

# RESPONSE TO THE AUDITOR GENERAL

**BUDGET**  
**2004**  

---

**ON ROUTE**  
**ON COURSE**



# Response to the Auditor General

Every year the Auditor General prepares an annual report on the scope and findings of the work carried out by the Office of the Auditor General. The following are the numbered recommendations in the Auditor General's 2002-03 Annual Report and the government's response to each of them.

AUDITOR GENERAL'S RECOMMENDATIONS	GOVERNMENT'S RESPONSE
<p><b>Cross-Ministry</b></p> <p>1. Governance of audit committees</p> <p>We recommend that the Deputy Minister of Executive Council, working through other deputy ministers, take steps to improve audit committee practices in the Alberta Public Sector.</p> <p><b>Government of Alberta Annual Report</b></p> <p>2. Corporate government accounting policies</p> <p>We again recommend the Department of Finance change corporate government accounting policies to improve accountability (2002 - No. 15).</p> <p><b>Agriculture, Food and Rural Development</b></p> <p>3. Performance measurement</p> <p>We recommend that the Ministry of Agriculture, Food and Rural Development improve its performance measurement system by:</p> <ul style="list-style-type: none"> <li>• Reviewing its goals and performance measures to ensure that they reflect the results that the Ministry wants to achieve.</li> <li>• Strengthening the process that the Ministry uses to compile its performance measures.</li> </ul>	<p>Accepted. The Deputy Minister of Executive Council, working with the Deputy Ministers' Committee, will determine how best to implement this recommendation.</p> <p>Accepted in principle. The government's corporate accounting policies continue to be reviewed on an ongoing basis, in consultation with ministries and the Office of the Auditor General.</p> <p>Accepted. Responsibility for developing a process for assembling complete, accurate and timely performance measurement documentation has now been assigned. A strong process will provide management with the information needed to support performance measurement discussion and decision making.</p> <p>Management expects that as the Ministry's business plan continues to evolve over time, so too will the associated performance measurement framework.</p>

AUDITOR GENERAL'S RECOMMENDATIONS	GOVERNMENT'S RESPONSE
<p>4. Lack of moisture insurance contracts</p> <p>We recommend the Agriculture Financial Services Corporation award insurance benefits in accordance with its lack of moisture insurance contracts.</p>	<p>Accepted. Agriculture Financial Services Corporation (AFSC) announced on November 5, 2003, that lack of moisture pasture insurance has been cancelled. Effective for the 2004 crop year, AFSC's satellite imagery insurance for pasture will be suspended, pending a solution that can be offered on a province-wide basis.</p>
<p><b>Children's Services</b></p>	
<p>5. Strategic management information</p> <p>We recommend that the Ministry of Children's Services improve the Authorities' strategic management information systems.</p>	<p>Accepted. The Ministry continues to strive towards best practices in the areas of information management, forecasting and reporting.</p>
<p>6. First Nation Agency accountability</p> <p>We recommend that the Department of Children's Services improve monitoring of services provided by the Delegated First Nation Agencies.</p>	<p>Accepted. Management is reviewing this area. Strategies that will lead to a common set of criteria used for monitoring and reporting the progress made in providing services to Alberta's children on-reserve will be implemented.</p>
<p>7. First Nation expense recoveries</p> <p>We again recommend that the Ministry of Children's Services improve its systems to recover expenses from providing services to children and families ordinarily resident-on-reserve (2002 - No. 7).</p>	<p>Accepted. With the recent transfer of the billing function from the Alberta Corporate Service Centre to the Ministry, this function will be examined with a view to improving the system to ensure full and timely cost recoveries.</p>
<p><b>Community Development</b></p>	
<p>8. Service delivery alternatives</p> <p>We recommend that the Ministry of Community Development evaluate the cost-effectiveness of the service delivery alternatives for operating parks and protected areas.</p>	<p>Accepted. Beginning in 2003-04, the Ministry will conduct periodic reviews of its overall approaches to private sector involvement in park operations, in order to assess the costs and benefits of a range of options.</p>
<p>9. Excluded operations</p> <p>We again recommend that the Ministry of Community Development record in its financial statements all revenues, expenses and surpluses generated through the operation of provincially-owned facilities (2002 -No. 11).</p>	<p>Accepted. The Ministry is developing an action plan to implement this recommendation in 2005-06.</p>

AUDITOR GENERAL'S RECOMMENDATIONS	GOVERNMENT'S RESPONSE
<p><b>Economic Development</b></p> <p>10. Defining and assessing core businesses</p> <p>We recommend that the Ministry of Economic Development revise its business plan to clearly demonstrate the desired results each core business is to achieve, and ensure its performance measures demonstrate the Ministry's contribution to results.</p> <p><b>Energy</b></p> <p>11. Alberta Royalty Tax Credit (ARTC) program</p> <p>We recommend that the Department of Energy document and communicate the objectives of the <i>Alberta Royalty Tax Credit</i> program and develop measures to assess whether the program is meeting its objectives.</p> <p><b>Environment</b></p> <p>12. Contaminated sites information systems</p> <p>We recommend that the Ministry of Environment implement an integrated information system to track contaminated sites in Alberta.</p> <p>13. Integrated Resource Management (IRM)</p> <p>We recommend that the Deputy Minister of Environment, working with the Sustainable Resource Development Coordinating Council:</p> <ul style="list-style-type: none"> <li>• plan and report against <i>Alberta's Commitment to Sustainable Resource and Environment Management</i> annually to Standing Policy Committee; and</li> <li>• complete the legislative and regulatory regime review required by the <i>Commitment</i>.</li> </ul>	<p>Accepted. The 2004-07 business plan will be revised to clearly link core businesses to goals. Goals will be more focused on the desired results of the Ministry's activities, and performance measures will be aligned to the goals. By ensuring a clear linkage between core businesses, goals and performance measures, the Ministry's contribution to results will be demonstrated.</p> <p>Accepted. The ARTC program was introduced as part of the response to the federal government making Crown royalties a non-deductible expense for federal tax purposes. In light of the recent federal tax change that reverses the original 1974 tax change that prompted the creation of the ARTC, the Department, in conjunction with the Finance and Revenue Departments, is reviewing the effect of the tax change on the value of the ARTC program. Any changes to the ARTC program as a result of this review will be introduced as the legislative schedule permits.</p> <p>Accepted. A coordinated database for contaminated sites will be developed across all areas of the Department. The initial focus will be on Alberta Environment owned or managed sites. Implementation recommendations are expected in 2003-04.</p> <p>Accepted. The Sustainable Development Coordinating Council (SDCC) will discuss this recommendation. The SDCC co-chairs will also be addressing recommendations from the review of Alberta's energy, environmental and resource management regulatory system that has recently been presented to Government. Based on Government recommendations, an implementation plan is expected in 2004-05. There is an opportunity to address several additional deliverables in the Commitment document through this implementation plan.</p>

AUDITOR GENERAL'S RECOMMENDATIONS	GOVERNMENT'S RESPONSE
<p><b>Finance</b></p> <p>14. Loan concentration limits</p> <p>We recommend that Alberta Treasury Branches provide support for its loan portfolio industry concentration limits.</p> <p>15. Lending policy compliance</p> <p>We recommend that Alberta Treasury Branches ensure its lenders comply with corporate lending policies.</p> <p>16. Risk management</p> <p>We again recommend that Alberta Treasury Branches implement an enterprise risk management framework to assist in managing significant risks (2002 - No. 16).</p>	<p>Accepted. Action is being taken this year to document, in more detail, the rationale behind how each concentration limit recommendation is determined.</p> <p>Accepted. A number of actions are being taken this year to improve compliance with lending policies. Although this issue is not expected to be fully resolved this year, progress should be evident by the end of this fiscal year.</p> <p>Accepted. Alberta Treasury Branches continues to be committed to having the framework completed for an operative enterprise risk management process before the end of this fiscal year.</p>
<p><b>Gaming</b></p> <p>17. Gaming products and services</p> <p>We recommend the Alberta Gaming and Liquor Commission (AGLC) implement processes to ensure:</p> <ul style="list-style-type: none"> <li>• gaming operators buy gaming supplies from registered suppliers.</li> <li>• AGLC buys gaming terminals and gaming supplies only from registered suppliers.</li> </ul> <p>18. Use of proceeds</p> <p>We recommend AGLC implement a process for timely monitoring of licensed groups' use of gaming proceeds.</p>	<p>Accepted. The Alberta Gaming and Liquor Commission has reviewed the list of current gaming terminal suppliers to ensure they are all registered and will put in place processes to ensure that gaming supplies are purchased through a registered or approved manufacturer, supplier or distributor.</p> <p>Accepted. The Alberta Gaming and Liquor Commission will continue to implement its plan to achieve the timely review of licensed groups' use of gaming proceeds reports.</p>
<p><b>Government Services</b></p> <p>19. Project management plan for Registry Renewal Initiative</p> <p>We recommend that the Department of Government Services complete and approve a project management plan for the Registry Renewal Initiative.</p>	<p>Accepted. During 2003-04, the Department will expand and integrate existing project plans into one comprehensive overall plan that will be formally approved and refreshed throughout the life of the project.</p>

AUDITOR GENERAL'S RECOMMENDATIONS	GOVERNMENT'S RESPONSE
<p>20. Performance measures</p> <p>We again recommend that the Alberta Corporate Service Centre clearly define its performance measures and improve its processes to track and report results (2002 - No. 22).</p>	<p>Accepted. Work on performance measures was delayed pending collection of additional baseline metrics but can now proceed.</p>
<p><b>Health and Wellness</b></p>	
<p>21. Performance agreements and business plans</p> <p>We again recommend the Department of Health and Wellness ensure performance agreements are in place at the start of the period to which they apply (2002 - No. 23).</p>	<p>Accepted. The Department and the health authorities are continuing to refine specific performance expectations. The Department has made considerable progress in implementing Multi-Year Performance Agreements and expects the agreements to be signed once remaining issues are resolved. This year represents the initial cycle for the Performance Agreement initiative designed to facilitate health reforms and enhance the accountability over the use of public funds. The Department does not expect delays in signing Multi-Year Performance Agreements in the future.</p>
<p>22. Control of, and accountability for, conditional grants</p> <p>We again recommend the Department of Health and Wellness improve its control processes for ensuring accountability for conditional grants (2002 - page 134).</p>	<p>Accepted. The Department will review its current policies and procedures to ensure there are adequate controls and accountability for restricted funding. This review has begun for 2003-04.</p>
<p>23. Province Wide Services</p> <p>We recommend that the Department of Health and Wellness and the Province Wide Services Working Group clarify the mandate of the Working Group and improve processes to achieve that mandate.</p>	<p>Accepted. The Department will work with the Province Wide Services Working Group to develop an agreed upon and more detailed terms of reference describing responsibilities and processes for the working group. This process is underway for 2003-04.</p>
<p><b>Human Resources and Employment</b></p>	
<p>24. Meeting system user needs</p> <p>We recommend that the Department of Human Resources and Employment ensure the Contract Management Administration System meets user requirements.</p>	<p>Accepted. An Issues Management Committee and an Issues Co-ordinator role have been established to address the concerns and weaknesses identified. A post-implementation review of the Contract Management Administration System (CMAS) project has commenced, which will assess the implementation and make recommendations to future users of the system. A new version of the CMAS, which will address most of the items identified in the report, is scheduled for implementation in spring 2004.</p>

AUDITOR GENERAL'S RECOMMENDATIONS	GOVERNMENT'S RESPONSE
<p>25. Economic loss payments</p> <p>We recommend that the Workers' Compensation Board (WCB) strengthen controls in its claim management system for economic loss payments.</p>	<p>Accepted. The Worker's Compensation Board has been implementing changes to its policy and procedures relating to Economic Loss Payments (ELP) to ensure benefit levels are appropriate. Additional staff training and quality assurance controls also have been implemented to improve the quality and outcome of ELP adjudication. The cumulative impact of these changes has strengthened the management controls of ELP benefit decisions throughout 2003.</p>
<p><b>Infrastructure</b></p>	
<p>26. Terms and conditions of construction grants</p> <p>We recommend that the Ministry of Infrastructure communicate, and require grant recipients to formally accept, the terms and conditions of construction grants. The terms and conditions should include:</p> <ul style="list-style-type: none"> <li>• an accountability framework, including roles and responsibilities</li> <li>• the consequences of failing to adhere to the terms and conditions</li> <li>• reporting requirements</li> <li>• the Ministry's right to audit.</li> </ul>	<p>Accepted. The Ministry does have grant agreements in place for grant funding for lodges. The Ministry will look at implementing similar agreements for all grant programs for 2004-05. The Ministry will also look towards harmonizing its reporting requirements across all programs, recognizing that varying levels of reporting currently exist. Management will consider implementing an audit requirement for major projects where this requirement does not already exist.</p>
<p>27. Monitoring of construction grants</p> <p>We recommend that the Ministry of Infrastructure strengthen its monitoring processes for construction grants.</p> <p>We also recommend that the Ministry make all construction grant payments through the Consolidated Cash Investment Trust Fund (CCITF) bank account.</p>	<p>Accepted. The Ministry has some opportunity to enhance the monitoring function and will also look towards harmonizing its reporting requirements across all programs. A final statement of funding and expenditures, authorized by a senior official of the school board or health authority, is already required for all projects. The Ministry is also currently assessing the use of CCITF accounts to develop a more consistent approach across all programs.</p>



AUDITOR GENERAL'S RECOMMENDATIONS	GOVERNMENT'S RESPONSE
<p>28. Physical security of government buildings</p> <p>We recommend that the Ministry of Infrastructure, working with other ministries, improve the security of government buildings and the safety of people who use them by:</p> <ul style="list-style-type: none"> <li>• identifying resources to lead and coordinate security related activities for and between various ministries</li> <li>• establishing and communicating a minimum standard of security for all buildings</li> <li>• implementing increased levels of security on buildings determined by risk and security assessments to require enhanced protection</li> <li>• monitoring compliance with recommendations made in risk and security assessments.</li> </ul>	<p>Accepted. The Ministry will retain a dedicated Head of Security in 2003-04 to work with Alberta Solicitor General, Security Services, to review present practices and to develop and confirm appropriate minimum security standards for various facility categories. Once appropriate practices and standards have been determined, the Ministry will develop a prioritization and action plan in 2004-05 to implement achievable, cost-effective improvements to facility security as required to meet these minimum standards. Where security assessments indicate that enhanced security levels are required at specific sites, the Ministry will coordinate specific priorities and requirements with client ministries.</p>
<p><b>Innovation and Science</b></p>	
<p>29. IMAGIS governance</p> <p>We again recommend that the Ministry of Innovation and Science formalize and implement an effective accountability framework for IMAGIS (2002 - No. 32).</p>	<p>Accepted. The Deputy Minister intends to make a recommendation in 2003-04 to the Alberta Corporate Service Centre Deputy Minister Committee on the governance and decision making process to address the concerns raised regarding the accountability framework.</p>
<p>30. Systems development</p> <p>We again recommend that the Ministry of Innovation and Science, with the cooperation of other ministries, implement a systems development methodology (2002 - No. 33).</p>	<p>Accepted. Management plans to work with the other ministries to develop and phase in a common set of systems development criteria over the two-year period 2003-05.</p>
<p><b>Learning</b></p>	
<p>31. Affordability of the Learning system</p> <p>We recommend that the Department of Learning improve one of the core performance measures (public satisfaction with the affordability of the learning system) that reports its progress in delivering high quality learning opportunities.</p>	<p>Accepted. The Ministry will continue to monitor the public's satisfaction with affordability. Also, the Ministry will consider additional measures to support its information base associated with affordability and accessibility by the 2006-07 business plan cycle.</p>
<p>32. Measurement of results</p> <p>We recommend that the Department of Learning periodically measure whether the tuition fee policy and its related programs are effective in making post-secondary education affordable to students.</p>	<p>Accepted in principle. The Ministry uses a variety of indicators including tuition, student assistance, graduating debt and survey instruments to measure the effectiveness of the Tuition Fee Policy and its related programs. The Ministry will continue to update these indicators. By 2005-06, the Ministry will enhance its systems and information base.</p>

AUDITOR GENERAL'S RECOMMENDATIONS	GOVERNMENT'S RESPONSE
<p>33. Tuition Fee Policy compliance</p> <p>We recommend that the Department of Learning require public post-secondary institutions to comply with the Tuition Fee Policy. We also recommend that the Department clarify the methodology for applying the Policy.</p>	<p>Accepted. The Tuition Fee Policy is being reviewed under proposed new legislation in 2003-04. The Ministry will work with post-secondary institutions to ensure they have a clear understanding of any changes to this policy. New review procedures will be implemented to ensure institutions comply with the policy when determining tuition fees for 2004-05.</p>
<p>34. Internal control systems</p> <p>We again recommend that the University of Alberta improve its system of internal control (2000 - No. 35, 2001 - No. 37 and 2002 - No. 40).</p>	<p>Accepted. The target date for fully implementing this recommendation is 2005-06. To improve its internal control systems, the University has initiated work in the research area by amalgamating it into a single office. The University is working on an expanded business support model to address other internal control issues through eight initiatives, of which three have been fully implemented.</p>
<p>35. Internal control systems</p> <p>We again recommend that the University of Calgary improve its internal control systems (2001 - No. 38 and 2002 - No. 43).</p>	<p>Accepted. The target date for achieving this recommendation is 2006-07. Improvement of controls will ultimately require the replacement of core legacy systems along with changes to administrative structures, policies and processes. The University has responded to many of the specific items mentioned in this audit recommendation by making changes to existing procedures and access privileges.</p>
<p>36. Business case analysis</p> <p>We again recommend that the Southern Alberta Institute of Technology improve the business case analysis for major projects (2001 - No. 40).</p>	<p>Accepted. The Institute is committed to maintain additional documentation on future projects.</p>
<p><b>Municipal Affairs</b></p>	
<p>37. Acquisition and accounting for capital assets</p> <p>We recommend that the Ministry of Municipal Affairs not record the acquisition of its assets as grant expense. We further recommend that the Ministry not disburse funds for the development of its systems before any development occurs.</p>	<p>Accepted. The recommendations on recording assets and development funding will be implemented in 2003-04.</p>

AUDITOR GENERAL'S RECOMMENDATIONS	GOVERNMENT'S RESPONSE
<p><b>Revenue</b></p> <p>38. Amount of audit work</p> <p>We recommend that Tax and Revenue Administration of the Ministry of Revenue decide how much more audit work it should do to minimize the risk of revenue loss from taxpayers and claimants not complying with tax legislation.</p> <p><b>Seniors</b></p> <p>39. Accountability of management organizations</p> <p>We recommend that the Ministry of Seniors improve its system for monitoring the performance of management organizations that deliver social housing programs for the Ministry.</p> <p><b>Solicitor General</b></p> <p>40. Contracting of police services</p> <p>We again recommend that the Department of the Solicitor General implement the plan for provincial policing standards (1998 - No. 34).</p> <p><b>Transportation</b></p> <p>41. Monitoring and auditing</p> <p>We recommend that the Ministry of Transportation strengthen its monitoring of and audit processes for driver examiners by:</p> <ul style="list-style-type: none"> <li>• preparing annual plans for monitoring and auditing examiners</li> <li>• promptly monitoring and auditing driver examiners, and reporting the results to senior management</li> <li>• training driver program administrators to identify the risk factors of unethical behaviour and to investigate problem examiners</li> <li>• making the license renewal process as rigorous as the application process.</li> </ul>	<p>Accepted. Tax and Revenue Administration is in the process of updating its assessment of risk of loss in each tax program. Recommendations arising from that assessment will include audit coverage requirements. This will then be considered as input to the 2004-05 audit plan, taking into account the level of resources available to conduct audits.</p> <p>Accepted. The risk assessment model for selecting management organizations for operational reviews is being adjusted. Documentation from these organizations will be enhanced where needed. Financial accountability of management organizations was maintained at all times.</p> <p>Accepted. The Ministry is working towards having Policing Standards implemented by the end of 2003-04.</p> <p>Accepted. The Department is addressing these concerns in 2003-04.</p>

