



Legislative Assembly of Alberta

The 27th Legislature
Second Session

Standing Committee
on
Public Accounts

Office of the Auditor General

Wednesday, November 18, 2009
8:30 a.m.

Transcript No. 27-2-18

**Legislative Assembly of Alberta
The 27th Legislature
Second Session**

Standing Committee on Public Accounts

MacDonald, Hugh, Edmonton-Gold Bar (AL), Chair
Quest, Dave, Strathcona (PC), Deputy Chair

Benito, Carl, Edmonton-Mill Woods (PC)
Bhardwaj, Naresh, Edmonton-Ellerslie (PC)
Chase, Harry B., Calgary-Varsity (AL)
Dallas, Cal, Red Deer-South (PC)
Denis, Jonathan, Calgary-Egmont (PC)
Drysdale, Wayne, Grande Prairie-Wapiti (PC)
Fawcett, Kyle, Calgary-North Hill (PC)
Jacobs, Broyce, Cardston-Taber-Warner (PC)
Johnson, Jeff, Athabasca-Redwater (PC)
Kang, Darshan S., Calgary-McCall (AL)
Mason, Brian, Edmonton-Highlands-Norwood (ND)
Olson, Verlyn, QC, Wetaskiwin-Camrose (PC)
Sandhu, Peter, Edmonton-Manning (PC)
Vandermeer, Tony, Edmonton-Beverly-Clareview (PC)
Woo-Paw, Teresa, Calgary-Mackay (PC)

Auditor General's Office Participants

Fred Dunn	Auditor General
Vivek Dharap	Assistant Auditor General
Jeff Dumont	Assistant Auditor General
Ed Ryan	Assistant Auditor General
Merwan Saher	Assistant Auditor General
Ronda White	Assistant Auditor General
Doug Wylie	Assistant Auditor General

Support Staff

W.J. David McNeil	Clerk
Louise J. Kamuchik	Clerk Assistant/Director of House Services
Micheline S. Gravel	Clerk of <i>Journals</i> /Table Research
Robert H. Reynolds, QC	Senior Parliamentary Counsel
Shannon Dean	Senior Parliamentary Counsel
Corinne Dacyshyn	Committee Clerk
Erin Norton	Committee Clerk
Jody Rempel	Committee Clerk
Karen Sawchuk	Committee Clerk
Rhonda Sorensen	Manager of Communications Services
Melanie Friesacher	Communications Consultant
Tracey Sales	Communications Consultant
Philip Massolin	Committee Research Co-ordinator
Stephanie LeBlanc	Legal Research Officer
Diana Staley	Research Officer
Rachel Stein	Research Officer
Liz Sim	Managing Editor of <i>Alberta Hansard</i>

8:30 a.m.

Wednesday, November 18, 2009

[Mr. MacDonald in the chair]

The Chair: I would like to now call this Standing Committee on Public Accounts to order and welcome everyone in attendance. We'll quickly go around the table and introduce ourselves. My name is Hugh MacDonald, Edmonton-Gold Bar.

Over to you, Dr. Phil.

Dr. Massolin: Thank you. Philip Massolin, committee research co-ordinator, Legislative Assembly Office.

Mr. Jacobs: Good morning. Bryce Jacobs, Cardston-Taber-Warner.

Mr. Bhardwaj: Naresh Bhardwaj, Edmonton-Ellerslie.

Mr. Chase: Good morning. Harry Chase, Calgary-Varsity. As the notches on his wallet grow more numerous, I want to wish Auditor General Fred Dunn the best as he draws nearer to the happier, less hunting-ground round of his life.

Mr. Kang: Good morning. Darshan Kang, MLA, Calgary-McCall. I, too, want to wish the Auditor General the best in his life. Thank you.

Mr. Dharap: Vivek Dharap, Auditor General's office.

Mr. Dumont: Good morning. Jeff Dumont, Auditor General's office.

Mr. Ryan: Good morning. Ed Ryan, Auditor General's office.

Mr. Dunn: Fred Dunn, Auditor General.

Mr. Saher: Merwan Saher, Auditor General's office.

Ms White: Ronda White, Auditor General's office.

Mr. Wylie: Doug Wylie, Auditor General's office.

Mr. Johnson: Jeff Johnson, Athabasca-Redwater.

Mrs. Dacyshyn: Corinne Dacyshyn, committee clerk.

The Chair: Thank you.

Welcome, Mr. Johnson. You make quorum this morning, and I appreciate your attendance.

The approval of the agenda. The agenda that was circulated: could we have approval of that, please? Mr. Bhardwaj. Thank you. Moved by Mr. Bhardwaj that the agenda for the November 18, 2009, meeting be approved as distributed. All in favour? Seeing none opposed, thank you.

Item 3, approval of our minutes that were circulated. Mr. Chase. Moved by Mr. Chase that the minutes for the November 4, 2009, Standing Committee on Public Accounts meeting be approved as distributed. All in favour? Seeing none opposed, thank you.

Of course, we come to our meeting today with the officials from the office of the Auditor General. We're dealing with the reports of April and October 2009, the annual report of the government of Alberta from 2008-2009, and the business plan, the Measuring Up document, as well.

I would now invite Mr. Dunn to make an opening statement on behalf of the office of the Auditor General. Welcome again, sir.

Mr. Dunn: Thank you, Mr. Chairman. Before we discuss our 2009 public reports, I'd like to take the opportunity to introduce to you each of the Assistant Auditors General from our office and provide a brief summary of their portfolio responsibilities. Vivek Dharap is responsible for the Service Alberta ministry and is our functional leader for information systems audits. Last year Vivek was responsible for the electronic health records audit, and in the coming months, over the next year, he'll be responsible for the follow-up audit on protecting information assets.

Jeff Dumont is responsible for the Advanced Education and Technology ministry, which includes all universities, colleges, technical institutes, and research entities in Alberta, various pension plans under the Department of Finance and Enterprise, plus the Alberta teachers' retirement fund. Also, another significant audit that Jeff handles is the WCB. Last year Jeff was responsible for both the Bow Valley College and the University of Lethbridge systems audits. He will be completing a follow-up audit on capital planning for Infrastructure this year.

Ed Ryan, immediately to my left here, co-ordinates the cross-ministry audit work, Executive Council, the Alberta Securities Commission, Aboriginal Relations, International and Intergovernmental Relations, the Legislative Assembly Office and officers. He is our functional systems audits and forensic leader. Last year Ed was responsible for our public agencies executive compensation audit, a follow-up audit on recruiting, evaluating, and training boards of directors, the Public Affairs Bureau media contracting services audit, the commercial vehicles safety audit, and the University of Calgary president's compensation plan audit.

This year – I'm giving you a peek into what we'll be doing over the next year – Ed will be completing an audit of the oversight of financial institutions, an audit of the Public Security peace officer program, a follow-up audit on the Transportation and Infrastructure IT management systems, a follow-up audit on MLA entitlements, an audit on the use of credit cards, expense accounts, and hosting in postsecondary institutions, on the vulnerability of government land titles systems to mortgage fraud, a follow-up audit on child intervention standards, an audit on monitoring daycare and day home services, and an audit on infection control processes at Alberta Health Services.

Merwan Saher, to my right, is responsible for the ministries of Education; Environment, which includes the emissions management fund; Finance and Enterprise, including ACFA, AIMCo, ATB Financial, and all tax revenues and investment management; the Treasury Board, which includes, therefore, the government of Alberta consolidated financial statements. Last year Merwan was responsible for the drinking water follow-up audit, the reforestation follow-up audit, and the part 2 audit of Alberta's response to climate change. This next year he'll be responsible for the audits of the schools P3 program, a follow-up audit on revenue forecasting, an investment risk analysis audit, a follow-up audit on the treasury management systems at Alberta Treasury Branches, and an audit on how we manage Alberta's water supply.

Ronda White, just next to Merwan, is responsible for the ministry of Agriculture and Rural Development, which includes the Alberta Financial Services Corporation and the Alberta Livestock and Meat Agency. She's also responsible for corporate human resources; Culture and Community Spirit; Employment and Immigration; Health and Wellness, which includes Alberta Health Services; Seniors and Community Supports; and Tourism, Parks and Recreation. Ronda is our functional leader for audits which deal with

governance and HR matters. Last year Ronda was responsible for the food safety follow-up audit. This year she'll be responsible for the workplace health and safety audit, an audit on the H1N1 program, and follow-up audits on the health ministry's annual report results analysis and on physicians billings.

Doug Wylie, to the far right here, is responsible for the ministries of Children and Youth Services; Energy, which includes ERCB and AUC; Housing and Urban Affairs; Infrastructure; Justice and Attorney General; Municipal Affairs; Solicitor General and Public Security, which includes AGLC; Sustainable Resource Development; and Transportation. He is our functional leader for performance measures and reporting of those results. This year Doug is responsible for an audit on federal stimulus funding in Alberta and follow-up audits on systems to ensure oil and gas volumetric accuracy; energy environmental liability management, which includes the suspension, abandonment, and reclamation activities; energy royalty review systems; confined feeding operations; and grants to Métis settlements.

Next I would like to briefly summarize how our office determines which audits we'll be pursuing. I think it was something of interest at the last meeting. You're aware that our mission is to identify opportunities and propose solutions for the improved use of public resources and to improve and add credibility to performance reporting, which includes financial reporting to Albertans. As you know, we are mandated to perform an attest annual audit on each entity in the government of Alberta's consolidated sector. The reason why I read off all those names in the ministries was to explain to you the breadth of that, which is 183 entities. Together with reporting the results of those attest audits, we also include significant recommendations made to the government entities for improving performance reporting and the use of public resources.

The Auditor General is the auditor of all government ministries, departments, funds, provincial agencies, universities, public colleges, and technical institutes. Also, the Auditor General has been appointed, as you're aware, the auditor of the new Alberta Health Services entity. Beyond that, we may pursue a concern that has arisen from one of the attest audits, those 183 entities, or one that was brought to our attention by an MLA or by a member of the public or based on matters which are being examined by other OAG offices across Canada, thus why we went into electronic health records this year. We may consider whether a similar audit would be of benefit to Albertans as well.

I'll summarize and conclude here. We believe Albertans want our work to result in the government more effectively managing the province's resources and improving governance and ethical behaviour. By digging below the surface of apparent problems, we get at the root causes of weak systems, and we can ensure that the resources we are given are well spent.

Thank you, Mr. Chairman.

The Chair: Thank you very much.

The chair would like to recognize Mr. Quest, Mr. Fawcett, Mr. Sandhu, and Bridget Pastoor and remind all members that standing orders allow any member of the Assembly to participate in committee meetings, but only those that are members by motion of the House are eligible to vote.

We will now proceed to questions. Mr. Chase, followed by Mr. Fawcett.

8:40

Mr. Chase: Thank you. I'm going to take up where the Auditor General left off. I'm referencing page 77 of the October 2009

report. If the department of health doesn't have a record of the total cost of implementing the electronic health record system or a forecast of future costs, how is it allocating funding to the health authorities for their individual projects?

Mr. Dunn: Thank you. I'll start, and then I'm going to turn it over to Vivek. That's a key question, and it was a key question that we asked. As I mentioned about electronic health records, it's being done in conjunction with five other jurisdictions. The only other jurisdiction to date which has reported is Ontario, and Ontario has run into some serious concerns.

This is a matter which we raised early on in that audit as to: what is your strategic plan? What are you going to build? What will it look like? When will it be finished, and how much will it cost? That was where we were having difficulty getting the answers. The answers we were provided – and, Vivek, this is where you'll take over – talked about how they're building components at different times, different components, and that in the construction of those components they felt there was a plan for each component. It was: what will the overall cost be?

Therefore, Vivek, back to the member's question: how do they know how to fund all this?

Mr. Dharap: Yeah. That was one of the questions we had for them, and one of the answers we didn't get as to how the EHR systems themselves were being funded specifically.

Mr. Chase: My follow up. Possibly you can provide greater detail from your audits. Were you able to determine if this lack of information was the result of the health care transition, or was there a lack of a plan developed in the first place?

Mr. Dunn: Just to remind everybody, electronic health records in Alberta started back in the late '90s. I think it was 1997. Therefore, it started with the old regional authorities together with the department of health.

Vivek.

Mr. Dharap: Yeah. Actually, the core of the work we did resulted in the number of questions that we had that we couldn't get answers to. If you look from page 69 forward, we have about 12 questions or so that we couldn't satisfactorily get answers to from the department. That was one of the questions: how did they decide on the funding? How did they decide on the scope of the audit of the project itself and the subsidiary projects that resulted in the overall project?

Mr. Chase: Thank you.

The Chair: Thank you very much.

Mr. Fawcett, please, followed by Mr. Kang.

Mr. Fawcett: Thank you, Mr. Chair. As we all know, Alberta's nine previous health regions were amalgamated into one board, the Alberta Health Services Board, along with the Alberta Mental Health Board, the Alberta Cancer Board, and the Alberta Alcohol and Drug Abuse Commission. Presumably, before they were amalgamated, each region or board or commission was separately audited whereas now I'm assuming that it's just one audit and there is no need to do multiple audits. My question is: did the transition away from the multiple regional health authorities impact the auditing process, and in what way?

Mr. Dunn: Yes, and then I'll turn this over quickly to Ronda. You're absolutely right. The office of the Auditor General, however, had been appointed to six of the nine health regions. Remember, the nine was a result of 17 becoming nine. We were not the auditor of all 17, obviously, before. We were the auditor of six of the nine, but of the three others, the Cancer Board and AADAC now.

As a result of the consolidation, though, last year each of the individual entities still existed, so we had to audit each of the individual components. I think there were altogether 16 components coming into it. It will be this year that there will be one consolidated one.

Ronda, explain how many hours you spent on this.

Ms White: Oh, yes. This was a significant audit and undertaking in the past year. Well, really, it cost us over \$3 million to audit the whole sector. That translates into a significant number of hours for our office. During the transition there were a lot of changes occurring in each of the organizations, that led to a significant additional cost to do the audit.

In our report we make a number of recommendations, starting on page 257, to Alberta Health Services to improve their practices. Certainly, there were a number of issues, but we're hoping they'll be resolved with the one entity this year.

Mr. Dunn: Just to clarify, when Ronda said \$3 million, we had to pay out of pocket to engage another associate. We had to pay a million and a half dollars to the associate and then our own other times, so it was about fifty-fifty of the \$3 million.

Mr. Fawcett: I'm not sure. Maybe, I guess, for my supplementary I can get you to comment on – you mentioned it right at the end of your comments – that there were certain recommendations made to Alberta Health Services. What will happen to any outstanding recommendations that were on the books for the health regions as we move forward with the new audit of just the one entity?

Ms White: Sure. We're expecting and we've worked out with management that they will still continue to implement those previous recommendations. In the outstanding list there are, as you say, a number of recommendations made to the previous Capital health region, Calgary health region, and others. Management is doing an assessment of what action they will take to fully implement those. We expect Alberta Health Services to deal with them as they make changes and improvements to their system.

The Chair: Thank you very much.

Mr. Kang, please, followed by Mr. Jacobs.

Mr. Kang: Thank you, Mr. Chair. On page 257 of the October report, looking at the severance policies, defined processes or documentation, I believe, what reason was given by the AHS for its lack of oversight of the severance process and its involvement in some but not all of the decisions with the severances? Why weren't they involved?

Ms White: Primarily what we understand was that they contracted with external legal counsel to negotiate the severances and that essentially, I think, with the interim management they thought that was adequate. They retained expertise and counsel there. It was an oversight in some of the changes and transition that were occurring during the process.

Mr. Dunn: Maybe if I could, before you go into your supplement, just remind the committee that the preceding year to the 2008 we had looked at CEO recruiting, evaluation, and compensation and CEO contracts. In that report we had reported the inconsistency and the lack of understanding around CEO contracts. They didn't follow a template or a pattern, and they had different entitlements or attributes to each of them. Some were just very confusing.

When the restructuring took place in Alberta Health Services, of course, that resulted in the termination of all those CEOs. All those contracts then had to be evaluated and, therefore, compensation paid out under them. It took an awful lot of time through external counsel to negotiate those contracts as to what the understanding is by the recipient. They had to engage in an awful lot of interpretation and understanding; thus, it took a long time for those to be settled.

The disappointment that we've expressed here is that the interim management were not as present in that process as we would have expected regular and sustained management to be involved in those processes: know what you've agreed to, and then know what it means. Then the payment there. Your question is well founded in that there just wasn't the oversight. It was outsourced to a legal firm.

Mr. Kang: Okay. My supplemental is on page 258. There was a total of about \$41,000 in severance overpayments made. How is it that AHS is determining whether it can recover that? If these payments were made in error, why can't they just demand the money to be repaid?

Ms White: Our understanding is they are working with legal counsel and through the individuals' legal counsel to assess whether they can recover. They're negotiating. I believe they've received some portion of that back, but I don't have the current data on whether they've received the full amount.

Mr. Kang: Thank you.

The Chair: Thank you very much.

Mr. Jacobs, please, followed by Mr. Chase.

8:50

Mr. Jacobs: Mr. Chairman, perhaps you would allow me to make a brief confession in order to make a point this morning. The confession would be that prior to my assignment to this committee I didn't have a very good understanding of the office of the Auditor General. I think it would be honest to say that I probably didn't have a lot of, you know, respect for the office of the Auditor General. But I can now say that after serving on the committee for a year and a half, I believe the work you do is important, and I believe you do it well and have done it well. My esteem and respect for your office, Fred, has grown significantly, and I commend you for that.

I understand, you know, why people don't like to be monitored and assessed in their work. I think that's human nature. But I think that in an operation the size of the Alberta government, in all fairness to the people of Alberta, it's something that needs to be done.

Having made that brief confession, I'll now ask a question regarding outstanding recommendations. I notice in your October and April reports that sometimes there are recommendations that are outstanding and sometimes for several years. Could you please comment to the committee how you deal with ministries in addressing outstanding recommendations and the process you use to get them resolved?

Mr. Dunn: Okay. I'm going to start out with the fact that there is a grading of the recommendations. As you notice, there are some that have this bold yellow on them and then there are ones with numbers and then there are ones that are unnumbered.

First of all, we believe that all recommendations we make to the organizations are made on the expectation that when implemented, it'll improve their performance. However, for the numbered recommendations there's a process, or protocol, we've agreed to with essentially the government, Executive Council, that agreed-to numbered recommendations will be addressed or implemented within a three-year or shorter time frame. The reason for that agreed-to time frame is that it takes time for organizations to deploy the resources, to do the proper research, et cetera. The issues that we raise sometimes are complex, and you just can't instantaneously fix things. We have this understanding that they will try their best to fix it within three years; thus, why we do follow-up audits is to make sure that the representation that they are doing something to fix the issue will be actually successful and implemented. We then report to you on that committee about that.

However, there are some other ones, as you appreciate when I said the 183 entities, that are not all as close to the government. Some are quite removed. It takes moral suasion and ongoing dialogue with the senior management of those organizations, who sometimes see themselves as quite autonomous, in order to encourage them to take the matters being raised with the seriousness with which we believe they should be in order to implement it. Some of those may move outside that agreed-to three-year time frame.

We do follow up every recommendation. We report to you on all the recommendations and the implementation of that or if something has happened such that the recommendation is no longer valid such as a significant restructuring in Alberta Health Services, which would take away the issue. We do our best through that agreed-to protocol with the government to ensure that all organizations, ministries, departments, and agencies do address the significant issues as soon as possible and within the three-year time frame.

Mr. Jacobs: Thank you. My supplementary would be regarding the time frame. You can correct me if I'm wrong, but it seems to me there are some recommendations that go back eight or 10 years which have not yet been, you know, approved by the Auditor General or changed. When an association goes beyond the three-year limit, do you have any power or any authority to deal with that? How do you deal with it?

Mr. Dunn: Very simply, it's you. It's you. As much as I might have shown you the size and the scope of the work that we do, it comes to you. That's when we say we repeat again. So if there has not been the understanding or the acceptance of the change that is required – and we look at it, and we follow it up, and we report to you the progress and then the unsuccessful implementation – then we say we repeat again, and it comes before this committee. When those organizations appear before you, that's where the authority lies for you to ask them why they haven't done it, what the issue and the problem is.

Mr. Jacobs: Thank you, Mr. Chairman.

The Chair: Thank you.

Mr. Chase, followed by Mr. Quest, please.

Mr. Chase: Thank you. I'm referencing page 196 of the October 2009 report. Page 196 reports a potential \$100 million loss in

revenue resulting from the issue surrounding bitumen valuation methodology. This number has been dismissed by government ministries as being randomly picked out of the air. Can the Auditor detail how this \$100 million estimate was determined?

Mr. Dunn: I'll start out, and then I'll turn it over to Doug Wylie, who's responsible for the Ministry of Energy. Let me assure all members on the committee that we don't pick numbers out of the air. If anything, we spend an undue amount of time to tabulate, to look at, and to calculate. I'll be honest: when we first looked at this issue, we thought the number was much larger. Yes, some of our calculations – because we're not running the system, we look at the indicators, and then through the diagnostics that we do, we thought it was much larger. We had turned it over to the department many, many months before our report became public because, as you're aware, a management letter goes to the department, and then from the management letter it becomes a public report. So they were sitting on it for some period of time. They had actually gone through quite a good calculation and come to this number. They actually forwarded that number to us, so it really was the department's calculation.

Doug, could you add to my comments?

Mr. Wylie: Well, just generally to say that it is an estimate, and there are a lot of assumptions behind the estimate, but I would suggest that there was a fair bit of rigour put to this number, as the Auditor General has indicated. We started off with our estimates and were working with the department, and they refined. I think their forecasting group was involved, and a number of players from the department were involved in this. So it's an estimate, but I think there's been a fair bit of rigour applied to the number.

Mr. Chase: I thank you for that. I find it extremely interesting that the department denied their own figures.

My follow-up question: has the Auditor received any information regarding the Department of Energy's acceptance of this recommendation, or have you noted any action taken by the ministry to address the issues outlined?

Mr. Wylie: Yes. They are working on this. I think they are acting now on it, clearly. As I understand it, there is a dispute resolution process within the agreements, and I think they're in that phase.

Mr. Chase: Thank you.

The Chair: Thank you.

Mr. Quest, followed by Mr. Kang.

Mr. Quest: Thank you, Mr. Chair. Just to I guess follow up a bit on what Mr. Jacobs was saying, when I came here, I didn't really have any preconceived ideas, of course, about what the Auditor General's office does, but I've been very, very impressed with the thoroughness, with the work that's done in that office and the detail that comes out. So thank you for that.

For any organization, whether it's a private company or, of course, government, it's really all about the people. The success is all based on the talents and abilities of the people. So you always have to have a good recruitment and retention strategy. I'm just wondering if you've ever done any kind of an audit on the human resources strategies for the different departments or government departments or entities.

Mr. Dunn: We had done that for a couple of years.

Ronda, you looked at it through what used to be known as the PAO, now the corporate human resources. Yes.

Ms White: Yeah. Probably about three or four years back we looked at their succession planning framework and practices. That was probably the most relevant audit. At that point in time we made a number of recommendations to help improve practices. Management has since implemented them. But it's been about three or four years since we looked at that process.

Mr. Quest: Okay. Thank you.

The Chair: Thank you.

Mr. Kang: Referencing page 262 of the October report, it states \$28 million in supplemental retirement plans obligations and that \$20 million of it is unfunded. What is the reason for this? What were the reasons for not properly funding their SRP obligations?

Mr. Dunn: Okay. I'll start out, and then I think it's between Ronda and also Merwan on the province as a whole around SRPs. We had looked at SRPs, I believe, going back into 2006. We had looked at that because it was an issue that I was very concerned about. The amounts that are being incurred, the amount of the liability, are being properly tabulated. So we know the expense, and we know the liability; where are the funds? For the regional health authorities those expenses were funded. The monies were transferred to the operating budgets from the province to the regional health authorities. What happened was they were not set aside in a separate fund or an assets allocation pool in order to properly satisfy the liability. Thus, what it means is that those resources got consumed in the operations, and then we're going to have to pay for them again.

Ronda, Alberta Health Services: how are they looking at this now?

9:00

Ms White: Well, now they've taken a full review given that all these plans are different. The planning now: they did receive \$20 million in additional funding last year from the department of health to fund the plans, and our understanding is that they're looking at how they will set aside the money for the future. Certainly, as Fred had said, in the past the expenses were funded, but the money wasn't set aside. We received some explanations that it was because of certain tax rules. Certainly, some of the plans were already funded, so Alberta Health Services has said that they will deal with this.

Mr. Dunn: I'll just pick it up on that, and then, Merwan, over to you. You appreciate that these amounts come under the federal income tax responsibilities. Under that act with contributions that are made to an SRP, which overrides the limits of the compensation levels for normal pensioning, when you set up a registered fund for that – you're entitled to it; it's proper to do that – 50 per cent of any amounts that are contributed to it are paid to the federal government. There is an explanation why, and it comes from the private sector. It's to stop tax avoidance. But in the public sector it's unfortunate that you get trapped by the same rule. Thus, there is sometimes a reluctance to fund the amount into a registered plan because 50 per cent goes off as a prepaid tax to the federal government. That amount is recovered when eventually you pay it out to the recipient on their pensioning. You get the 50 cents back and pay out the dollar to the recipient. We looked at that with the department of finance.

Merwan, the government as a whole is looking at SRPs. How are they going to handle this?

Mr. Saher: My comments will reference page 219 of the October report. We really have an observation there on the state of progress of a recommendation we made to the ministry of finance back in 2006. We had encouraged the ministry of finance to examine the risks in relation to SRPs and the risks if those costs are not in fact funded. The ministry did an assessment and came to the conclusion that the risks associated with SRPs would essentially be eliminated if, in fact, they were prefunded. We understand that the ministry of finance is working on a directive that would in a sense direct that SRPs be prefunded. That directive hasn't been issued yet. Prefunding would be done either by creation of retirement compensation arrangements, as the Auditor General has talked about, or the specific earmarking of assets. In other words, some of the organization's assets would be identified as being the source which would be used to fund pensions when they became due.

The Chair: Thank you.

Mr. Kang: My supplemental has been somewhat, I think, discussed in this, but on the same page it also states that the department of health provided a grant to AHS to fund these unfunded SRPs. I'm wondering how much of a grant was given, and if a grant was already given to fund the full liability, why is their unfunded obligation still so high?

Ms White: At the year-end the \$20 million is unfunded. During the year they received funding from the Department of Health and Wellness, a total of \$20 million. They just haven't decided whether they would put the money into a registered plan, as Fred has referred to, or earmark some assets set aside. That decision wasn't made at the year-end. They're working on that decision going forward.

Mr. Kang: Thank you.

The Chair: Thank you.

Mr. Sandhu, please, followed by Mr. Chase.

Mr. Sandhu: Good morning, Mr. Chairman. Good morning, Mr. Dunn and your staff. First, I'd like to thank your staff for doing a wonderful job in keeping all the ministries in line, which all Albertans appreciate.

My question is on page 192 of the October 2009 report, a recommendation involving the IT security system for WCB. Are there any established, set criteria that are used for assessing IT security in government departments and boards?

Mr. Dunn: Okay. I'm going to turn that over to you, Vivek. If you can talk about the whole IT security frameworks, that we've been promoting for the last few years, around all agencies, boards, and commissions, and then, Jeff, maybe to WCB specifically.

Mr. Dharap: Yeah. Well, if you go back to the April 2008 report that we issued, we had a big recommendation on IT control frameworks, and that was a recommendation that identified that there wasn't the existence of a control framework guidance within the government. What we mean by that is that the departments hadn't been told how to follow certain practices to ensure that their IT environments were well secured. That is an outstanding recommendation that we'll be following up on.

Mr. Dunn: That's for the government as a whole.
For the WCB, Jeff.

Mr. Dumont: Yeah. For the WCB in particular our point was fairly straightforward on that, that the access violations are not actively monitored, so they just need to put in a process to actively monitor those violations.

Mr. Sandhu: A supplementary: how does the government perform overall when it comes to security in the real world?

Mr. Dunn: Okay. Again I'll start out, Vivek. That was a very large piece of work that we did that we reported in October 2008, and it did cause some angst. I'll be very honest about that. Since that time Service Alberta has undertaken quite extensive work. We started out looking at websites and moving into the security of information protection throughout the whole of the province. They have undertaken significant work over the last 18 months, I believe, quite extensively. Very strong improvements have been made, but the work is not finished.

Vivek, can you briefly update?

Mr. Dharap: As the Auditor General mentioned in his opening remarks, that's an audit that I'll be doing in the next year, reporting back next October, following up on the protection of information assets, a recommendation we made in October 2008, which looked at the physical Internet and wireless security in government.

Mr. Sandhu: Thank you, Mr. Chairman.

The Chair: Thank you.

Mr. Chase, followed by Mr. Bhardwaj, please.

Mr. Chase: Thank you. I'm referencing the October 2009 report, page 23, and I'll have a series of follow-up questions with regard to executive compensation practices. On page 23 under recommendation 1 it states, "The government has not formally provided public agencies with guidance on executive compensation practices." Can the Auditor clarify if there was an informal guidance or some sort of best practice in place with the public agencies to determine executive compensation practices, or did each agency essentially make up its own set of rules?

Mr. Dunn: There is an executive compensation directive out – and I think it's 12/98, if I remember – for disclosure. It's disclosure as to what is paid and how it is disclosed, so the disclosure side of it. The directive and what we were aiming at here is the guidance as to what to agree to prior to you making the payment. When we did the CEO selection, evaluation, and compensation program, as I mentioned earlier, we saw a great deal of inconsistency.

Many of the organizations were trying to follow what is seen to be best practice. When you said guidance, was there any official government guidance? No, but there's an awful lot of good private-sector guidance that is coming out of different governance organizations like the Canadian council on good governance, and a number of them were looking at that for their information and what they could be doing. They were doing it on their own to the best of their ability in their organization. However, it is flawed to the extent that if you don't have good people on those boards who really understand compensation and what is good practice, then of course you may fall into some traps.

Ed, when you looked at this section here, your conclusions?

Mr. Ryan: The conclusions were that they were actually on their own, as you suggest, sir. There are some good practices that are available through governing organizations, but each agency, each board was pretty much on its own to determine what they felt was a reasonable rate to pay their chief executives.

Mr. Chase: Thank you. My supplemental: were any of the recommendations made in your October 2008 report on compensation for public agency boards of directors being acted upon when you completed your audit for your most recent report, or did any of the public agencies voluntarily implement those recommendations to all their senior executives?

9:10

Mr. Dunn: On the latter point, yes, some have been volunteering to do it.

Ed, as to consistency across the whole?

Mr. Ryan: Well, again, we see an inconsistency across the whole sector, and that continues. The recommendations that we made in our previous reports are still under review or have been accepted in principle, but the agencies involved have said to us that they look forward to guidance, that they're looking for guidance. To the extent that they've been able to get that information from other sources, then they've been going ahead to do that, but there still is an inconsistency across the board, which we've demonstrated in our latest report.

Mr. Chase: Hopefully, it's not along the lines of: if I've done anything wrong, I'm willing to be forgiven.

The Chair: Thank you, Mr. Chase.

Before we get to Mr. Bhardwaj, the chair would like to recognize Mr. Mason. You've been added to the list, sir.

Mr. Bhardwaj, please, followed by Mr. Kang.

Mr. Bhardwaj: Thank you very much, Mr. Chairman. Mr. Dunn, a number of comments have been made about the invaluable service you provide to us, to the government and Albertans. I'm just wondering if you undertake any kind of promotion to let Albertans know of some of the services you provide to the government.

Mr. Dunn: As you're aware, the office has been in existence for many years. In fact, the legislation goes back to 1978. We do have website information, et cetera. We do an annual business plan, and we put it on our website and all that. I don't believe, though, that we need to be into self-promotion. More so, what I would look to for my senior people is that we're aware of issues that are of interest to Albertans. That's really what we want to find out. Are we aware of the issues? Are we looking at important matters? This comes back to this committee and what it was debating last meeting.

We look to you, the MLAs, and especially this committee to help us find out what are important issues that we should be spending time and resources on. Although you don't approve the budget of the office, you receive the results of all our work. Hopefully, through the receipt of all that, it implies that this is important and critical work, and thus you as MLAs are better able to do your job and discuss the matters that are important to Albertans and the House, that type of thing.

I don't think that we need to go forward, although I can listen to my colleagues and this committee, to any self-promotion. I think what is more important from us on the HR side is to make sure we can recruit good people to sustain the office in the future. I have not

tried to do any overt advertising around the importance of the office. We do meet with a sister committee, the Standing Committee on Leg. Offices, and we do explain our mandate, and we do explain to them the resources that we consume.

Mr. Bhardwaj: I guess my follow-up question you've kind of partially answered, that you're not doing any kind of self-promotion. That was really my next question. You do take the time to do a survey with all of the MLAs about the type of performance you're doing and the type of work you're doing. I'm just kind of curious as to what would be stopping you from sort of doing a sample across the province on the type of services you're providing and what you're doing and your own evaluation, for that matter.

Mr. Dunn: Thank you for the question, and indeed thank you for the reference back to the survey. That was the first time we have surveyed the MLAs. Of the 83 MLAs, we did receive, I believe, Ed, 32 responses, and that was the first time. We would expect that we could do this in the future, and we'd look at it biannually, every second year. We appreciate that at the time we did the last one, there were 30 new members in the House, and we did not know the responses as to party affiliation or length of service per se, I think. Indeed, you're our primary client. We'd look to that or that type of information as to: are we doing that which is important to the Legislative Assembly versus Albertans as a whole? That would be a very large survey, and I'm not sure we would get as much out of that as we would from yourselves.

Mr. Ryan: I think we'd like to take that thought under advisement. Thank you for that thought, sir. I think the only other thing I'd like to supplement the Auditor General's comments is that on a regular basis we as the executive committee are asked and do presentations to professional organizations, to service organizations, and within our client base on specialities that we do within our office. So at any point in time we may be in front of a department, in front of a group, in front of an executive board of a postsecondary institution to describe what may happen if there are unethical practices being undertaken or, more generally, what performance or systems audits are all about. So within our own base we do some I wouldn't call it advertising, but I would call it a distribution of the types of services that we do. As far as the survey goes, we're hoping to resurrect that and have another MLA survey within the coming 18 months.

Mr. Bhardwaj: Thank you very much.

The Chair: Thank you.

Mr. Kang, please, followed by Mr. Fawcett.

Mr. Kang: Thank you, Mr. Chair. Referencing page 267, what was the explanation given for why the AHS Board did not approve the health authorities' budgets? Why didn't the minister step in and approve budgets in the absence of approval from the AHS?

Ms White: Really, the explanation we received was that they accepted the RHA budgets as they were. The new AHS Board just worked with those, and no one felt the responsibility or obligation to approve those old budgets because they weren't involved in the previous boards. In terms of the minister, the minister is not required to approve them, and that was our understanding, that they just receive the budgets, and they were not approved by the minister also.

Mr. Kang: So, literally, that was my supplemental as well, you know, the explanation for the absence of a consolidated AHS business plan. What was the explanation that maybe was given for the absence of a consolidated AHS business plan or budget for 2008-09?

Ms White: The explanation for the consolidated AHS budget and business plan was that, of course, AHS as an entity did not fully exist until April 1, so they did not feel that it was necessary or required to do a consolidated budget or business plan for the previous year.

Mr. Kang: Thank you.

The Chair: Thank you.

Ms White, the memorandum of understanding that was signed by the minister, by the former CEO of Alberta Health Services, the interim one, and the board chairs, I believe: was the minister not responsible in that memorandum of understanding for the budget?

Ms White: I would have to get back to you, Mr. MacDonald. I don't remember clearly what the provision was for in that memorandum of understanding.

The Chair: Okay. Thank you.

Mr. Fawcett, please.

Mr. Fawcett: Yes. Thank you, Mr. Chair. I want to follow up on my previous questions. I guess I'm looking for some clarification. With only having Alberta Health Services now and only needing to do one audit as compared to multiple audits, do you expect the audit to be easier than if it was, you know, multiple different audits?

Mr. Dunn: Actually, right now we are in the planning phase, and we are meeting tomorrow morning with Alberta Health Services' Audit and Finance Committee. I guess the word that I find a bit humorous is "easier." This is going to be a complex audit. But you're right: within one structure hopefully the flow of information will be more complete.

Ms White: We certainly expect the audit to take significantly less time. We have talked with Alberta Health Services now that they have a full management group in place to oversee all the accounting and all the financial reporting. They've committed to improve their practices to ensure that the financial statements and the audit process run more smoothly. It is the largest audit we do in the office, so it is still very complex, but it might be easier, as you say.

Mr. Fawcett: Okay. I guess my follow-up. You said there'd be less time. Would that mean there would be a cost savings to the amount of money your office spends on auditing the health system?

9:20

Mr. Dunn: Can you remember the numbers?

Ms White: I don't have the numbers offhand, but yes, there is a cost savings to that.

The Chair: Thank you.

Mr. Mason, please, followed by Mr. Jacobs.

Mr. Mason: Thanks very much, Mr. Chairman. I don't know if we're going to have another opportunity, but I certainly just want to

thank the Auditor General for his work on behalf of Albertans and his staff. I think you've made an outstanding contribution, and I think the citizens and taxpayers of Alberta owe you a debt of gratitude, so thank you.

I want to ask about the royalty implications of bitumen. There's a section in your report of October on page 195 talking about the Department of Energy improving its monitoring of the implementation of bitumen valuation methodology. I guess my question is whether or not in the administration of the regulations around bitumen there is any component which deals with the economic implications of the export of unprocessed bitumen versus the upgrading of it in Alberta. Is there anything in the government's methodology which takes into account the value-added component of upgrading the bitumen here in Alberta?

Mr. Dunn: Okay. I'm going to turn this over to Doug. It's a very valid question. Certainly, they are conscious of the upgrading that is required, and hopefully all members appreciate that bitumen is not a wide market, where you could quickly pick out of a newspaper what the value of bitumen is. Bitumen historically has been a derivative of what's called the west Texas, you know, the WTI public fund, and historically there's been a fairly large gap between the processed oil and that which can go right into the refinery versus the bitumen, which needs the upgrade there. Historically it has been a fairly large gap, which then validated the upgrading because of that large gap. It has narrowed over time.

Doug, I'm not certain if there's a computation you've seen that talks about the value of the upgrading.

Mr. Wylie: I'm going to try and answer it in two parts. I think part of the answer lies in the framework that they've accepted, and that is dealing with the recommendations coming out of the royalty review framework and what the government accepted with respect to bitumen. It's a sliding scale on the royalty from 1 to 9 per cent and then from 25 to 40 per cent, I believe, on the payout. So they didn't accept the full recommendations of the royalty review panel, and I think part of the explanation for that was that they wanted to recognize the value-added, the upgrading component within the province. So to the extent that that manipulates the numbers, I'm not too sure, or to the extent of the calculations I'm not that precise.

Within the regulation itself I think there is a provision, again, but it would be within the overall calculation of what they are trying to achieve here in what they would be charging for the fair value of bitumen, which is what they are trying to achieve in non arm's-length transactions. So I can't give you a specific answer, but I believe it was certainly considered when looking at the overall framework and then the calculations that are used to arrive at what the companies are going to pay. That's a detailed question. I think the department would be best to answer that.

Mr. Mason: Thank you. Just to follow up, then, on that question, it indicates that there's been considerable discrepancy between what different operators have valued their bitumen on. This is identified in the report, page 196. I'm wondering if you think if that's been successfully resolved. It says that the department had asked – I'm assuming they asked the people who were lowballing – to raise it rather than the other way around, but I won't really assume that, and have required a standard value now to be assigned. It says subject to resolution of that. I'm also curious as to how that gets resolved.

Mr. Wylie: Two areas, I guess. The department immediately requested that the producers start remitting on what the department's interpretation of the regulation was. They're certainly receiving

based on what the department believes they should be receiving. There is still, I believe, a dispute with the department and industry on that. There is a dispute mechanism that I believe has been acted on. So, yes, the department has acted on this since we raised it. They are collecting. The cash remitted is based on what the department believes they should be, but there is a dispute resolution process, which I believe is ongoing now.

Mr. Mason: Do you know what that is?

Mr. Wylie: Well, it's a process that's part of the agreement, that both parties are going to present their case, why the producers believe their valuation is the correct one. The department will be presenting their case, and it'll be presumably arbitrated in some fashion.

The Chair: Thank you very much.

Mr. Mason, anything else? No? That's it for now?

Mr. Mason: Sure, lots more. If I can have more than two questions, I'll take it.

The Chair: Okay. Well, we'll put you back on the list.

Mr. Jacobs, please.

Mr. Jacobs: Thank you, Mr. Chairman. Mr. Dunn, there may be some people who won't like the question I'm going to ask you now – especially if you work for the Alberta government, you may not like this question – but I think it's an important question. I think many Albertans have shared my thoughts on this question. Since coming here, I've been somewhat surprised by the number of people who are employed by the government of Alberta. My question to you is: what process do you have to evaluate the efficiency and number of employees that work in the various departments of the Alberta government to determine if we really need that many, if they're working efficiently, so on and so forth? Do you look at that at all, or if not, why not?

Mr. Dunn: Okay. We don't look at that specifically. We're certainly conscious of the expansion of the government. Obviously, every time a ministry is created, through the ministry a department then generally service delivery vehicles – agencies, boards, and commissions – get created. Yes, we appreciate it's because of just the expansion. We show you in all these publications that it has expanded over the last seven-year period. It's had quite an expansion there. However, what they are trying to do – and I believe it comes back to you as MLAs – is satisfy the requests of the citizens.

Do we actually look at the amount of the hiring? We look at it from two perspectives. One, we look at what the program is they're delivering and what they are trying to achieve. That's, thus, the outcomes that they expect of any program and of program enhancement, and we expect that they come out with performance measures. That's one of the reasons why we still stay involved in that performance measure: they have a program delivery, they have an objective, and then do they do it?

We then look at the systems by which they do that and report on efficiency and effectiveness of the implementation system. It's up to the department, though, to defend why they're doing the program, and it's up to the minister to support why the program is important to be received by Albertans.

To that extent, we look at it only from: you do have a program, you have an objective, you have a way of evaluating the performance of that, the outcome achieved, and we look at it from just that

system side. Have you got the people, the processes, and technology in play that will achieve that outcome, and then do you report it accurately to the MLAs?

But as to whether or not the ministry needs to be there or the program needs to be delivered, that, I believe, is the responsibility of the Legislative Assembly.

Mr. Jacobs: A supplementary, then. I think your comments are well taken, and I appreciate what you're saying and agree with you. Nevertheless, as a legislator elected to represent some people in Alberta and collectively as Members of the Legislative Assembly who represent all the people of Alberta, I think it would be helpful to me to know, okay, so the program is deemed necessary and you have performance measures, but still I'm always comparing government to the private sector. You know, I always ask myself: would the private sector be able to deliver this program more efficiently with even fewer employees or more efficient use of employees? It's something you might look at sometime to help us as MLAs to actually form an opinion on the efficiency and effectiveness of those people who work for the people of Alberta.

9:30

Mr. Dunn: Thank you. I accept the question and the challenge, and we will consider that within the boundary that we will not step across into public policy. It is something which we are very conscious of and we do get challenged on. Public policy is the purview of the government and the Legislative Assembly. We look at the successful, efficient, effective implementation of public policy. That is something which our office, I believe, whether I'm there or not, will try to avoid stepping into commenting specifically on, public policy.

The Chair: Thank you.

Mr. Chase, please, followed by Mr. Johnson.

Mr. Chase: Thank you. Again I'm in the October 2009 report, referencing page 26. What explanation or justification was given for crediting a CEO with 28.6 years of pensionable service when the individual only worked in the health region for 8.8 years?

Mr. Dunn: Ronda, do you want me to start out?

Ms White: Yes.

Mr. Dunn: This is a matter that we had raised when we looked at all the CEO compensation. As both Ed and Ronda have commented on, part of the frustration I did express was the inconsistency and the entitlements within these contracts that these self-responsible boards were agreeing to. I had publicly commented that I felt on occasion that some of those compensation committees were maybe not properly armed with the proper background to be able to make those agreements and recognize the consequence of when you add on so many what's called past service costs.

This was a contract that did come from – everybody, I believe, knows it – the Calgary health region, and it was agreed to up front that there would be a two for one and a number of extra years credited for every year of service.

Ronda.

Ms White: Yeah. Our understanding was that part of this was due to, of course, the individual transferring from another pension plan. The other was just an employee benefit as part of the recruitment and retention process.

Mr. Chase: Thank you. My supplemental: who determined this additional pensionable benefit for this \$20,000-a-month man? Who approved it?

Mr. Dunn: All of those executive contracts were approved by the boards of directors of those regional health authorities that were in existence at that time.

Ronda, any more?

Ms White: No. That's correct. The boards themselves approved all the contracts.

Mr. Chase: Thank you.

The Chair: Mr. Johnson, please, followed by Mr. Kang.

Mr. Johnson: Thank you, Chair, and thank you, Mr. Dunn and your staff. I know there's no question of the value of your department. But as Mr. Jacobs described, everyone is under the microscope right now, especially in government, in terms of validating programs and budgets and FTEs and all of those things. As I look through your financial statements, I just need a better understanding of a couple of things. One is the growth in your budget and the growth in your expenditures as a department. In particular, of course, last year we saw the 13 per cent increase, which is very significant, and I don't know if we have any government departments other than health that are increasing by that much. Even over the last four years we've seen the increase – I see your graph here – from around \$17 million to close to \$23 million. I also see that you budget for about 131 FTEs. I'm just wondering what your growth has been in FTEs and if you can clarify why we've seen that kind of increase.

I preface that by saying that I realize that in an organization as large as the government of Alberta we could probably have a department five times your size and keep them busy, but as you've said, we need the value for money. I'm wondering where that sweet spot is in terms of how big your department should be and how much value we're getting for those dollars and why we've seen the growth.

Mr. Dunn: Thank you for the question and the way in which it was phrased. Indeed, our office has grown, and we do have what I'm going to call a target or expectation of approximately 130, 133 FTEs. Last year – and we have explained this to the standing committee, by the way – one of the biggest cost drivers was taking on the full Alberta health sector, where we historically had not been the auditor of some components of that. Then, of course, it got larger than we even expected at the planning stage, and as Ronda White has just explained, the impact was a much larger number of hours on that.

Because of the size of the organizations that we're responsible for, we can't do it all through our own staff, so as we go through this with the standing committee, we have to employ agents and outside individuals. I think we all appreciate that over the last couple of years the costs were increasing quite dramatically in the private sector. The rates that we were having from our agents and associates that we engage, which is approximately about \$5 million of our \$23 million, were going up very rapidly. At that same time we were having difficulty in retaining some of our staff – we had a very high turnover – so we had to recruit externally for new and senior people, and the salary expectations were going up. So the combination of an expansion of work, outside pressures on the cost, and then internal pressures on the cost, too, has resulted in that cost consequence.

In the increase last year we did apply for a supplement – it's the first time the office has ever applied for a supplement – which we

were granted. We were very conscious of the fact that we've got to try as much as possible to make sure that we do the two lines of business, as you see, if you refer to page 23, schedule 1, the two lines of service. The attest side, the assurance audit, all these financial statements of these 183 entities take up a high 70 per cent, so generally in and around 75, 78 per cent, of our fixed resources. Other than to try and somehow remove ourselves as auditors, we have no discretion but to do the annual attest audit. Whether it be ATB, WCB, or any other entity or any of the colleges, we must do the audit and report within the time frame.

The systems auditing side is approximately 25 per cent, 23 per cent of our resources. In there there is some discretion because, as we've explained, in the past what we've done and also, as I signalled in my opening comments, what we intend to do in the future is that some of that work could be deferred to future years. That's the challenge we face every year. How much is appropriate, are we fulfilling our mandate, and are we providing the service that this committee and the Legislative Assembly expect?

The Chair: Thank you.

Before we proceed to your second question, Mr. Johnson, I would like to remind you that Leg. Offices, another standing committee of the Assembly, will be dealing not only with Mr. Dunn's budget this Friday but the other four offices of the Legislature as well. I would like to remind you that the Auditor General's office now is providing us and the public, the taxpayers, with two reports annually, in the spring and fall, and they're doing a lot more work with the resources that are provided to them.

Mr. Johnson: Excellent.

I just have one other question for you, Mr. Dunn, and I also say this with the utmost of respect. You mentioned salaries. Can you just clarify what I perceive as some – you talked a little bit about recruiting, but we do have some significant increases in salaries. Then just what we spend on our Auditor General's office: do you have a sense of how it compares with other provinces as a percentage of their budget or percentage per capita?

Mr. Dunn: Yeah. Just picking up on one of the chair's remarks, the salary of the Auditor General is set by the standing committee, and historically it's been a derivative of a deputy minister. The standing committee under the contract is responsible for setting that. They do a cross-jurisdictional comparison. They do that for all officers.

Within the office, though, the setting of the salaries, we look at the public-sector standards. What are the appropriate ranges? We try to align our staff within the public sector's criteria or segments. We do some benchmarking with the private sector in both Edmonton and Calgary – we have an office also in Calgary – and we benchmark it against the profession's salary levels. We use that, obviously, in two ways: making sure that we remain competitive – we aim not to be at the top, but we aim not to be at the bottom, somewhere in the middle – so that we can retain our staff, but also we have to be aware of what the cost is going to be if we have to recruit from outside. So we do market comparisons, and we compare ourselves to the whole of the public sector, and we align our staff levels with the similar levels of experience and expectation within the public sector itself.

9:40

Mr. Johnson: Thank you, Mr. Dunn.

The Chair: Thank you.

Mr. Kang, please, followed by Mr. Quest.

Mr. Kang: Thank you, Mr. Chair. On pages 39 and 40 of the October report it deals with third-party verifiers that the Department of Environment uses to verify emissions reports. The question is: does the Auditor General question the qualifications necessary to be a third-party verifier for specified gas emissions? What qualifications would you see fit?

Mr. Dunn: Okay. Merwan, this is climate change and greenhouse gas emissions.

Mr. Saher: Well, the regulation actually sets out the qualifications required of verifiers. They are to be chartered accountants, professional engineers, or any other individual who can demonstrate that he or she has an equivalent skill. So the qualification requirements are set out in the regulation. Practically speaking, you can be a chartered accountant and know very little about measuring emissions. Nevertheless, as a chartered accountant you have skills in verifying and producing assurance on a given subject matter. What is needed is the verifier bringing to the verification process the right skills, and that is done by chartered accounting firms ensuring that they have engineering skills brought to bear in their audit teams and engineers ensuring that they have sufficient assurance skills brought to bear.

Mr. Kang: So, then, did you find that the department responsible for administering the program for Alberta Environment had the necessary qualifications? Are they necessarily qualified?

Mr. Saher: Yes. We had no audit finding that anyone involved in the verification was not suitably qualified to do that. The reporting that we essentially had from this audit of the specified gas emitters regulation was that the department could provide better advice to those doing the verifications, but we had no issue with the skills of the verifiers.

Mr. Kang: My concern is why that question was raised if you know what the qualifications are. That was my concern.

Mr. Saher: Well, I think on the pages that you're referencing, we're actually just giving some background information on the skill levels required. It was not presented and not intended to convey an issue or a worry from the audit office about skill.

Mr. Kang: Thanks.

The Chair: Thank you.

Mr. Quest, please.

Mr. Quest: Thank you, Mr. Chair. In the April '08 report, and actually as just previously mentioned here by the chair, you've gone from annual to biannual reporting, which obviously is a lot more work. I'm just wondering if you have found this frequency to be beneficial at this point.

Mr. Dunn: I'm going to ask you, the committee, to answer the second part of it.

Mr. Quest: No. You can't answer a question with a question.

Mr. Dunn: Yeah, there was some issue about: "Well, all right, why are you doing two reports? This is going to be more expensive. It's more publication." As I tried to explain, the size and the complexities of the public sector which stand before you is 183 entities. What

we were finding when we were doing one annual report was that there were matters we were identifying many months earlier that were sitting with the board or agency, et cetera, through the management letter, sitting there for many, many months before they were able to be brought to your attention. That was one of the first items: are we reporting in a timely manner matters which were identified?

The second part was that our report, the annual, was getting so darn large and thick that it was almost incomprehensible because you had all the stuff coming in one big report. As those of you who have been around for a bit of time realize, it was getting to a multitude of volumes there.

Another matter that was coming out, if you can remember, was that there were some sensitive issues that came up in some earlier years around BSE, ASC, and some other matters, where we were being required to put out special reports, so they were more ad hoc. In part to serve you, in part to make sure that we were bringing things forward from the agencies, boards, and commissions, who would also like to make sure it got out and was appropriately thought of and considered publicly and that type of thing and that they could officially act on the matters, we thought that semiannual reporting would be more appropriate. Traditionally it's always been October, so we selected six months earlier, in April, that it would come out.

The other part was that there were many materials that we had created or worked on that never saw the light of day to you. That's because a number of organizations don't have March year-ends. By way of a good example is the college sector, which has a June 30 year-end. We'd finish that work generally in the months of September and October and report on it, and then we wouldn't be reporting until one year later, and it all seemed stale-dated or out of date even though it might have been quite important.

With the combination of all those different objectives we felt that semiannual reporting was more appropriate.

The final thing, maybe to some of the other questions that we've had around the efficiency of our office. I'm very conscious of the efficiency of our office. I'm sure my staff will understand that. It also does something: it is self-induced efficiency. You've got to get it finished, get it reported because we're going public. There was an internal benefit there also, forcing our staff not to sit on matters and let them languish but to get it ready and get it finalized, report it through the management letter, and then publicly report it. So there was an internal efficiency attribute to it also.

Mr. Quest: Okay. So we've got more frequent reporting, and with that are going to come more recommendations and more frequent recommendations for opportunities, obviously, in the different departments. With that, has the amount of time for the departments to respond to these recommendations or implement these recommendations been reduced, then, with this more frequent process?

Mr. Dunn: There is an element of that, but remember that prior to the public report is the management letter, so for all matters that make their way into these reports that you receive, the management has received them many, many months earlier through the management letter. We track them from their management letter. All management letter recommendations, many of which come here but not all, we do track within the departments, so to that extent they already had received them and, if it was valid, should have been working on it.

What is now accelerated slightly is that the government's response from the April report now starts the time frame for the three years I referred to earlier, so there has been a little bit of movement forward.

Some boards and agencies might have had a management letter a year earlier that did not get publicly reported until October. It will now have been reported in April, and if the official government response is that we accept it and we want it implemented, yes, that semiannual reporting has moved that forward by six months.

The Chair: Thank you.

Mr. Mason, please, followed by Mr. Sandhu.

Mr. Mason: Thanks very much, Mr. Chairman. Mr. Auditor General, I'm cognizant of your concern about straying into public policy and appreciate that. One of the policies of the government has been to reduce certain taxes over a period of time. I'm particularly interested in the corporate tax rate, where there's been a reduction of I think in excess of a third over the last eight or nine years. Also, some of the very lowest oil royalties in the world have meant that we have become very dependent on natural gas royalties as a revenue stream of the government. I guess the concern is that we shouldn't be in a position where we don't have a robust source of revenue to the point where every time gas prices go down, we have to lay off nurses.

I wonder if you could comment on whether or not the government has evaluated whether or not there is any benefit and what that benefit is of its corporate tax reduction program. I would think that that would be treated as a program, as an expenditure, and that we would have to see some measurable results or that it should be undertaken with a view to accomplishing something and that that should be measured in some way. I wonder if you could comment on that.

9:50

The Chair: Thank you.

The chair would like to remind the members that on page 46 of the consolidated financial statements are the actual amounts for 2008 and '09 for corporate income taxes, so we can frame that rather broad question directly to that page, Mr. Mason.

Mr. Mason: Thanks very much, Mr. Chairman.

Mr. Dunn: Thank you, Mr. Chairman. That's exactly the page I had turned to.

I'm not going to comment on public policy. Try as you may, I'm not going to comment on public policy. However, as the chair has just referred you to, Alberta has a very holistic and complex, complete reporting. Public policy is adequately described as to its outcomes and its consequences. The chair has just referred you to page 46, which talks about all revenue sources. Remember that below this consolidated statement is each of the ministries' and each of the departments' statements that then broaden this disclosure. The consequence of any public policy is described within the results that are achieved, and Alberta has for many years reported exactly what are the sources of revenue from which it funds its programs.

I believe that anybody who has paid any attention at all to the public reporting would be well aware that 75 per cent of the energy sources came from natural gas. That has always been an understanding. It has decreased over time as natural gas commodity prices have gone down, but Alberta historically received 75 per cent of its energy sources from natural gas. That was the expansion of the industry, the expansion of the commodity prices, and the size of production. Therefore, I don't believe that people should be at all surprised that at the end of the day, should there be a curtailment in one source, you would understand the impact because, as I say, it is well accounted for and well disclosed and has been for many years.

Mr. Mason: Well, I'm glad I have a follow-up because I don't really think he answered the question with respect to objectives around the corporate tax reduction program, so I'll repeat that question and won't confuse the issue by talking about gas royalties. Is there a set of objectives that the finance department or our Treasury Board or the government generally has around the reduction of the corporate tax rate and the forgone revenues that have resulted, and is that measurable? Does the government have measures in place so that they can track the results of that program of corporate tax cuts?

Mr. Dunn: Indeed, it is laid out in each budget as to what are the proposed rates that will go forward as to both personal and corporate. On the question as to the objectives, I believe that that belongs to the ministry of finance, and they should be able to say what their objectives are. The consequence of it, though, as I say, is well described within the financial records. As to whether or not they have laid it out clearly for you or for others is a question you can raise with the minister of finance and with that department.

The Chair: Mr. Sandhu to conclude, please.

Mr. Sandhu: Thank you, Mr. Chair. Again, I want to thank Mr. Dunn for what he has done for Albertans. Mr. Dunn did a very good job while he was in office.

I want to go back to April 2009, page 123. You've got 41 recommendations outstanding. They start from 1996-1997 up to 2005. Is there any expiry date, or why is it not implemented yet?

Mr. Dunn: My colleagues have reminded me that there is no such thing as an expiry date. We just keep following them up and keep reporting to you as we repeat them again. However, some of the ones that are very long outstanding do come back to accounting principles.

Merwan, you have lived this for 20 years. Accounting principles in total, but some of those are going to be addressed this year, those very long, 20-year-old ones.

Mr. Saher: Well, yes. Just for the record I think the longest outstanding recommendation is that the government of Alberta should expand the government reporting entity to bring into the consolidated financial statements on a line-by-line basis all of the SUCH sector. We made the recommendation long before the accounting standards, in fact, changed and mandated that governments should report in that way. The government is complying with those standards, and for the year ending 31 March 2010 this province will have its first set of line-by-line consolidated statements including the SUCH sector. When we actually see that, then we'll knock that oldest recommendation off the list.

Mr. Dunn: But to be specific to your question, we never let go. We follow them up and keep reporting.

Mr. Sandhu: Why is it taking so long, from '96, you know, up to 2005?

Mr. Saher: Well, in that particular case I think that, reasonably, the government wanted to see whether a standard setter, in fact, could produce a standard that was rational and made sense and supported the argument. The government wanted to look at what others were doing. We were not able to persuade them prior to there being a standard in place that required it to be done.

Mr. Sandhu: Thank you.

The Chair: Mr. Chase, you had a question that we could read into the record and have a written response to, please.

Mr. Chase: Yes. Thank you very much. I just want to provide a bit of a qualifier for this.

The Chair: If you could proceed quickly because there are others on the list as well.

Mr. Chase: Yes. Thank you. Okay, I'll go right into it. There are tempests of the teapot nature, and then there are those of the chamber pot variety. Anne Stalker, head of the Faculty Association of the University of Calgary, wrote a scathing open letter to the board of governors regarding the board of governors' lack of communication both with faculty and, in the case of President Harvey Weingarten's compensation package, with the Auditor General. There were problems with disclosure as well as the size of compensation. I would appreciate the Auditor General's comments particularly on the size of the compensation. Harvey was compensated for his 20 years at McGill, but he only worked for the University of Calgary for nine years. Nine very productive years, I might add, but there was concern about the compensation and how it was reported.

The Chair: Thank you for being so concise, Mr. Chase.

Mr. Mason: On the same point, Mr. Chairman, I would like to table copies of an open letter from the Faculty Association of the University of Calgary to the board of governors of that institution with respect to financial accountability and executive compensation.

The Chair: Okay. Thank you. Appreciate that.
Mr. Kang, do you have a question?

Mr. Kang: Yeah. On page 47 tillage is the most utilized form of offset. What proportion of the offsets were found to have supporting evidence below that which is necessary to provide the assurance that the offset credits actually existed? The supplemental is: how much would that be in dollar terms; that is, how much did industry give to questionable projects?

Thank you.

The Chair: Thank you.

Mr. Dunn, I have a question as well, from page 16 of the consolidated financial statements, 2008-09. There is additional cash of \$1.5 billion from 2008-09 fourth-quarter results that will be deposited in the sustainability fund. Could you tell us, in writing to the clerk, please, if that money came from unexpended programs in the departments, or was it an investment that really paid off?

Thank you.

Mr. Dunn: May I, Mr. Chairman, take one minute?

The Chair: Yes, you certainly can.

Mr. Dunn: First of all, through the chair to the chair and the vice-chairs that have served prior to today, I think this committee has improved. When I arrived here seven and a half years ago, I do not believe the Public Accounts Committee of Alberta was nearly as productive and as engaged and as knowledgeable as it is today.

Through you, Mr. Chairman, and to all the committee members, I hope you continue with that.

You're aware that I've just stepped off the board of the CCAF. I previously had involved CCAF around Public Accounts Committees' best practices, et cetera. I believe Alberta stands near the front. I'm not sure if you are the best, but you certainly are not at the back of the pack. Congratulations to all of you, and hopefully that continues on.

10:00

Finally, it's not the Auditor General. An Auditor General, I believe, is important, but it's the people. It's the people in there. The team will continue on. It's through them that the work gets done, and it's through them the reports are produced, and it's through them that they convey the messages to you. I want to thank officially all the senior people in my office, who will continue on.

They'll still be here to serve you. And I am not gone yet. I'm still here till the middle of February, so I'll see you at the next meeting.

The Chair: Thank you. We appreciate your efforts, and we thank you for that, Mr. Dunn.

Item 5. Are there any matters that committee members would like to raise at this time? Not today? Okay.

The date of our next meeting, of course, is next Wednesday, November 25, with the Solicitor General and Minister of Public Security.

If there are no other items of interest, may we have a motion to adjourn? Mr. Sandhu moves that the meeting be adjourned. All in favour? [interjections] May I have a motion to adjourn by Mr. Sandhu? All in favour? None opposed. Thank you.

[The committee adjourned at 10:01 a.m.]

