

8:32 a.m.

[Mr. White in the chair]

THE CHAIRMAN: Good morning, everyone. I'll call the meeting to order. I'd like to, first of all, introduce a new member on the committee. We have with us Ms. Sue Olsen. And we have – oh, Albert's not here. We're going to reintroduce Albert for his on-and-off-again move.

We do have an agenda before you. If we could have a motion for approval. So moved. Is it agreed? It's carried.

This being the first meeting this sitting, it behooves the chairman to outline the powers again. Of course, we know that all the powers given to this committee come directly from the Legislature, the Assembly itself and all the members there, under Standing Order 50. The guidelines we adopt ourselves, and it's a matter of practice how we conduct our meetings. We do have a note. The powers of the committee, as tradition has it, generally follow, although we have not adopted, the recommendations of the Canadian Council of Public Accounts Committees. We generally follow those. Is there a motion to that effect today?

MS BLAKEMAN: Yes, I'll move that.

THE CHAIRMAN: Moved. I believe the motion is that the recommendations in the practice of the committee be adopted as outlined in the Canadian Council of Public Accounts Committees guidelines.

Is that the motion?

MS BLAKEMAN: That's the motion. Thank you.

THE CHAIRMAN: Discussion?

MR. SHARIFF: Mr. Chairman, this issue has been debated and arguments have been presented over a number of years, and I don't see any reason for us to change the present practice that we have in place. Therefore, I'm not supporting this motion.

THE CHAIRMAN: Any further discussion on the matter?

MS BLAKEMAN: If I speak to it, do I close the debate?

THE CHAIRMAN: Yes.

MS BLAKEMAN: Okay. I'll wait.

THE CHAIRMAN: To close debate? Yes.
Any further discussion on the matter?

MR. ZWOZDESKY: I would just add, Mr. Chairman, that I realize this issue has been discussed before, and I respect the hon. member's comments, the gentleman who spoke just before me. But I think one of the reasons it does keep coming forward is because it is time that our province of Alberta and specifically our committee moved on with this issue and gave some very concrete evidence, if there is any, as to why this particular motion keeps getting brought up and defeated every year. Our business here is not only one of process but one of clarity and one of scrutiny, and while we are dealing with items that pertain to the past and cannot be undone, nonetheless it is our job to work within the particular framework established and try and clarify issues for ourselves, for our constituents, and for Albertans across the board. This particular motion advances that

cause because it talks to the operation and the nature of this committee. So I would appreciate hearing from the hon. member or from others some real substantive reasons as to why this particular motion should not go forward.

THE CHAIRMAN: Any further debate on the matter before it's closed?

MRS. O'NEILL: Well, I'll speak to it and the fact that I do believe there is process and there is clarity, and I feel it is not necessary for us to have it. Furthermore, the chair has not provided us, for this particular meeting, with what you have intended to bring forward here. I know that we did deal with it last time, so you have brought it forward at this point. Therefore, I am not prepared to support it.

THE CHAIRMAN: Did the speaker wish to have a copy of the . . .

MRS. O'NEILL: No. I have it. I have it from the last session that we had.

MR. ZWOZDESKY: Well, if I understand the speaker from St. Albert's request, part of what I heard her say is that she does not have before her a copy of the item, which is the guidelines of the Canadian Council of Public Accounts Committees, I believe. I'm wondering, if that is the case, whether or not it could be an undertaking of the chair, perhaps, and the secretary to provide everybody with that particular information, and we can defer this motion and come back. I think that's a fair request, hon. member, if that's what I understood her to say.

MRS. O'NEILL: I don't have it in front of me. I do have them. I have looked at them before. Thank you, Member for Edmonton-Mill Creek.

However, I fully appreciate it, but I do feel that we discussed this in the last session and made clear why we did not want to support this. I agree with the member from Calgary-McCall. I don't see the necessity for it at this time.

DR. PANNU: Mr. Chairman, I must first confess that I didn't review the reasons given last time by members who opposed this motion. Before coming to this meeting, I didn't have the chance to review those reasons, so I wonder if before we vote on this, those members who were opposed to the motion would kindly give brief reasons as to what reservations they might have or a reason they may have that would lead them to oppose the adoption of the recommendations contained in the Canadian Council of Public Accounts Committees guidelines.

THE CHAIRMAN: As chairman I can't ask anyone to speak who does not want to.

Any further debate or questions?

MR. SHARIFF: This is a very important committee, and we have a major task ahead of us. I believe that every minute we spend in repeating a debate that has been debated here umpteen times takes away from the work this committee has at hand. I would advise the hon. member to go back to the minutes of this committee in past years. There has been enough debate on this particular issue that he would be able to read what the arguments were and the rationale for not supporting this motion. Therefore I would suggest we proceed with voting and proceed with the meeting.

THE CHAIRMAN: Any further debate?
To close, Ms Blakeman.

MS BLAKEMAN: Thank you. I raised this issue again and put the motion forward again because I was privileged enough to attend the conference on Public Accounts Committees that was hosted by Alberta this summer and was really inspired by what I heard and was demonstrated to me in the different presentations that were made at that conference. The inspiration coming from other places where the committees were able to work together in a much more nonpartisan way is something that I favour. I asked to be on the Public Accounts Committee because I wanted to learn how to do it and learn how to do it well, to be able to scrutinize the public accounts on behalf of the constituents who elected me and on behalf of all Albertans. I think it's to everyone's advantage that we are aware of our public accounts and have a good mechanism in place for examining to our best ability to ensure that everything is being done according to the Auditor General's recommendations but also so that citizens of Alberta can feel that a job is being well done for them.

So please accept my apologies. I didn't do this in any way to be annoying to other people on the committee. I did it out of a genuine desire to have this committee operate in a more nonpartisan manner and operate according to the guidelines of the Canadian Council of Public Accounts Committees. As I said, I was inspired by what I saw this summer during the conference and learned by talking to people from other provinces and other countries about how effective their committees have been able to be.

I wonder if the fact that the debate keeps coming up is because people feel strongly that we could be a better committee than we are. I find that a part of the democratic process, and I wouldn't ever want to condemn repeated arguments or repeated debates on things. That means it's unresolved. So I do ask for the support of the committee members in passing this motion. I certainly do it in good faith, and I do it so that we can better represent the people in Alberta.

Thank you.

8:42

THE CHAIRMAN: Having heard the motion, all those in favour of the motion as put, please raise your hands so we can make sure we get them. Okay; good. All those opposed? The motion is defeated.

Moving on to committee funding. You have in your package the '98-99 proposed budget that will be going to the Members' Services Committee. You will note that there is again no provision for out-of-session committee meetings. There is no money set aside. That does not mean that we can't hold meetings; it just means that we would be in violation of Standing Orders as it relates to paying members' expenses for coming to these meetings. You will notice also that there is a provision for two members of the committee and a clerk to go to the annual meeting of the Canadian Council of Public Accounts Committees. That's a conference. This year it's in Yellowknife in the Northwest Territories. There are really no changes from last year. Could we have a motion to approve their budget, or is there some debate on the budget?

I am informed that the budget in fact has been approved by the Members' Services Committee and has been forwarded to the appropriate budget. What we do need to do is confirm that this committee recommends that two members of the committee – generally in the past it has been the chairman and deputy chairman – and a clerk be afforded the opportunity through the budget to go to that conference. Might we have some discussion or some motion to that effect? No discussion. Certainly we need a motion.

MR. STEVENS: I'll make a motion so that we can have discussion. The motion will reflect what it is that you want us to address. I'm sorry; I didn't catch the specific wording.

THE CHAIRMAN: The motion as put is that

this committee approve the expenditure for sending the chairman, deputy chairman, and the committee clerk to the 1998 conference of the Canadian Council for Public Accounts Committees.

Any further discussion? There being none, all those in favour of the matter? It's agreed. Carried. Thank you.

We need the committee's approval so as to table the report in the Legislature of our meetings from April '97 to December '97. May we have a motion to that effect?

MS BLAKEMAN: Yes. I'll move that we refer the report as submitted and forward it to the appropriate minister for tabling.

THE CHAIRMAN: Is it agreed?

HON. MEMBERS: Agreed.

THE CHAIRMAN: It's carried.

The time and date of the committee meetings. We have had no further advice to the contrary, so the meetings will be held at the same time and in the same place. There is one change in the schedule. The Treasurer, in that he is presenting his budget on the 12th of February, wishes to have a date moved. From the schedule you currently have before you, he is to appear on the 11th. On your behalf, I agreed that he could move to a week later so as to not get him too jammed up the day before the presentation of his budget, and I have now moved into his slot Advanced Education and Career Development, with the Hon. Clint Dunford being here at the time and confirmed. We will pass out a revised schedule now. If that's acceptable, could we move the acceptance of the schedule as delivered?

MR. SHARIFF: I move that the changes be accepted.

THE CHAIRMAN: Is it agreed?

HON. MEMBERS: Agreed.

THE CHAIRMAN: Carried.

The scope of the questions. It's a review for those that have been here for a number of years, but perhaps we should review it in any event. We are questioning those that come before us on history, not current policy or future policy. The chairman has been instructed time and time again to do all he or she can to restrict those questions to questions on the accounts. The policy that was followed at that time can be questioned also – by its very nature, you can't have one without the other – but future policy or present policy cannot and should not be questioned; that's for debate in other forums.

The number of questions will remain as in the past. A little bit of latitude is always given in the way of supplementary questions if they follow and don't take up too much time of the committee. We have had no complaints in that regard thus far in any event. It is still in the same manner.

The information. These meetings are public and will continue to be so.

Any questions, queries, or comments about that which I've just reviewed in the way of operation of the committee? There being none, we will continue on as we have before. That should bring to a conclusion that portion of the meeting that we call the organizational part.

Now I would like to introduce to you again a member of the provincial staff that has been here before, and he may wish to reintroduce his people. He has quite a few by the looks of it today. The Auditor General of the province, Mr. Peter Valentine.

MR. VALENTINE: Thank you, Mr. Chairman. It's a pleasure to be here. I'd like to first introduce my colleagues who are with me today. Starting on my extreme left and your right, Ken Hoffman, assistant Auditor General with overall responsibilities for performance measurement. On my immediate left is Merwan Saher, assistant Auditor General with responsibility for the office's professional practice and quality assurance. Gerry Lain, in the middle, is audit principal responsible for the audit of the ministry of the Treasury. On my far right and your left, Lawrence Taylor, audit principal responsible for Education and Family and Social Services. On my immediate right, Nick Shandro, assistant Auditor General with responsibility for Health, Advanced Education and Career Development, amongst other things. Jim Hug, who is the other assistant Auditor General in the office, has responsibility for Treasury and Municipal Affairs. He is away from the city today on office business.

As you are well aware, the most important output of the office is the annual report of the Auditor General. I am pleased to be able to acknowledge in the gallery this morning 14 members of my staff who have key responsibilities with respect to the production of that report, and I'm delighted they're here. In addition, I'm pleased to be able to introduce my wife, Peggy, and her colleague at the University of Calgary, Mrs. Brenda MacKenzie.

I gave you a substantial overview of the report at the last meeting, on December 10, and I don't intend to repeat that. I would ask that in your questioning you identify the page number of the report which you are referencing, and either I or one of my colleagues will be pleased to address it.

Thank you, sir.

8:52

THE CHAIRMAN: For a question, Mr. Zwozdesky.

MR. ZWOZDESKY: Thank you, Mr. Chairman. Good morning to you, Mr. Auditor General, and your staff and your good wife who is here and all the other guests we have. It's a pleasure to start off this session and be given the honour to pose the first question to the Auditor General and his department.

I note on page 26 of your report some extensive comments with respect to contracting out and the issue surrounding the disciplines of contract negotiations. I think it goes without saying that contracts between the government and certain outside bodies, or arm's-length bodies or whatever we wish to call them, have been the subject of great debate over the last long while, particularly as I reflect back on contracts, for example, with CKUA or Bovar or Al-Pac or any other contracts the government has engaged in. In particular, I'm interested in the comment that is made in paragraph three on that page where, quoting from the middle of the sentence, the Auditor General says:

We have also identified a general lack of knowledge and resources in the disciplines of contract negotiation and contract management. The frequency of contracts is increasing. I believe now is an appropriate time for ministries to improve contracting processes from a government-wide perspective.

I'm wondering, in support of that comment, if the Auditor General could tell us: did he find many examples of that type of disregard or lack of knowledge? What kinds of breaches, perhaps, did he find, and what measures have been enacted to correct those problems?

MR. VALENTINE: We have found a sufficient number to cause us to make a very strong statement in this section of the report, Executive Council. The kinds of things that are discussed in the Executive Council section are those that we believe are pervasive to the government as a whole, and the logical place for us to make

comment is in the Executive Council section.

You are aware of a number of instances that we have commented on in the past, both before my term commenced and since that time, and there are several notable examples that have received discussion in the media. I could reference you to the laundry contracting out issue at the Calgary regional health authority. I could reference you to CKUA, to the Alberta Special Waste Management Corporation, to the Michener Centre laundry contract issue, and so on. We are particularly interested in determining whether or not the department or the agency or the authority or the provincial corporation has a system to manage its contracted services and, if they have them, its grant administration. If they do have a system, is it working?

So we will continue to examine contracting as it's carried on in various ministries in each year in order to ascertain whether or not there is compliance with the system that's in place. If we find circumstances where there is no system in place, you will also hear about that in the annual report. Obviously, there are smaller examples which are not sufficiently material to make individual mention of in the annual report, but as I said at the beginning, it's pervasive enough that we talk in strong language in this section.

You asked about kinds. I don't think there's any particular tray. I think that as government has devolved its business further and further into the community, we have actually in a sense spread government in a broader way. The consequence of that is that there are more relationships which need to be managed starting with a formal contract and then flowing through the agreement as to what you need to accomplish with that relationship, the measurement and the reporting on it. That would be about all I would have to say on that particular matter.

MR. ZWOZDESKY: Just following briefly, Mr. Chairman, on that. I think an important part of this contracting-out discussion is the issue, of course, of privatization that is somehow rolled into the mix. I'm wondering, Mr. Auditor General, if you could tell us for the record whether or not in all cases where outsourcing has been done or privatizing has been done or some form of contractual arrangement has been arrived at between the government and some outside source, a full cost-benefit analysis of that type of contracting out has been done and prepared prior to the government engaging in that type of contracting out.

MR. VALENTINE: I can't answer your question in a 100 percent sense because we don't examine nor would you want me to have an office so big that we could examine or redo everything that's done in government in a particular year. All of our activities in this area are by necessity conducted on a test basis. But the first thing we do is measure the risk. In choosing those situations that we want to go and have a look at, we identify the potential for risk of material error or inappropriate expenditure of public funds or whatever. So as I said, we cannot and we should not examine every contract. Clearly, the question of proper financial evaluation of the proposed relationship should be one of the key aspects of contract management, and if you remember the work we did in connection with the laundry contract in Calgary, we identified that they did not have good financial analysis of the alternatives that were in front of them. That is the key factor in assessing whether or not the contracting out is appropriate.

Did you want to answer that Nick?

MR. SHANDRO: Yes. As you know, costing in government is not a well-developed art or science at this point in time. Costs are spread amongst many departments, and the people are not well-accustomed towards being able to consolidate various costs that are incorporated into a particular service. Therefore there is a great deal

of difficulty, I think, in evaluating what your own costs are when you do go for contracting services as a benchmark. I think over time this is going to resolve itself as better systems are being put into government to track costs and therefore better evaluation methods are developed.

The other problem is that there needs to be, I think, more thought given to what is relevant cost, because full costing techniques are not necessarily the best ones when you're talking at the margin in terms of future services, what the relevant costs should be in a decision-making environment. Therefore I think we ought to try to promote the training of people who are involved in making decisions based on cost effectiveness so they can better understand how to do these cost evaluations.

THE CHAIRMAN: Mr. Stevens, please.

MR. STEVENS: Thank you. At the outset I would like to make a comment about the last time we got together. I was one of the MLAs that had to leave early that day, and I understand that subsequent to my departure the committee broke early, before 10 o'clock. I wish to indicate to you, Mr. Valentine, that I feel badly about that and if I could have redone it, I would have stayed and encouraged that we show you and your members the courtesy you deserve. I just wanted to put that on record.

9:02

At page 153 of your report you have noted that the ability of the Department of Justice to deliver its mandate may be affected by management of its human resources. The issue of Crown prosecutors has been raised and dealt with by the Minister of Justice. I understand that your report for the '96-97 fiscal year – the minister dealt with the Crown prosecutors close to the time of that report, and as such it wouldn't be included here. I wonder if you can comment on whether your statements were in regard to Crown prosecutors or if there were other outstanding human resource issues that the department must deal with.

MR. VALENTINE: I'm hesitating only because I believe the most significant one in the Department of Justice is the Crown prosecutor issue. But if you refer back to the introductory comments on page 8 of the report, you will see that I made some comments about the Alberta public service as a whole and the necessity to maintain highly skilled people within the cadre of public service employees who are in the business of running the biggest business in the province, some sectors of which are extremely important. I think I've said on previous occasions that the public service is getting older faster than the clock moves on an average age basis, and we are seriously falling behind in the competitive nature of the compensation given to the public service. I'm on record on that point.

MR. STEVENS: I have one supplementary. On page 153 again, you indicate that your department has worked with Justice to identify improvements in performance reporting. I was wondering if you'd be able to comment on what areas you had under consideration when that comment was made.

MR. VALENTINE: Each of the 17 ministries have produced performance measurements in their annual reports. As part of the process of moving to the new methodology of accountability for a ministry in this Legislative Assembly, the future consolidated ministerial annual financial statements and reports, we have been working with the ministries to assist them in developing the appropriate performance measurements that are available for our

ability to put an assurance on that reporting. I think, Nick, we've assisted every department now, so it's a common thrust across all the departments. As you will see this fall, in September, when all those annual reports for the 1997-98 fiscal year are presented to the Legislature, there will be quite a bit of the performance measurement work that will receive some form of assurance on it from our office.

MR. STEVENS: Thank you.

THE CHAIRMAN: Ms Blakeman, please.

MS BLAKEMAN: Thank you. I'm attempting to clarify a question that I asked when we met in December, and this is following from your recommendation 4, found on page 34 of your report. I'm afraid I wasn't very clear in asking the question of you, so my apologies to you for that. It's my own fault I don't understand your answer. What I'm looking for is: is your expectation that this recommendation would apply exclusively to previously owned Crown corporations, seeing as it arose out of the CKUA situation? Is that the type of group this recommendation is intended to apply to, or did you foresee a wider application of it and, if so, how wide? Could you be specific.

MR. VALENTINE: Well, your latter interpretation is the correct one. And how wide? How wide is across the whole of the provincial government sector? I think it should apply to all organizations that make grants or all organizations that provide asset contribution to whatever that next level of away from the government entity is. For example, the Alberta Foundation for the Arts would have a process whereby they would have the ability to measure the performance of the grant they made to a particular entity they support. So, too, with the grants issued by the Wild Rose Foundation or grants that may be made by any particular department in order to achieve a business purpose.

MS BLAKEMAN: So it's really only intended to go as far as the grant givers but not the grant receivers particularly, other than your example of AFA. They would be expecting some sort of reporting back by which they could use a performance measurement to determine if the grant was successful to the nonprofit organization.

MR. VALENTINE: Exactly. That organization should be the subject of some performance measurement in the contract between the donor and the donee, and surely if you're going to give them some money, you expect some performance back the other way.

MS BLAKEMAN: Yes. I was just concerned that a difficult onus would be placed on small nonprofits that had very low budgets but did receive a grant through AFA, that there would be an expectation that they produce an audit, for instance, which would be beyond their financial means to produce.

MR. VALENTINE: Well, I guess that's where I sort of come apart. If there is a granting going on, I think there's an obligation for the donee to report and to be held accountable for the expenditure of those public funds, and part of that is an audit process.

MS BLAKEMAN: Okay. I take it you're not satisfied with the way it happens now.

MR. VALENTINE: That's probably a good assumption.

MS BLAKEMAN: Okay. Thank you.

THE CHAIRMAN: You've probably read that into some statements,

yes?

Mr. Johnson, please.

MR. JOHNSON: Thank you, Mr. Chairman. "One of the key strategies of Alberta Research Council," as discussed on page 183 of the Annual Report, "is the development of . . . intellectual capital." In an effort to increase the Alberta Research Council's economic impact on the province through intellectual capital, you and your department prepared a discussion paper on intellectual capital from the Alberta Research Council's perspective. Now, as I mentioned, on page 183 you note that the report contains ideas on how intellectual capital can be measured. I wonder: could you please highlight some of those ideas?

MR. VALENTINE: I'd be delighted to. The person in the office responsible for the development of that work, Lawrence Taylor, is sitting on my extreme right, so I'm going to ask him to respond to it. Before he does, I think the one thing we don't have on our balance sheets in the western world is some recognition of the investment we have in people. Now, I probably have a pretty good idea how to come up with the idea of costing the investment. My problem is with the depreciation side of it.

Lawrence.

MR. TAYLOR: Thank you, Peter. We did develop a paper, and we're in the process of revising that paper. We've had discussions with the Alberta Research Council, who are also doing a lot of work on intellectual capital themselves. As Peter said, the area they've got good control on is their intellectual property, their patents and royalties. Where we would like to see a little bit more control is on their human capital, which is the competencies of their scientists. What we would like them to do, and what they would like to do, is to try and sort of track those competencies and put some value on it. That doesn't necessarily mean they would put that on their balance sheet; it just means they would track it internally and try and put some value on that. So that's the main area we're working at.

There's also structural capital, which would look at the systems Alberta Research Council has in place to carry out leading-edge research which sort of prepares them to serve industries in Alberta, for them to further their requirements.

So those are the main areas we would look at. It would be the interface with the customer and the interface with their own staff; also, the tracking of their patents and their royalties, which we would call intellectual property.

9:12

MR. JOHNSON: Thank you. A supplementary question. There's sometimes talk of the brain drain in this province: highly skilled, qualified, and educated people moving out of the province or the country to other areas, such as the U.S., which offer greater financial and intellectual rewards. Was this concept reviewed by your discussion paper? If so, what were the findings or recommendations?

MR. TAYLOR: Well, we didn't go that far. When it comes down to the point that Peter made earlier about performance measures, we would see that this would be a key way of measuring their performance. Obviously, if they measure the competencies of their staff and their abilities and where their key staff members are, they may be able to avoid losing some of those people, especially if they were able to link their rewards to their competencies.

THE CHAIRMAN: Ms Olsen.

MS OLSEN: Thank you. I'd like to refer to pages 156 to 159, recommendation 22 in relation to delegated administrative organizations. I, among others, have some concerns and am glad some recommendations were made. However, the concerns raised by the Auditor General in relation to the monitoring system that is currently used by the Department of Labour to obtain performance information on DAOs and achieve timely correction of identified problems state that "the Department has performed only limited monitoring of the safety services provided by" the delegated administrative organizations, and the monitoring "has lacked consistency and a . . . prescribed purpose and strategy." The department uses and has relied only on compliance audits to identify the deficiencies. Many of those DAOs have yet to be audited, and those audits are at intervals of between one and three years, so I have some concerns around the timeliness.

The Auditor General's report recommends that standards for monitoring and auditing be established which would "include processes for planning, reporting and evaluating performance." What steps has the Department of Labour taken to develop a process for monitoring and auditing of DAOs that provide safety services on behalf of the department, given the concerns raised by the Auditor General?

MR. VALENTINE: We've had a number of discussions with the senior administration of the Department of Labour, and they are in the process of developing a strategy to deal with our criticism and our recommendations. We have not been back there at this point in the audit cycle to actually see and measure what they've done, but you can rest assured that it is on the agenda for the audit cycle we are just about to commence. There's a new deputy minister in the meantime, and I think he's well aware of our concerns about this situation. They have, as I understand it, approached the issue by focusing on monitoring and training of their staff and mentoring with the DAOs and then enable themselves to be far more current and not rely on an audit which would take place sort of well after the horse has gone and the barn door's closed.

MS OLSEN: Thank you. That's a very prudent recommendation.

Do you know if the department has complied at all with the recommendation to develop a central record of each delegated administrative organization and of its performance history?

MR. VALENTINE: I didn't hear the question.

MS OLSEN: Has the Department of Labour complied with your recommendation to develop a central record of each DAO and its performance history?

MR. VALENTINE: So far as I know, they are working on the recommendation, but as I said earlier, we're not back in for the audit cycle yet. From an audit perspective I can't tell you what happened from the time we were in and concluding our work in midsummer last year. But the methodology by which the Auditor General's report is prepared is that once a recommendation like this is in the report, then the next year you'll see the follow-up of it until we can finally say we're satisfied that the matter has been dealt with. So it doesn't go away.

MS OLSEN: It could be one to three years too.

THE CHAIRMAN: Mr. Lougheed, followed by Mr. Pannu, followed by Mr. Melchin.

MR. LOUGHEED: Thank you. My questions are with regard to

charter school governance, if we'd turn to page 88. In regard to the Department of Education, it's indicated there that it would be useful if the Department of Education assisted boards of charter schools in ensuring their membership were properly trained and had expertise to govern in a manner which focuses on the best interests of students. That, of course, is their primary focus, to look at the best interests of students. If the department is going to assist the board members, they would hopefully do so in the most professional manner possible. You also say this could be achieved through departmental guidance with respect to composition of the board, minimum terms of service, and also training of board members. Can you comment on whether this would be best achieved through legislation or through departmental policy initiatives?

MR. VALENTINE: I'm not sure that I focused on whether the legislation should be changed or whether it can be effectively done from the department. I would have thought – and I'm speaking completely at the top of this – that the powers exist in the Department of Education now and that they would have the requisite authority to proceed in that manner, because they in effect are the licensor of the institution.

Lawrence, you may want to comment on that.

MR. TAYLOR: Well, I think the question is whether for the department to help charter schools with their governance would be achieved better through legislation or through departmental policy. I think that's a decision the minister needs to make. Our concern was that from our visits to charter schools – and we visited quite a number of charter schools – it appeared clear to us that there was a problem with the governance and it was potentially going to be a problem. So our objective here was just to alert the department of that problem, and I think it's a decision of the minister of how he now wants to control the situation.

MR. VALENTINE: I should say that the article that appeared in the *Calgary Herald* dated January 24, 1998, contains a misquote of me. I commented at the time, expanding on the third full paragraph of page 88 of the report, that the issue had to do with the competency of some members of charter school boards. I did not use the word "incompetence."

THE CHAIRMAN: That's for the record.

9:22

MR. LOUGHEED: Let me just follow up a little more, please, if I could. Looking at recommendation 12 on page 87, it's stated there that the department should require charter school business plans to include

mandate-related performance measures, together with targets and strategies, that will be used to demonstrate the improved results occurring from innovative learning practices.

These charter schools, of course, are very new, and with any new initiatives there are some growing pains. Those that manage them sometimes have difficulty ensuring that they meet the requirements set out by the department and in how the department deals with them. My question would be this: was it perhaps an oversight of the department not to request this from the outset? Or do you think it might be a matter of the evolution of these charter schools and their relationship with the government?

MR. VALENTINE: Well, it's my view that it should have been there at the inception of the concept, because these organizations were entrusted with public funds, substantial amounts of public funds. They had an approved mandate – otherwise, they wouldn't have received their charter – and to hold them accountable from the

beginning is not untoward, in my view. You hold any of the educational institutions in this province accountable.

I don't think the charter schools should have been any less accountable in their proceedings. I think it's being demonstrated now, unfortunately, in a number of circumstances that there was not a lot of attention paid to the general skill set of the board. Now, that isn't to say there hasn't been good education going on. We haven't talked about that at all. We've talked about the competency of running those institutions from a business point of view. What I've heard in recent weeks is that the education process is going along very well, thank you very much. That's not the issue. The management of public dollars in the education process and being accountable and being measured for that is the issue, and I would think we will be spending more time in that area over the coming months.

DR. PANNU: Mr. Auditor General, my question pertains also to pages 156 and 159, your recommendations and observations concerning the Department of Labour. In your report you do draw attention to the failure of the department to adequately monitor safety services provided by delegated authorities, entities. At the bottom of page 157, to quote you, the last part:

For example, certain entities such as DAOs are required to provide the Department with annual reports which include audited financial statements. However, the annual reports submitted often do not include information such as the number of inspections completed versus inspections expected or required.

Then on the next page you single out the Alberta boilers association as perhaps the worst example of lack of inspections, therefore putting in jeopardy the safety of Albertans by so doing. My question is twofold. Is this a generic problem with all DAOs with which the Department of Labour deals or is responsible for, or are you able to name some other DAOs which require special attention of the department? The second part of the question is: could you help us understand why it is that the department has failed in adequately monitoring these DAOs? Is it because of a lack of resources, do you think? Is it that they haven't developed a plan, that there's just a lack of a plan, or is it the lack of resources at the level of DAOs themselves?

MR. VALENTINE: Well, kind of working backwards with your question, subsequent to our activity last year I know they made some initiatives to successfully recruit additional inspectors, so there is a manpower problem. The manpower problem is probably part of the overall manpower problem in the province where we've had an outstanding economy and those who have substantial skill sets are in great demand. That includes my office personnel, so I'm well acquainted with that problem. I can imagine the deputy minister has the same kinds of thoughts running through his head as are running through mine. The lack of availability of inspectors is a problem that runs across almost all our significant industry sectors in Alberta.

Whether or not the Alberta Boilers Safety Association is the only one, it was the significant one that we found in this particular audit, and that led us to believe that they needed to be working on the issue of how they were going to cover off the inspection backlog and get that done. I also understand from the deputy minister that that has been done and the backlog has been removed, or at least the backlog's down to a level which is normal in the circumstances.

We again will follow this up in the current year and advise you through the medium of the report where they have had their successes and where they continue to have difficulties.

DR. PANNU: A related question. You draw attention to the

shortage of manpower in the labour market as one reason why this might have occurred. Are you in a position to say that the problem therefore goes beyond the boundaries of this department and that the DAOs in general are not getting the appropriate monitoring regardless of the department they are responsible to because of either shortage of manpower or shortage of other resources?

MR. VALENTINE: That was not the intent of our observation. Our observation was to first identify the fact that the level of inspection and audit work that should be going on was not going on. The problem essentially was twofold. One, they weren't directing their audit activities to the areas of high risk, and we feel that they should have a risk-orientated audit approach, so they were just going across the board. The second thing is that they needed to acquire some additional manpower in order to fulfill their mandate and do that inspection. The DAOs were having difficulty getting people and the department was having difficulty getting people in order to do the monitoring, so it was a common problem. Now, it's my understanding, only verbally, that since the issuance of this report a substantial portion of this has been cleaned up. We will find that out when we do the audit this year.

THE CHAIRMAN: Thank you.

Mr. Melchin, followed by Mr. Zwozdesky and Mr. Yankowsky.

MR. MELCHIN: Thank you, Mr. Chairman. I thought I'd also pass on my compliments to the office of the Auditor General. In recent meetings that I've held in reviewing the Calgary board of education, I've had the privilege of bringing in some other supposed experts on issues of governance, and all they could say was that we're fortunate to have heading up as our Auditor General one of the few experts in the country on the topic of governance. I would likewise say you can see that in the flavour throughout the whole report, and I compliment the leadership being shown in this respect. Certainly governance is a critical issue when we're dealing with it from the perspective of ministers, MLAs, and so forth. So thank you for that.

I'd like to follow up on one of my colleague's comments on education with regard to charter schools, pages 87 and 88. I guess I'd like to know a little more with respect to the charters. Certainly there needs to be performance measures. I guess I would have thought that they're, first, under the obligation to have the same levels of performance measures that exist for all the schools regardless of their charters, that they'd be under the same obligations of reporting and requirements of attainment of success as all other boards are.

I'd also like to know if in your view they should be held to having additional performance measures over and above those that might be applicable to the rest of our boards. Further, has there been a difference in the charters that are approved or sponsored by a board in governance as to their assistance and the help they receive? For example, when the Calgary board of education approves a charter and sponsors it, is there a difference in the level of support they receive versus a charter that has been approved directly by the minister and reports to his department? From the measurement, the follow-up, and the support, when you look at the board and the help of that, is there really a difference in what's happening in that structure as to one being sponsored by an existing board versus directly accountable to the minister?

9:32

MR. VALENTINE: I'm going to have Nick talk to you about the performance measures that we think are appropriate for the education sector and then how they might apply to charter boards. I think that for me there needs to be an appropriate accountability

model developed for those charter boards. For those that have a public/private board as a supervisor and those that don't, I don't know how this model works because there's no consistency to the accountability structure. So I have some concerns about that. Now, having said that, there are 12 charter schools in the province, and there are some that have been in the press lately. What it's done for us is said: there's an area where we think we can make some valuable contribution with respect to governance. I'm sure we're going to be looking into that aspect of it.

I leave it to Nick to talk to you about the performance measures.

MR. SHANDRO: When we talk about performance measures, we often talk about reporting, and that reporting is supposed to drive decision-making. But I want to take you back to the front end of the process, and that is what is expected in terms of performance, the expectation setting process. I think that's the key area where the stakeholders involved get together, probably several times – and communication is two ways – in terms of setting what is expected. The clarity of those expectations, I believe, becomes the foundation for what ought to be reported at the back end in terms of what was achieved.

In other words, their expectations form the promise, and the promise becomes the obligation that needs to be fulfilled at the back end. Because the charter schools do not have a common expectation with the public schools – they overlap partly, but they have other expectations in addition because of their mandate – then I believe there should be some clearly delineated expectations in the front-end process which then ought to be measured and reported on at the back end. So, yes, there will be some common measures, but there also would be some specific measures more closely related to their different mandate.

MR. MELCHIN: As a follow-up to that, I guess I would ask: if the charters have been all over the map as to maybe no consistency – I'm not certain what in the model it is – have you viewed, though, that there is a difference? In looking at the model – and maybe that's the wrong way to look at it – has there been an improvement to look at, that they should be sponsored under a board or maybe outside of existing boards and directly responsible to the minister?

MR. VALENTINE: I'm not sure we can answer that at this point in time, because I don't think we've done enough work to come to a conclusion. I can envision getting to a certain point in our work and then I'm going to say, "Over to you, folks," because it's going to be a political issue and you'll have a matter of policy to determine, and that's not for me to do.

THE CHAIRMAN: Mr. Zwozdesky, followed by Mr. Yankowsky and Ms. Blakeman.

MR. ZWOZDESKY: Thank you, Mr. Chairman. I wish to direct the Auditor and his staff to page 206, recommendation 26. This is the one that deals with accountability, openness, transparency, and honesty, I guess. I'm struck by the fact that the Auditor General has again recommended some improvements to the accounting system and the fact that he states there that "the Province's financial results, position and cash flows do not comply with generally accepted accounting principles" in a few areas.

Following up on that, near the bottom of the page, Mr. Chairman, is a statement in the middle of the paragraph: "I believe that the general public expects that these entities," referring to primarily the MUSH sector, "are all within the government's domain." It goes on to generally state that the public should have and deserves access to some explanations. In the response to this recommendation on

including RHAs, universities, colleges, and school boards within the government's consolidated reporting process, Alberta Treasury stated that they didn't seem to understand what benefit this would be, to report in this way to the public. I'm wondering what progress the Auditor General has made in that respect. Do you have any indication as to when the financial statements of the RHAs, colleges, universities, and school boards might form part of the consolidated reporting entities, particularly since we're talking about something like over \$4 billion?

MR. VALENTINE: Well, you've hit on a subject that I really enjoy. To get into the high-tech area of what are generally accepted accounting principles is something – all of us go to work every day of the week looking forward to an eager debate on the subject. Accounting principles by their general nature are always evolving, and they have evolved over the many years of the professional institutes in major countries in the world. Canada is a leader in that area, and Alberta is a leader in the development of accounting principles that are applicable to the public sector. Having said that, there is still a variety of areas which we believe can be improved.

The person that's responsible for the professional practice and the quality assurance in the office, Merwan Saher, is sitting on my left, and I'm going to ask him to give you a short lesson in good accounting principles.

MR. SAHER: Mr. Chairman, I'm not sure that this is the appropriate place for a lesson, but I would like to reply to the question, of which I think the intent was: how are we doing with moving this issue forward? I think I can share with the member that the office is actively engaged with the Treasury Department in discussing what we refer to as the reporting entity question. The issue goes well back to a point where the Treasury Board of the province made a decision on inclusion of RHAs, colleges, universities in the province's consolidation: it was the considered view of the government that that would not improve disclosure.

We come at the issue from standing back and taking the view that in fact generally accepted accounting principles are founded on a notion of completeness. A consolidated statement exists to show a complete picture: all of the assets and liabilities for which the government is responsible, all of the revenues and expenditures. That really is the issue. We can talk about it in technical accounting terms, and we can cite the references in the public sector accounting and auditing guidelines which would point to the fact that RHAs, colleges, and universities should be in the consolidation. I mean, there is a wealth of technical material that would support the arguments. But essentially I think people have to step back from that technical issue and consider: would the province's consolidated statements, would the statements ministries are now issuing in fact be much improved if they included the assets and liabilities of all the entities for which a ministry is responsible? So that debate continues at the moment. It's by no means resolved.

9:42

MR. ZWOZDESKY: I'd be interested in Mr. Saher's answer to the question he just posed to himself.

MR. SAHER: Certainly. Well, I'd like to follow up. The office of the Auditor General firmly believes that these statements are incomplete at this time.

MR. ZWOZDESKY: You see, it always goes as a mystery to me why it is that sometimes governments, in this case the province of Alberta, give us at least the impression that they're operating under some veil of secrecy by not following the basic recommendations of

openness and transparency as advocated by the department of the Auditor General in this case. I don't understand what reasons Treasury has given you, that perhaps you had to accept on faith, regarding why this recommendation hasn't been acted on, because the recommendation, as I understand it, is not a new one necessarily. I think it has a history of a few years now. I wonder if you could . . .

THE CHAIRMAN: Mr. Zwozdesky, you're going to have to make sure that there's a question in there. There were a couple of statements, and other members are rising to the challenge. Questions are in order, yes, but statements aren't.

MR. ZWOZDESKY: Yes. I was just building up to that. In fact, I was just on the nub of the question at that moment.

THE CHAIRMAN: Well, there's some building behind you that you may not have seen too, and the rules are such that questions come forward.

MR. ZWOZDESKY: So the question is: can the Auditor General or his staff share with us what the answers were from Treasury Board regarding their reluctance to accept this recommendation?

MR. SAHER: If I can try to put that in a nutshell. First, I'd like to comment on something that the member said, which was that the exclusion perhaps points to secrecy or a lack of openness. I think to be fair, for example, the Ministry of Health's annual report includes information on all the RHAs. There is in fact a separate miniconsolidation at the back of that annual report. What we are saying is that separate consolidation at the back should in fact be moved forward and included in the ministry's own consolidation. So I think departments would argue that information is being given to the public and to the Legislature.

One of the issues that I think the government is wrestling with is whether or not inclusion of these entities in a consolidation sends a message, a particular message of extent of control which doesn't accord with the operating realities. So in summary I think that is the issue that's most troubling to the government.

MR. ZWOZDESKY: Well, that's exactly the point.

Just a quick comment for 10 seconds, and that is that there's no conformity of uniformity to the presentation of the numbers, and when you try to understand it and explain it to others, it doesn't always flow.

Thank you.

THE CHAIRMAN: Mr. Zwozdesky, on the record, that's . . .

MR. SHARIFF: A policy thing.

THE CHAIRMAN: Yes. Clearly, other members have pointed out that that is bordering on policy, and in fact we should not be asking the Auditor General's department to comment on practice or reasons for the practice. They can comment from their opinion, but the last question was a little leading in asking the Auditor General to comment on what the rationale was for the department coming to the conclusion. That's bordering on the unfair.

MR. ZWOZDESKY: Point of order. I didn't ask for the rationale. I just asked for what answers were given to the reasons.

THE CHAIRMAN: Well, perhaps we'll have to look to see if my ruling was correct or not. We can move on regardless.

Mr. Yankowsky, followed by Ms Blakeman, followed by Mrs.

O'Neill.

MR. YANKOWSKY: Good morning, everyone. I want to thank the Auditor General and his staff for coming out this early hour to answer some of our questions. My questions are in regards to the clinical best practice guidelines, or CPG, health program, found on page 126, recommendation 17. Here you are recommending that the Department of Health work with stakeholders to

establish priorities for the issuance of clinical best practice guidelines and report on the benefits achieved from the spending of public money to develop guidelines.

Best practice guidelines seem to be a very effective way to monitor how we can provide health care solutions to patients across the province while still ensuring our health dollars are spent more effectively. Now, this appears to be an ideal opportunity for the Department of Health and regional health authorities to maximize both their ability to care for patients and their use of funds. In light of the benefits of these guidelines, can you comment on why it is that since 1994 only 10 guidelines have been developed? Have you found problems with departmental leadership, reluctance of the RHAs to become involved, or is it a lack of resource allocation to this initiative?

MR. VALENTINE: Thank you, Mr. Yankowsky. I'm going to have Nick Shandro, who's responsible for the audit of the Department of Health, respond to your question.

MR. SHANDRO: Thank you. The clinical best practice guidelines to date have really been driven by the medical community. But the benefit is not only realized to the medical community; it's realized to the people who receive the care, to the people who spend the money for that care or, I should say, provide the money for that care. The people who are responsible for allocating money for that care are the Department of Health. The thrust of our recommendation is to encourage the Department of Health to become more assertive in their role in putting in that framework that rightly should be developed by those people who understand the issues involved in providing health care, which includes physicians and the like.

The implementation of that system, I think, has to be led assertively by the Department of Health, and there have to be some targets set for the implementation of this so we can then realize its benefits and that it's widely implemented. The implementation, in our opinion, has been painfully slow and hence the recommendation. Particularly at the time when dollars are being reallocated, it seems to me that we want to know whether or not the standards of care are up to the standards of a best practice. Are they meeting that best practice, are they exceeding that best practice, or are they deteriorating from that best practice? Currently, with the reporting system that's in place, the information, as we've commented in other parts of our report, is not there to report on and therefore not there to support the decision-making for either resource allocation or any other purposes.

MR. YANKOWSKY: Yes. My supplementary – you've answered it partially – is this: are these clinical practice guidelines considered important enough by professionals, who are the ones who utilize them, and are these professionals actually involved in establishing these guidelines?

MR. SHANDRO: We have worked with the Department of Health in terms of looking at the system. We've not looked in terms of what the practitioners' attitudes are. Our mandate is looking at: is there a system, is it working, and is it working effectively? We've come to the conclusion that the system is not in place. There are some

interesting developments in there, but it's not working as a total system. I guess we haven't addressed nor are we intending to address what the individuals' views are in relation to whether a physician, for example, thinks a clinical practice guideline is important. I think, overall, physicians do believe that these clinical practice guidelines are important, and they've been spearheading development in this area. But progress has been painfully slow; therefore, the system is not in place.

9:52

THE CHAIRMAN: Thank you.

Ms Blakeman, followed by Mrs. O'Neill, please.

MS BLAKEMAN: Thank you. This is referring to recommendation 7 on page 45, more contracting-out questions. This is following Advanced Education and Career Development around the M & M Careers and Career Designs Inc. problem. There are a number of things that you identified as being deficient. Can you tell me what steps the ministry of advanced education has taken to respond to your recommendations? There's the main recommendation and quite a few other ones, I notice, in your report.

MR. VALENTINE: Lawrence Taylor was responsible directly for the work that was done in this area, together with another colleague in the office. Did you want to comment on this, Lawrence?

MR. TAYLOR: Yeah. Thank you, Peter. We have had a response from the department on these recommendations, and they have accepted all the recommendations. We still have to follow up to see whether the recommendations have been implemented, but the response we have so far has been very positive from the department and they've accepted. From both the Department of Advanced Education and Career Development and the Department of Family and Social Services, because recommendations went to them as well, we've had a very positive response.

MS BLAKEMAN: Wow. That's great. That answered my question. I mean, I'd be interested in knowing exactly what it was, but obviously we won't know until we know that the department has in fact implemented all the recommendations.

MR. TAYLOR: Yes. We still need to follow that up. That's part of our annual process, to revisit those departments to see that those recommendations have actually been accepted, not just accepted but implemented.

MS BLAKEMAN: Okay. Thank you.

THE CHAIRMAN: Mrs. O'Neill, followed by Ms Olsen.

MR. VALENTINE: Mr. Chairman, if I could just make one comment with respect to the overall reaction to the recommendations that we made last year. There is a committee of deputy ministers which is working on a framework of contracting-out guidelines and grant administration guidelines, and we have had input into that development. It's not very far away from completion. It will provide the high-level guideline to operating departments from which they can build their own accountability structure for a particular situation. We're encouraged by that development because it's at the very senior level, and of course, you know, the tone at the top sets the tone for everybody else. So this is a very positive outcome from the recommendations that flowed from last year's report.

THE CHAIRMAN: Mrs. O'Neill, please.

MRS. O'NEILL: Thank you, Mr. Chairman. My question is surrounding the Capital health authority's drug purchasing plan. I would ask you if you could look to pages 150 and 151 where you comment on their purchasing plan. You've provided there some statistics on what percentage of drugs is purchased from a single source, and it appears that 77 percent of the total value of drugs used in the Capital health authority is purchased from sole suppliers who also provide funds for drug research and for clinical trials that are conducted in the hospitals and at the university. You also note that they have agreed to ensure that the conflict of interest policy makes the pharmacy and therapeutic committee aware of such circumstances before they add any drug to their regional drug formulary. I'm pleased that this is being dealt with, but I wonder whether this type of arrangement is common for all other RHAs in Alberta and if it's also common for health providers in general. My question is: do you have a reading on that for me?

MR. VALENTINE: I'm going to have Nick respond to that.

MR. SHANDRO: I don't think it's common for all of them, because subsequent to our recommendation appearing in this form, I've had communication from other areas who've suggested that we should examine the policy across other regions. In fact, they were suggesting we would have scope for making the same recommendation. So based on the information I received from other authorities, I believe the practice we're recommending isn't in place in all of the regions.

MRS. O'NEILL: Having mentioned just the Capital health authority in this report, then, as you just indicated, is this because they're the only RHA which has this type of conflict, or is it because you only conducted this specific review with the Capital health authority? Did you do it with any others?

MR. SHANDRO: We received the request from the Capital health authority for this review because they wanted our opinion on it, and we carried it out pursuant to that request.

MRS. O'NEILL: Pursuant to their request then.
Thank you.

MR. DUCHARME: Mr. Chairman, I was wondering if I could please get clarification.

THE CHAIRMAN: Yes, sir.

MR. DUCHARME: I was of the opinion that this committee basically was to discuss the business of the respective ministries for the year 1996-1997, and what I've noticed today is that some of the questions that did take place basically asked the gentlemen from the Auditor General's department to answer what is presently happening now and what may possibly be happening in the future. I was just wondering if I could get clarification on that if possible, please.

THE CHAIRMAN: I'm not sure about the observation. I'll have to review the transcripts. But I'll do my best to make sure that that doesn't happen in the future. The Auditor General and I will have a word on it too to see if perhaps, between the two of us, we can manage to keep on the straight and narrow in review of that which is before us, which is the accounts, as opposed to any of the current or future practice. I will do my best. I'll take that as a comment on my chairing, and I'll intend to do a little better in the future.

MR. DUCHARME: Thank you.

THE CHAIRMAN: Satisfied at this point?

Before we adjourn, we'll make note again that we'll have the hon. Clint Dunford here before us and not the Provincial Treasurer, so as to make sure you study the right things before you attend next time.

I'd like to thank the Auditor General and his staff and all the staff in attendance today, and I look for a motion for adjournment. Mr. Hlady. Is it agreed?

HON. MEMBERS: Agreed.

THE CHAIRMAN: Carried. We stand adjourned.

[The committee adjourned at 9:58 a.m.]