questions this morning and thank you for your attention.

THE CHAIRMAN: Thank you, members of the Auditor General's staff.

We have questions, starting with Mr. Sapers.

MR. SAPERS: Thank you, Mr. Chairman. Mr. Valentine, thanks very much for the overview, and welcome to all your colleagues and all the fun-seekers up in the gallery. It's good for them to be here.

I must say that I was somewhat taken aback by Mr. Saher's comments, which I hear as a taking back of some comments attributed to you through your report regarding long-term care beds. I particularly noted the quote that was read out, which is the middle paragraph on page 197. Of course, we could have also seen the quote on page 194, which reads: "A limitation is a lack of benchmarks or standards to understand what should be in place." In fact, if you read the entire section on the department of health, one is struck with the conclusion that there is a critical absence of standards, planning gaps, and that we are left to nothing but making assumptions, and your assumptions and those of the department of public works are as good as any, because mostly they don't exist.

I'm wondering if you could tell me: why would you even bother mentioning the need for as many as 6,000 more beds? Why would you highlight it? Why would you go to so much trouble and spend so much space in your report to talk about the planning gap in the department of health and to particularly zero in on the long-term care crisis if in fact you didn't want anybody to pay attention to it?

MR. VALENTINE: I never said that, Mr. Sapers. I don't think Mr. Saher said it either. I think we were clarifying an issue that got blown up in the media. What we're prepared to stand behind is our

report.

THE CHAIRMAN: I might add, Mr. Sapers, that the question should relate to the report, not media coverage of the report perhaps.

MR. SAPERS: Or the comments made by the Auditor General and his staff during the explanation of their report. Thank you. I understand that.

THE CHAIRMAN: Oh, yes. The comments made during the explanation are valid.

Supplementary, sir?

MR. SAPERS: Mr. Valentine, do you think the comments that were read into the record today concerning the recommendations and the discussion concerning capital asset management and space planning and particularly in reference to the need for long-term care beds will help clarify the situation, add confusion, or lead casual readers of today's *Hansard* to the point where they would say there's now backtracking taking place?

MR. VALENTINE: There's no backtracking taking place here, Mr. Sapers. I stand behind my report, as I said a few minutes ago. I'm not prepared to say anything more than I've said here. I believe we have identified a need for capital asset management in the government of the province of Alberta.

THE CHAIRMAN: Thank you.

Mr. Johnson, followed by Ms Blakeman.

MR. JOHNSON: Thank you, Mr. Chairman, and good morning, Mr. Auditor General and staff. My question relates to page 95 of the report. It states in the recommendation that

the remuneration of academic physicians be rigorously reviewed to determine the best methods that will attract and retain the calibre of physicians desired.

The remuneration of physicians appears extremely complex when they're involved in both practice and academic instruction, and you briefly addressed that previously here this morning. But on the next page, page 96, can you explain how you determine that the total amount contributed – that is, \$13 million, top of page 96, in 1997-98 – was approximately \$4 million in excess of services received, why this discrepancy is so significant, and is this extra money perhaps going to the faculty?

MR. VALENTINE: Thank you. Brian.

MR. CORBISHLEY: Mr. Chairman, indeed this is a very complex area, and the remuneration is based on a number of formulas and arrangements and so on. The contribution of the academic physicians to the faculty is primarily for services they receive, in effect administrative and office support services they would have to pay for themselves if they were located in their own offices. But the formulas are also designed to encourage the academic physicians to spend an appropriate amount of time doing academic work – i.e., instruction and research – as well as their clinical activities. So there are caps on how much of their total earnings they take home versus how much they contribute to the faculties.

There is also understanding in certain departments that it is the responsibility of these physicians to help support various other activities like research or new physicians who have not built up their practices yet and so on. So there is a variety of different sorts of arrangements which, when you sort them out and add them up, result in these numbers.

9:00

MR. JOHNSON: Thank you. A further question: are current compensation policies resulting in discrepancies in remuneration between physicians within the academic health system or between nonacademic and academic physicians?

MR. CORBISHLEY: We only looked in this instance at the academic physicians. We didn't compare them to nonacademic physicians. So the discrepancies we're talking about are between individual academic physicians or groups of physicians in different departments, depending on their levels of income, depending on the degree of time they're supposed to allocate to their various activities and so on.

MR. JOHNSON: Thank you.

THE CHAIRMAN: Ms Blakeman, followed by Mr. Amery.

MS BLAKEMAN: Thanks. Well, it's wonderful to see everyone again. I just enjoy this process so much, and I appreciate all of your input and wisdom. And I mean it. Thanks to the great fun-seekers joining us in the gallery today.

What I'm interested in is that the Auditor General has noted in the report that information on the economic outlook, the information required such as population, unemployment rates, exchange rates, and interest rates, was not provided to ministries in many cases until October 1998. My memory of the budget preparation cycle is that much work starts in June, that there's a good stab at it in August and a return to look at things in October. So not receiving critical information like that until October would, in my estimation, make it difficult to produce a good budget plan. I'm wondering if the Auditor General received an explanation as to why in this Budget '99 cycle this critical information was not made available to the ministries for their business planning cycle. Did the Auditor General receive any indication from the ministries as to why this was happening?

MR. VALENTINE: Can I have a page reference, please?

MS BLAKEMAN: I'm sorry; page 22.

MR. VALENTINE: I don't think we have an explanation. I think it's just a matter of fact that that's the time it was presented.

MS BLAKEMAN: Okay. A supplementary. I note on the same page, page 22, that the feedback to the ministries on the content or the format of the business plans by the standing policy committees was minimal. Could I ask what types of activities could be undertaken by the standing policy committees to provide more constructive feedback, which would assist in the improvement of the quality of these business plans?

MR. VALENTINE: We haven't really developed that at this point. I think probably we could. Let me go back to our files, and we may be able to provide you with some additional information with respect to that in writing.

MS BLAKEMAN: Excellent. Thank you. I'd appreciate that.

THE CHAIRMAN: Mr. Amery, followed by Ms Olsen.

MR. AMERY: Thank you, Mr. Chairman, and good morning. I'd like to draw your attention to page 226 of your report, please. On page 226 you commented that in your 1995-96 annual report, page 141, the Department of Justice had made progress towards imple-

menting your 1994-95 recommendations “to disclose the results and costs of its fines collection activities.” You stated that this recommendation is repeated in this year’s annual report as recommendation 45 because

the Department has yet to establish the systems needed to produce the information required for proper performance reporting on the results and costs of its fines collection activities.

I wonder if you could outline the reasons behind the delay and the steps necessary to achieve a fully functional and comprehensive fines collection reporting system.

MR. VALENTINE: Well, I don’t think I can outline that, but I’m sure that when the Minister of Justice gets here, you could direct that question to him. We believe that there is far more that can be done in the management of the fines system, and I could give you an example. Albertans who exceed the speed limit in another jurisdiction can choose not to pay the fine, and there’s no collection process that crosses provincial boundaries. We’ve suggested to them, for example, that it might be appropriate to build the necessary relationships with other jurisdictions so that those fines are collected on the occasion of the renewal of licensing. That’s just an example.

MR. AMERY: Okay. My second question. I don’t know if you can answer this. What would be the cost of fully implementing the collection pilot project now under way in Edmonton into a province-wide management and performance reporting system that would properly summarize the results and costs of fines collection activities?

MR. VALENTINE: We have not made any determination of that. Our concern is how they’re managing their business, and we see a need for a better system to produce the requisite information to manage the fines system.

THE CHAIRMAN: Ms Olsen, followed by Ms Kryczka, please.

MS OLSEN: Thank you, Mr. Chairman, and welcome to the Auditor General and his staff. I must say that I was enlightened at the recent conference held in Quebec City in relation to Auditor General functions: what we do or do not do in this province compared to what others get to do. Like my colleague I quite enjoy Public Accounts, so an expanded mandate certainly wouldn’t hurt at all. Thanks for all your fine work.

To move on, I want to talk about managing capital assets and systems for planning facilities in health, and I’ll refer you to page 193. The Auditor General has identified serious deficiencies in the management of capital assets and systems for planning facilities in the Ministry of Health and Wellness. It is not clear that the department of health has monitored the effect of recent system changes or assessed whether the risk of not meeting equipment needs has been reduced.

The Auditor General points out that the amount of cash or cash equivalent set aside to fund capital equipment requirements would likely cost over 50 percent of the equipment in use since about half of it is externally funded. The high cost associated with newer technology, inflation, and the cost of equipment replacement or more growth in services would not necessarily be covered by the money that the health authorities set aside. The Department of Health and Wellness needs to develop further systems for planning health facilities, notably information collection and the use of development of a strategic work plan. It should be linked to service strategies, business plans developed by the RHAs.

Without good information to support evidence-based forecasting of facility needs in relation to service and program needs, the risk increases of not providing facilities that will efficiently and effec-

tively respond to needs and be in the right place at the right time for the right purpose. There is a “lack of benchmarks or standards to understand” what health care facilities “should be in place,” increasing the risk that older facilities may not be able to meet standards.

Given that, I’d like to ask the Auditor General, who points out that 88 acute and long-term care facilities in the province are 30 years old or older, if you refer to page 193, “housing about 27% of acute care beds and 42% of long-term care beds,” can the Auditor General provide additional information on the steps that are being taken by public works, supply, and services to prepare an in-depth evaluation of the conditions of the facilities in order that the RHAs can develop multiyear maintenance and upgrading plans, and where are the plans? And can I say that all in one breath, my colleague asks.

9:10

MR. VALENTINE: You’ve said a great deal.

MS OLSEN: Well, I wanted to give the background.

MR. VALENTINE: Just to see if we can’t boil it down a bit. The new methodology is that regional health authorities and postsecondary educational institutions are required to fund the purchase of equipment and furnishings through their general grant revenues. Major construction of bricks and mortar presumably will come from other allocated funds as need arises. At the same time, current facilities are aging, and our overarching point is that there needs to be an appropriate long-term plan for the renewal of those aging facilities, the replacement of them if that’s what happens, or the development of new facilities. That’s as important as a long-term plan to provide the operating costs for the service facility.

You asked me: what is in place now or what further needs to be in place? I think that this piece of work that we’ve done this year with respect to capital asset planning is throwing out the challenge, and we would anticipate seeing some considerable reaction to this. I know, for example, that there have been a number of committees struck, and studies have been done dealing with certain aspects of it. Mr. Melchin, for example, has been involved in one. We think that that’s the right path to be moving down.

I think Nick might like to supplement my response.

MR. SHANDRO: I’d like to also emphasize that the health authorities themselves are responsible for delivering health services, and therefore they have to play a major part in designing how these services are to be delivered, which part is infrastructure. So we need an integrated system of what it is we’re going to provide to our population that incorporates both what we call operational as well as capital into one comprehensive plan. To expect that Edmonton can provide you with all of the advice that you need in a particular location in this province I think is stretching it a little. I think there has to be a collaborative effort. Nevertheless, the responsibility of a health authority in infrastructure development and planning, incorporating an integrated approach to health service delivery cannot be overemphasized.

To date, if you take a look at the financial statements and the financial position of health authorities, they’ve not focused very hard on the part that didn’t have to do with human resources. Capital assets always took a backseat to it, as if it didn’t matter. But it does matter. It does matter to the people who are working there, because they need to be supported with proper equipment, infrastructure, information systems, and the like. Now, that is one area that continues to be underemphasized in how things are done because we’re concerned with the employment aspect sometimes when we ought to be concerned with the whole issue of service design.

MS OLSEN: So I can assume then – and you can correct me if I'm wrong, Mr. Valentine – that these components that you've outlined have been outlined to the RHAs and that they will be included in an in-depth evaluation to ensure that effective medium- and long-term maintenance and upgrading plans are there and anticipating the cost drivers such as aging. We know that \$70 million is what it takes right now to maintain those buildings. So my real question is: do the RHAs know the components that you feel will be necessary to anticipate their needs, then, in the future? Or have you identified those needs?

MR. VALENTINE: Well, we have a very close contact with all of the RHAs, and I was at an audit committee meeting of a significant RHA only yesterday morning. I can tell you that this has their undivided attention in planning for the future.

THE CHAIRMAN: Ms Kryczka, followed by Dr. Pannu and Mr. Yankowsky.

MS KRYCZKA: Thank you. Being new to this committee, my first statement would be that you seem to have addressed what I would have asked related to recommendation 39, but in the event that there's anything that wasn't covered, I'll ask the question anyway. I'm talking here about more than facilities and upgrading of facilities.

Looking at recommendation 39 on page 191, it seems from that statement that the Department of Health and Wellness co-operate with regional health authorities "and other departments [to] develop systems for planning health facilities." You're saying that government take a more interventionist approach when working with the regional health authorities to plan for facilities in their area. I'm thinking, for instance, about what I hear most recently being planned for Calgary on the old AMA space. Could you expand a bit on perhaps the philosophy for making this particular recommendation?

MR. VALENTINE: I think we have experienced a variety of different signals in different health authorities, where they weren't really sure where they were going with respect to the major capital plans for the future, and of course that affects the operating costs. As we, particularly Mr. Shandro and I, visited the various regional health authorities around the province, it became very clear to us that there needed to be some central guidance about the long-term future of the physical facilities in which health care is delivered and how it's delivered.

For example, a number of emergency health service facilities have been doing IV therapy. That clutters up the front room of the emergency facility, as the people who have to undergo IV therapy traipse in on Monday, Wednesday, and Friday or whatever their routine is. I know one regional health authority that has moved the IV therapy into a separate and divorced facility, moving it out of the emergency facility and clearing up the frustration of people lining up to have the requisite services from that facility in the nature of emergency medicine.

That move required a capital expenditure, and then the regional health authority had to decide if they were going to expend it out of their own funds or if there was some way to achieve funds from the province, which then brings up the provincewide issue about how one should plan for that kind of service delivery. Should it be the same across the sector? Are there reasons to have it different in other, more outlying regions? Is the frustration the same? So we saw a large need for the Department of Health and Wellness to provide appropriate guidance to regional health authorities based on their experience and their knowledge. That's where some of this comes from.

Now, Nick, you probably want to supplement this.

9:20

MR. SHANDRO: Well, I mentioned earlier that it's a collaborative effort, and right now the thinking is very fragmented and nonintegrated, so much so that people look at capital expenditures sometimes totally in isolation from operating expenditures, and it's just not the way things work. Therefore, I think Alberta Health has to take a stronger leadership role in achieving this.

They've done some things to date in terms of making the first move towards defining what a balanced budget is, which has to include amortization expense. I can tell you that very recently people still thought that amortization was not part of the budget. They figured it was a noncash expense, thereby failing to understand that you have to have cash to buy equipment.

You know, it's a very simple concept made very complicated by the bookkeepers, but really what it is is the recovery of the cash that you spent through the revenues that you received even though it's in a different period. It has to be covered, and that money has to be available for the replacement of equipment, which is a responsibility of the health authorities.

That sort of debate that took place within the health authorities, led by Alberta Health, was wonderful except that it didn't cover the backlog. Now we still have a risk of how they're going to deal with the backlog of prior years' experience in this area, so that is something that Alberta Health and the health authorities are going to have to continue to work with.

MS KRYCZKA: I can't resist. I have to make a comment on page 197. Is that the right page? Maybe it's another page. The 6,000 beds. I understand that was prior to the Broda report. Do you plan on making a comment on this area, with reference to the Broda report, in your next year's report?

THE CHAIRMAN: If I might. We had a question earlier. That 6,000 figure, as I recall – correct me if I'm wrong – was from a newspaper report.

MS KRYCZKA: The 6,000 is in here.

THE CHAIRMAN: Ah, it is. Then we are dealing with matters that are therein contained. But we must caution ourselves not to deal with that which is in the press but only that which has been delivered in the documents before us or the statements.

MS KRYCZKA: The 6,000 is in the report, so can I comment on that?

THE CHAIRMAN: Yes, of course.

MS KRYCZKA: Okay. I'm only saying that the number that is in the report I'm assuming was there prior to the Broda report being released. I believe that's what it says. It acknowledges the report will be released in November of '99. My question is: would your next year's report comment on long-term care beds and planning for the future in relation to the Broda report, that has now been released?

MR. VALENTINE: Mr. Chairman, what goes in my report from year to year is a decision that we make at the time, and I wouldn't want to indicate that the report will cover a particular area. It may or may not. But our antennae are up 365 days a year.

THE CHAIRMAN: Thank you, Ms Kryczka.

Dr. Pannu, followed by Mr. Yankowsky and Mr. Sapers.

DR. PANNU: Thank you, Mr. Chairman. First, a general comment. A good document. Thank you, Mr. Auditor General and staff, for preparing it.

I do want to make an observation on it as one of the members of this committee who takes this document very seriously. I wonder if the allocation of two hours of time for asking questions is sufficient and adequate. I think this document is extremely important for us to be able to monitor how the money is spent, what systems are in place, what are not. We need to learn a great deal from this, and I submit to you for consideration that we need more than two hours of the time of this committee in order to have the presence of the Auditor General and his staff and colleagues here to help us understand the process and be able to ask questions more thoroughly. I'd be willing to make a motion on it later on, if that's what you need.

THE CHAIRMAN: Dr. Pannu, if I might. Recognizing that we may have only two meetings of this committee, we thought it was very, very important to allow the committee to question the director of finances, if you will, of the province, the minister in charge of Treasury, an opportunity. We recognized that in the fall and the spring sessions we will start again with at least one, probably two meetings with the Auditor General to further explore exactly what you're saying. So it's just simply a matter of timing. If you have some further advice on that, I would be pleased to hear it.

DR. PANNU: I'd be happy to communicate that advice to you in writing, Mr. Chairman.

THE CHAIRMAN: Thank you.

DR. PANNU: Now to my question. I would like to take the Auditor General to page 13, to his introductory remarks, where you talk about "instructive capital asset planning systems will provide policy makers with rigorous analysis." I agree with you. The next paragraph is the one that is the subject of my question. You give an example. You say:

A cost-of-capital concept could be used to determine whether cost savings from a proposed expenditure exceed the cost of obtaining the funds. Such analysis recognizes that while debt has a cost, so too does deferral. Further, analysis of the cost to the public and to the economy of funding capital assets from current revenues would be instructive.

I want you to help me understand certain things here. You use a politically incorrect word here, "debt." I want you to expand on it. Are you suggesting that under certain conditions it's okay for governments to consider using debt as a means of funding capital asset development? But, first of all, the technical term "cost-of-capital concept." Would you explain to me what you mean by that, sir, and why you think that might be a better way of dealing with it than the present method used?

MR. VALENTINE: I didn't say that it would be a better way. Those words are not there. What we said was that to determine whether or not the carrying charge on an investment today and the interest rate applicable to acquiring funds today to make an expenditure, as opposed to using funds in some further period of time when related to the service that can be obtained from the replacement, may produce a situation where borrowed funds would be more advantageous than waiting to make the expenditure down the road. That kind of analysis provides you with an opportunity to judge when the appropriate timing is to make the expenditure.

Without those kinds of calculations going on, one doesn't know what the cost is of either implementing the decision or delaying the decision, and it's part of the analysis that we think should be

conducted to ensure that public moneys are being effectively employed; for example, if you delayed the resurfacing of a major road until such time as the subsurface roadbed was damaged to the point where the cost of reclamation of the subsurface roadbed was so high that the initial funds have been in effect wasted. So you need benchmarks to determine when the optimum time is to resurface a road. We all know that if the roadbed itself deteriorates, then it's a much more expensive exercise to enter into. So there are times worth of money decisions to be made. That's the underlying aspect of a cost-of-capital concept.

9:30

DR. PANNU: Thank you. I'm surprised that this very commonsense sort of approach is absent at the moment in the way government handles its expenditures and reporting.

My second question arises from this supplementary question and is about your observation that given that the cost-of-capital concept perhaps has not been used, the whole question of affordability becomes an important one. You used a strong word there, "misused" in government. What exactly do you mean by this? How is it misused, and is affordability an objective term? Can you help, as a specialist in auditing and in accounting, to tell us if we can objectively determine what is affordability? Is that what you're referring to, that we aren't using an objective measure but that that measure is available?

MR. VALENTINE: We think it's used to mean whatever can be paid for from current cash flows. That's a concept of affordability that's used. We wouldn't agree that that's the most appropriate timing to make an expenditure. There are other criteria that enter into timing. One would be future costs; one would be future cost savings. There are a variety of other activities that can go on in the capital asset management field that would tell you that some other date might be the appropriate date to make the expenditure.

We're not involved in political decisions. We don't want to be. It's not appropriate that we are. What we are interested in is the methodology for managing the province's assets and the decision processes that occur with respect to the expenditure of public funds.

DR. PANNU: Thank you. That's why I sought to ask you if there is an objective measure of affordability to help us avoid the political side of the equation. That's why we need your help.

THE CHAIRMAN: Thank you all.

Mr. Yankowsky, followed by Mr. Sapers.

MR. YANKOWSKY: Yes. Thank you, Mr. Chairman. Good morning, everyone. I reference pages 52 to 54 in your report, Mr. Auditor General, where you comment on the year 2000 problem. Auditor General, when you and your staff were here last year, one year ago, you expressed great concern for the so-called year 2000 problem. You, in fact, painted quite a doomsday scenario unless the government did something about the situation and got it remedied.

Now, in your latest report you seem to be feeling really quite comfortable, stating that 90 days before D Day – that's January 1, 2000 – only 20 percent of mission critical systems remain to be made fully compliant. We are now 44 days away from January 1, 2000, and my question is: are you still feeling comfortable that all will be well?

MR. VALENTINE: It's day 328 in my calendar, 37 days away.

MR. YANKOWSKY: I guess I counted wrong.

MR. VALENTINE: Well, we haven't conducted any further work since the work that was done in preparation of this report. On the

other hand, we haven't had any matters brought to our attention that would cause us to try to rewrite the report at this stage.

I'm staying home New Year's eve. We have a new half cord of birch wood out the back door, and the barbecue will work with briquettes.

THE CHAIRMAN: And single malt doesn't care.

MR. VALENTINE: And single malt doesn't need ice.

It would be inappropriate for me to give you some sort of blue-ribbon seal, a Good Housekeeping seal of approval on where we are with Y2K. I think the province has gone about the approach to it in a very responsible way. That approach involves the integration of a variety of other organizations and people, such that almost everybody you meet is involved with you one way or another on Y2K. It might be the manager of your local utility; it might be the young man who brings the cord of birch wood to your house. Everybody's involved.

We in Alberta sit in not a unique but a comfortable position in terms of world geography, in that by about 8 o'clock on the morning of December 31 you're going to be able to find out what happened in New Zealand. That is going to allow the organizations that are responsible for our general welfare – that's heated homes and health services and the like – to have 16 hours before something equal happens here. I don't think for a minute that it's going to be lights out or lights on at midnight on December 31. I think that in many respects if things are still going to go wrong in spite of all the huge investment that has occurred in the area, those things will happen slowly and over a period of time. All of a sudden you'll find out that a particular thing doesn't work quite the way you thought it was going to work.

We do have three days of vacation at that time, so that's a plus for us. I think the emergency measures people are now the ones we are going to be relying on to make sure our basic welfare is looked after if there are occasions or if some sort of thing that fails at the end of the day.

The province has been heavily involved in all of those activities, and everywhere I go, I hear about the kinds of contingency plans that have set up. Yesterday morning there was a report to the particular audit committee of the regional health authority that I was at, and it was a positive report but with a caveat that they still don't know what'll happen.

MR. YANKOWSKY: Thank you very much for that very comprehensive answer.

My supplemental is this. Many millions of dollars were transferred by Treasury to different departments for them to become year 2000 compliant. Is it in your mandate to track these funds and verify that they, indeed, were spent on the intended purpose? If it is, in fact, in your mandate, then could you please comment on your findings?

MR. VALENTINE: It is in the mandate. If the funds were provided to an organization, a department, an agency, a commission, or a board for the specific purposes of rectifying Y2K issues, then that's where the money would have to be spent. It's management's job at the outset to report that that's the way they spent it. It's our job to go and audit that. We have done some of that auditing. There's lots of auditing that we haven't done, though. If you know of a particular area where you think it was misused, I'd be pleased to know about it.

THE CHAIRMAN: Mr. Sapers, please, followed by Mr. Cao.

MR. SAPERS: Thank you. Last year I understand that Alberta Health through its delegated business agents, the regional health authorities, spent between \$600 million and \$1 billion on contracts to private providers of services, providing both health care and ancillary services to the business of running a hospital. I'm wondering whether or not you found in your audit any evidence of panprovincial consistent standard-setting processes – standards, accreditation, contract monitoring, audit, and cost control of these contracts – using tax dollars to private service providers and vendors. If you did find evidence of that, could you tell me: did you include in your audit tests a determination of cost benefit?

9:40

MR. VALENTINE: In the health sector our audit scope is the attest audit with respect to the ministry and the department. Then for those regional health authorities for which we are the auditor, which is about 88 percent of the beds in the province, somewhere between 80 percent and 88 percent, we are also performing the attest audit. In that sense, transactions that come to our attention that we might have concern over with respect to whether or not they're the appropriate authorities to expend the funds are tested for that criteria. Where the funds were expended in a manner that was not in accordance with authority, then we would report in a fourth paragraph in an audit report those circumstances. To my knowledge there are none.

We have not done a systemwide review of the processes by which regional health authorities determine how they expend funds on outside contracts. No, at this date we haven't done that.

MR. SAPERS: On page 183 of your report, Mr. Valentine, in the top paragraph you make note of the deficits that the regional health authorities found themselves in at the end of fiscal year '99. To summarize, you talk about 10 health authorities that were budgeting operating deficits of over \$32 million even after receiving additional funding. In fact, the year-end results were that 12 of the 17 authorities had operating deficits of \$31.7 million.

Can you tell us what role the contracts with private suppliers, vendors, and service providers played in the creation of those deficits and whether or not you think there should be in light of those deficits a review of the contract management process that is employed by the regional health authorities?

MR. VALENTINE: Well, the point that we're making in these pages, 181, 182, 183, and on, has to do with business planning and management of resources such that deficits aren't incurred. This point doesn't have anything to do with how much funds were paid to a particular organization. It's more global than that.

I'm not sure of your point. Are you asking if we would investigate a contract for the provision of food services, for example? Laundry services?

MR. SAPERS: Let me try to be more precise, and I also want to make sure I understand your last comment. Do I correctly understand you to say that you know that the nearly \$32 million worth of deficits last year had nothing to do . . .

MR. VALENTINE: No, I didn't say that. I did not say that. I said that this point we're discussing here is to try to encourage regional health authorities to do a better job of their business planning such that they're not incurring these deficits.

MR. SAPERS: I understand the point of the discussion.

MR. VALENTINE: They have the authority. They within their charge have a responsibility to provide health care in a particular region. They use a variety of methods of management to do that.

Now, if they're not doing the appropriate budget planning, business planning, then we have a concern that that is one of the reasons they end up in a deficit position.

THE CHAIRMAN: Well asked, well answered.
Mr. Cao, please.

MR. CAO: Thank you, Mr. Chairman. Welcome, Mr. Auditor General and your team. Thank you very much for the valued briefing this morning. In fact, I want to convey my commendation to all the staff who put together this extensive work and comprehensive report to Albertans.

To me the efficient, effective, and economical utilization of Alberta taxpayers' assets is my keen interest and that of my colleagues here. It is also a strong interest of my constituents. I'd probably just say that triple E – economical, efficient, and effective – is the best way to manage an operation of any kind: public or private, small or big. So when I read on page 175 under recommendation 34, if you refer to that – you stated that “the Department of Children's Services require the business plans of Child and Family Services Authorities,” or CFSAs, if may I call it that, “to incorporate relevant measures and strategies to improve the overall accountability and effectiveness of CFSAs.” It seems to me that implementing the relevant measures and strategies is a good way to get quantifiable data for their performance. This is very important because CFSAs are responsible for the new way of delivering children's services in Alberta, yet it seems that the children's services targets would be harder to gauge than, say, for the department of finance. Could you comment on what some of these measures or strategies might be?

MR. VALENTINE: Well, I think it's important that the children's service authorities and the department determine what their measures should be. It's then my job to determine whether or not the measures have been appropriately disclosed and determined and calculated and the rest of it to in effect audit the measures. It's really not for me to tell you that a particular measure is the right one or the wrong one, unless the criteria under which it's developed are flawed in some way or unless the information flow in order to determine the particular item is inadequate or incomplete. Then we would have some comment to make about the system that is employed to determine the measure.

In the case of children's services, CFSAs, there was only one in existence and operating at the end of the last fiscal year, and that was the Calgary one. The others are all up and running in the current fiscal year. They are experiencing some initial teething problems of which we are aware, and we have been substantially involved in trying to make sure that the financial information and the management information flowing to allow those board-governed institutions to provide services in the local area are in place and are operating. But it's been a difficult process, and I don't think that's any secret.

9:50

MR. CAO: I have a supplemental. You mentioned in the middle of page 176 in this report that the foundation of redesigning the services for children is “the four pillars” of community-based services, early intervention, integration, and improved services for aboriginal children. Could you comment on how various authorities might integrate these four pillars into their service delivery strategy?

MR. VALENTINE: Mr. Cao, that was not our objective. Our objective was to determine whether or not the four pillars had been adequately reflected in the performance measures that had been used. Because the goal of measuring the effect of the four pillars wasn't being achieved, the measure was flawed and we said so. Now I think it's up to management, I'm sure with input from the ministry, to come up with those measures that are accurate, com-

plete, relevant, all the attributes of good information.

THE CHAIRMAN: Ms Blakeman, followed by Mr. Herard.

MS BLAKEMAN: Thanks. Performance measurements: I'm becoming a convert. And that's a long way for me to have come, by the way, so congratulations.

This is around recommendation 4, referencing page 27. I note that the report says that

the goals set for each core business need to be measured by at least one performance measure. In our review of the Ministry business plans in Budget 99, we found that over half the Ministries had at least one goal that did not have a performance measure associated with it. Overall, 24% of all the goals in Ministry business plans did not have a performance measure.

In addition, there were some where the “linkage between the goals and the performance measures was not apparent.” I'm wondering if in the course of your examination of the performance measurements in the ministries any comment or explanation was given back to the Auditor General about why we have ministry business plans with no performance measurements or a failure to establish a performance target for some measures within the business plans. Any comment?

MR. VALENTINE: I don't think we have any particular insight as to why. We don't think it's a good situation. We would like them to get, quote, religion, unquote, like you have gotten, so we set out here a critical analysis of where we are in the process to date. I don't think we should lose sight of the fact that this whole concept is five or six years old. That's quite young. It's also a concept that has had great acceptance in the Westminster world and in the United States, to include them in the same sphere. To think that we would have the easy answer to the development and maintenance of good performance measures in a very short period of time would be an exaggeration, I think.

I think we've often said – and I know that Ken supports me – that the toughest issue around performance measurements is to find some criteria that would allow us to measure the relevancy of a particular performance measure. If we could do that, I think we would have gone a long way to getting almost universal acceptance of performance measures. Those things are coming slowly. I think they're attainable, and we just need everybody working on the same side of the football to get the team together to make that happen.

MS BLAKEMAN: Okay. Thanks for that.

On a similar question, then, I note that in recommendation 3, appearing on page 24, the report says that “the financial information in the business plan be presented in a form similar to the rest of the plan.” This recommendation is a reinforcement of one previously given, and I note that it wasn't previously accepted. I'm wondering if you have any specific suggestions or whether there was any specific feedback from ministries as to why there was a failure to link costs to core businesses established in their business plans.

MR. VALENTINE: The business planning expert in our office is Ken Hoffman, and I'm going to ask him to respond to you.

MR. HOFFMAN: The difficulty with costing outputs – in my opening comments I noted the importance of it – is that the fundamental systems in place in government to fully allocate costs aren't in place. We have budget-to-program kind of information. Good information systems around, say, indirect costs or costs incurred by one ministry that services another ministry aren't there. They're emerging. They're being worked on.

There's a fundamental view that it's important to report back against the budget as the budget was approved. So if the budget isn't picking up on the full costing, then the financial statements

don't as well. In this case what we've suggested is that if they look at core businesses and get a good definition of a core business by a ministry, that might be a vehicle by which you can start building your common costs. That was our suggestion this year. We've not seen the response to that. It's hoped that they will pick that up and take advantage of that suggestion. But fundamentally it's an absence of information. Then there are some internal management issues that they're trying to address around what happens when you do allocate all your costs and whatnot.

MR. VALENTINE: There's also some current work going on at CICA with respect to allocation of costs in government. There's a study paper out on it. The subject has a substantial interest.

THE CHAIRMAN: Ladies and gentlemen, the performance measure of today was that we had 11 questions and supplementaries asked and answered, and I'm afraid we're going to have to call it a day at that.

MS BLAKEMAN: But what was the target?

THE CHAIRMAN: The target was to get to next week, I think.

I remind members that next week we have the Hon. Stockwell Day, Provincial Treasurer, here for questions. Make preparations for same.

We have no other further business arising. Might we have a motion to adjourn? Agreed? It's carried.

[The committee adjourned at 10 a.m.]