

Innovation and Advanced Education— Report on Post-secondary Institutions

Post-secondary institutions must spend considerable time and effort to establish and then sustain strong internal controls and processes over financial reporting. A number of institutions examined in this report experienced difficulty in sustaining these processes this year, due to unexpected challenges in their operations. Three institutions have not established strong internal control environments. The Minister of Innovation and Advanced Education, through the department, must ensure the boards of governors of these institutions are holding management accountable to improve these control environments so that all post-secondary institutions are promptly reporting reliable financial information to Albertans.

INTERNAL CONTROLS—A REPORT CARD

This report card on internal controls over financial reporting highlights our observations on financial statement preparation and outstanding recommendations from our audits of colleges, technical institutions, MacEwan University and Mount Royal University. Our October 2013 report provided our observations on Athabasca University, University of Alberta, University of Calgary and University of Lethbridge.¹

We evaluated the following key indicators of effective financial processes and internal controls:

- the time it took institutions to prepare complete and accurate year-end financial statements
- the quality of draft financial statements we received, including the number of errors our audit found
- the number and type of current and outstanding recommendations

To govern effectively, boards need accurate and timely financial information throughout the year, not just at year-end. To manage effectively, management needs the same information. We see a direct correlation between a strong year-end process to prepare financial statements and the ability to prepare quality financial information throughout the year.

A post-secondary institution could have a yellow or red status yet still receive an unqualified audit opinion on its financial statements as management can correct errors and financial statement disclosure deficiencies during the audit process. The number of errors and disclosure deficiencies we find in the draft financial statements indicates how effective financial controls are for preparing accurate financial statements.

Effective control environments include clear policies, well-designed processes and controls to implement and monitor compliance with policies and secure information systems to provide timely and accurate financial and non-financial information to manage and govern the institutions. Recommendations that are not implemented promptly erode the effectiveness of the institution's control environment. Weak control environments impact the quality of decisions made by management and the board of governors and can result in an institution not achieving its goals by operating in a cost-effective manner and managing operating risks.

¹ *Report of the Auditor General of Alberta—October 2013*, pages 92-101.

OTHER AUDIT WORK | INNOVATION & ADVANCED EDUCATION – REPORT ON PSIs

It is critical that the boards of governors of post-secondary institutions hold management accountable for improving identified control weaknesses in a reasonable period of time. The Minister of Innovation and Advanced Education and the Lieutenant Governor in Council appoint the boards. The minister, through the department, must also hold the boards accountable for their effective oversight of the institutions.

The report card

- ◆ Significant improvements are needed.
- ▲ Improvement is required, but not to the same extent as the red items. Yellow items may or may not be associated with a management letter recommendation. They represent areas where an institution can improve, as opposed to areas that require significant, immediate attention.
- We have not identified significant weaknesses in the control environment.

Institutions where significant improvements are needed (by significance)

Institution	Financial statements preparation		Outstanding recommendations
	Accuracy	Timeliness	
Olds College			
2013	n/a ²	◆	◆ ²
2012	◆	●	◆
2011	◆	▲	◆
Northern Lakes College			
2013	n/a ²	◆	◆ ²
2012	◆	◆	◆
2011	◆	◆	◆
Alberta College of Art + Design			
2013	◆	▲	◆
2012	◆	▲	◆
2011	◆	◆	◆
Medicine Hat College			
2013	●	●	◆
2012	●	●	▲
2011	●	●	▲
Portage College			
2013	●	●	◆
2012	●	●	▲
2011	▲	▲	▲
Keyano College			
2013	▲	◆	●
2012	●	▲	▲
2011	●	▲	▲

² We have not completed our 2013 financial statement audit to the date of this report as the institutions did not prepare timely, accurate financial statements. We will again recommend these institutions improve financial reporting processes at the conclusion of the audits.

Institutions where significant improvements are not needed (alphabetical)

Institution	Financial statements preparation		Outstanding recommendations
	Accuracy	Timeliness	
Bow Valley College			
2013	▲	●	●
2012	▲	●	●
2011	●	▲	●
Grande Prairie Regional College			
2013	▲	●	●
2012	●	●	●
2011	●	●	●
MacEwan University			
2013	●	●	▲
2012	●	●	▲
2011	◆	◆	◆
Northern Alberta Institute of Technology			
2013	●	▲	●
2012	●	●	●
2011	●	●	●
Red Deer College			
2013	●	●	▲
2012	●	●	▲
2011	●	▲	●
Lakeland College			
2013	●	●	●
2012	●	●	●
2011	▲	▲	●
Lethbridge College			
2013	●	●	●
2012	●	●	▲
2011	▲	▲	●
Mount Royal University			
2013	●	●	●
2012	▲	▲	▲
2011	▲	▲	●
NorQuest College			
2013	●	●	●
2012	◆	▲	◆
2011	◆	◆	◆
Southern Alberta Institute of Technology			
2013	●	●	●
2012	●	●	●
2011	●	●	●

In concluding on our report card, we note the following:

Financial statement preparation

Post-secondary institutions prepared their first financial statements under Canadian public sector accounting standards for fiscal 2013. All institutions had to resolve financial reporting differences to varying degrees from the complete change in accounting standards. We generally excluded the one-time nature of these transition differences in our assessments of financial statement accuracy. Institutions should apply lessons learned from this transition to their financial reporting processes when changes to individual accounting standards occur in the future.

Institutions must have strong internal controls and processes to promptly prepare reliable financial statements. Olds College and Northern Lakes College did not prepare timely, accurate financial statements this year. We have not completed our audits of these institutions as a result. While more timely, Alberta College of Art + Design must also improve the accuracy of its financial reporting and the underlying internal controls and processes. We either have or will repeat our recommendation to improve financial reporting processes at each of these institutions.

These three institutions should emulate NorQuest College, MacEwan University and Mount Royal University, which recently have significantly improved the accuracy and timeliness of their financial reporting. The boards of governors of these institutions held management accountable for implementing outstanding recommendations and significantly improved financial reporting processes as a result.

Sustaining a strong internal control environment is difficult for any organization. Post-secondary institutions must continuously re-assess if their control environment is operating effectively as their operations change and evolve. An institution's ability to prepare timely, accurate financial reporting may be temporarily impacted by the institution's inability to adjust to unexpected changes in its operations or staffing.

A number of institutions faced various obstacles in maintaining the effectiveness of their financial reporting processes in the past year. In particular, Keyano College did not prepare timely, accurate financial reporting this year, due to challenges in staffing and unexpected events impacting their operations. These obstacles appear to be temporary. We expect all institutions that have been unable to maintain their prior year status will re-establish the effectiveness of their processes and make further improvements where required in the next fiscal year.

We issued unqualified audit opinions on the financial statements of the 14 institutions where our audit is complete.

Outstanding recommendations

Most institutions either improved or maintained their status on the number and nature of outstanding recommendations. NorQuest College significantly improved its internal control environment by implementing eight of our prior years' recommendations. Lethbridge College, Mount Royal University and Keyano College also implemented recommendations to improve their control environments. MacEwan University implemented a number of recommendations to continue strengthening its overall internal controls.

OTHER AUDIT WORK | INNOVATION & ADVANCED EDUCATION—REPORT ON PSIs

The boards of governors of Alberta College of Art + Design, Northern Lakes College and Olds College must hold management accountable to implement recommendations that will establish and sustain a strong internal control environment. Institutions with strong internal control environments have demonstrated that effective processes can be implemented and sustained in periods of economic and operational change.

While Medicine Hat College's financial reporting process was effective, the college must make significant improvements to some of the college's operating activities. In our July 2013 report we recommended significant improvements to the college's international education activities.³ Portage College also has adequate processes to prepare its financial reporting. However, we followed up on the college's implementation of our prior year's recommendation on improving the accuracy of bookstore inventory. We conclude not all necessary improvements have been made and repeat our recommendation—see page 88.

FINDINGS AND RECOMMENDATIONS

POST-SECONDARY INSTITUTIONS

Matter from current audit

Compliance with legislation

We recommend that, similar to our recommendation to other post-secondary institutions in February 2013⁴ and October 2013,⁵ Grande Prairie Regional College and Northern Lakes College improve systems to ensure they comply with legislation.

ALBERTA COLLEGE OF ART + DESIGN SUMMARY

We recommend that the college improve controls over expense claims and purchase card transactions—see page 76.

We again recommend that the college:

- improve financial reporting—see page 78
- implement codes of conduct, conflict of interest and fraud policies—see page 79
- improve internal controls at the bookstore—see page 80
- implement proper purchase controls—see page 81

The college implemented our prior year's recommendation by implementing a change management policy and controls—see page 82.

FINDINGS AND RECOMMENDATIONS

Matter from current audit

Controls over expense claims and purchase card transactions

Background

The college's business requires expenditures for hosting, hospitality and travel. These expenditures inherently have a higher risk of including items of a personal nature rather than

³ *Report of the Auditor General of Alberta—July 2013*, pages 55-80.

⁴ *Report of the Auditor General of Alberta—February 2013*, page 59.

⁵ *Report of the Auditor General of Alberta—October 2013*, page 94.

strictly a business purpose. In September 2012, the Government of Alberta implemented a new policy for travel, meals and hospitality expenses. The policy is designed to increase the transparency of and accountability for publicly funded expenditures. The Department of Innovation and Advanced Education asked post-secondary institutions to adhere to the new policy and disclosure requirements.

In 2013⁶ we recommended that the college strengthen controls over procurement card transactions, as we identified a larger than expected number of expense claim and purchase card transactions that had supporting information deficiencies. In the current year we expanded our examination of purchase transactions to examine the college's systems to review and approve expense claims and purchase card transactions of the college's staff, executive and contractors from July 1, 2011 to June 30, 2013.

RECOMMENDATION 4: IMPROVE CONTROLS OVER EXPENSE CLAIMS AND PURCHASE CARD TRANSACTIONS

We recommend that Alberta College of Art + Design strengthen its controls over expense claims and purchase card transactions by:

- improving documentation to support the business reason for and cost effectiveness of expenses
- improving staff training on their responsibilities for complying with policies
- monitoring expenses and reporting results to the board

Criteria: the standards for our audit

The college should have:

- clearly documented policies and processes for the payment of expenses
- effective processes to independently review and approve purchase card, expense claim and other purchasing transactions before making payments
- periodic reporting of expense report activity of senior management to the board
- controls to recover the cost of transactions that do not comply with college policies

Our audit findings

KEY FINDINGS

- The college's policies do not require staff to state the business reason for expenses on reconciliations or supporting documentation for purchase card transactions.
- Employees do not consistently follow policies for employee travel, hosting and group business meals.
- The college has not implemented corporate processes to ensure expense decisions consider the lowest cost alternative or to assess the results of spending by staff.
- The college does not report to the board on senior employees' expenses.

We reviewed the college's policies related to purchasing and expense transactions. Compared to standards in the Government of Alberta's travel, meals and hospitality policy, the college's policies do not:

- require clear, detailed documentation of a business purpose for the expense
- clearly define working sessions, hospitality expenses and corporate events
- provide clear guidance or limitation on purchases of alcohol by employees

⁶ Report of the Auditor General of Alberta—February 2013, no. 11, page 66.

Documentation of the business purpose

The college's purchase card guidelines do not require staff to document the business purpose for purchases but rather only require cardholders to submit reconciliations and supporting documents for purchase transactions. However, the business purpose of many expenses is not evident from the detailed receipt alone. For example, items purchased for research include movie and event tickets, books and other supplies. Other expenses for meals, groceries, snacks and expenses incurred for hosting artists also lacked clarity. Many of these expenses were submitted with either no indication of the business purpose or a vague business purpose.

The college has professional services contracts where, although payment of some expenses is clearly defined, we were unable to determine the business purpose of some contractors' expense claims. In addition, we identified where one contractor approved the expenses of another contractor.

The college has a liquor policy that outlines the licensing requirements for special events. Other policies, however, such as those for hosting and travel expenses, are silent on the purchase of alcohol for hosted events and in general. We identified instances where alcohol was purchased with meals and where only alcohol was purchased from restaurants and liquor stores, for gifts and for hosted events at private residences. The college should have policies and approval processes for such purchases.

Non-compliance with policy

Travel expenses

Travel expenses may be incurred on corporate purchase cards or staff may claim per diem allowances on expense claims. Processes to review these expenses are insufficient, as there is no review or reconciliation to ensure that:

- an expense claim and purchase card transaction do not claim the same expense
- travel-related receipts and per diems are not duplicated

We found one instance where the same travel expenses were submitted on two separate expense claims. Both claims were paid because the submissions were made months apart. We also identified instances where there was insufficient detail to determine whether meals claimed as per diem expenses and meals paid on purchase cards for the same trip were paid twice.

The college's travel and expense policy states that before incurring any expenses, employees must complete a professional development/travel authorization (PD/TA) form indicating the destination, purpose, estimated total expenses and portion of expenses that the college will pay. The college president or vice-president/director must approve this form before employees incur expenses. We found instances of non-compliance with this requirement including where forms were never submitted, forms were approved after travel costs were incurred, multiple copies of the same PD/TA form were submitted, and forms where the preparation date was later than the approval date.

Approval and purpose for hosting and business meals

The college's policy requires itemized receipts for hosting activities and requires documentation of the business purpose, name of approver and list of attendees. For a sample of hosted meals examined, the majority did not have sufficient detail regarding the purpose of the event and the names and affiliations of the guests.

The college must improve staff understanding of policies through better training and through prompt action by management when instances of non-compliance are identified.

Cost-effective travel

Travelers are required to estimate costs of travel on PD/TA forms; however, the college has no formal process to compare actual to estimated costs. This reduces the college's ability to assess the appropriateness of travel costs and ensure costs are incurred at the lowest cost alternative.

Monitoring processes

The college does not measure the effectiveness of its expenditures on fundraising or hosting to assess the success of its strategies and partnerships. Measuring the results of these activities would confirm that the college is using public funds effectively to meet its needs.

Implications and risks if recommendation not implemented

Without adequate policies and controls related to the review, approval and payment of expenses, the college increases its risk that employees may spend inappropriately, including expensing items of a personal nature. An effective control framework over its expenses will help the college reduce its reputational risk and promote an overall healthy control environment.

Matters from prior audits

Periodic financial reporting—recommendation repeated

Background

In 2008 we recommended that the college improve its processes and internal controls to increase the accuracy and efficiency in its financial reporting.⁷ We repeated this recommendation in 2010,⁸ as while the college took steps to improve its year-end financial reporting processes, it was still unable to produce accurate year-end financial statements.

We again repeat the recommendation, as the college has not prepared accurate financial statements.

RECOMMENDATION 5: IMPROVE FINANCIAL REPORTING—REPEATED

We again recommend that Alberta College of Art + Design improve its processes and internal controls to increase the accuracy and efficiency in its financial reporting.

Criteria: the standards for our audit

The college should have effective processes for and controls over preparing accurate and complete financial statements.

Our audit findings

KEY FINDINGS

- The college's financial statements contained a number of accounting errors.
- Deficiencies in presentation or disclosures were significant to the college's overall financial statements.

We identified in the draft financial statements a number of accounting errors and disclosure deficiencies. These included a significant amount presented in internally restricted funds not yet approved by the board of governors and incomplete note disclosure of salaries and benefits. Management agreed with the differences and adjusted the financial statements.

⁷ Report of the Auditor General of Alberta—April 2008, page 180.

⁸ Report of the Auditor General of Alberta—April 2010, page 160.

Implications and risks if recommendation not implemented

Without efficient and effective processes, the college may not produce timely, accurate and complete financial reporting at a reasonable cost. This may also result in the board and senior management making decisions based on inaccurate information.

Code of conduct, conflict of interest and fraud policies – recommendation repeated

Background

In 2011 we recommended⁹ that the college

- develop, implement and enforce procedures for code of conduct and conflict of interest
- develop and implement a fraud policy that clearly defines actions, responsibilities, authority levels and reporting lines in case of fraud allegations

Management has developed, and the president approved, procedures for a code of conduct, conflict of interest and policies and procedures related to fraud risk identification and mitigation.

We repeat this recommendation as the college has not consistently enforced code of conduct and conflict of interest procedures, resulting in a continued risk of employee non-compliance.

RECOMMENDATION 6: IMPLEMENT AND ENFORCE PROCEDURES FOR CODES OF CONDUCT AND CONFLICT OF INTEREST – REPEATED

We again recommend that Alberta College of Art + Design develop, implement and enforce procedures for code of conduct and conflict of interest.

Criteria: the standards for our audit

The college should define, communicate and enforce codes for acceptable business practices, to ensure a sound control environment. Specifically, the college should enforce procedures for managing codes of conduct and conflicts of interest.

Our audit findings

KEY FINDINGS

- The college still cannot demonstrate that staff comply with procedures.
- The Confirmation of Understanding form signed by staff does not clearly state who is responsible or accountable for their compliance.
- Twenty-five college employees did not confirm their compliance.

The college cannot consistently demonstrate enforcement of its policies and procedures. Letters of employment do not consistently require new employees to confirm they understand and will comply. The college requires all employees to annually sign a Confirmation of Understanding form acknowledging their awareness of and compliance with college policies and procedures. College management has not followed up with the 25 staff members who in fiscal 2013 have yet to supply any documentation supporting their compliance. This form also incorrectly states that the auditor general requires them to comply with the college's procedures rather than college management and the board of governors.

⁹ Report of the Auditor General of Alberta – April 2011, page 72.

Implications and risks if recommendation not implemented

If the college does not have well-functioning systems to enforce compliance with its conflict of interest and code of conduct procedures, the college may be exposed to economic or reputational risk if employees do not comply.

Improve internal controls at the bookstore—recommendation repeated

Background

In 2013 we recommended¹⁰ that the college improve its internal control systems for its bookstore operations. The college's director of facility and ancillary services manages the bookstore, which sells art supplies and textbooks.

We repeat our recommendation because control deficiencies still exist.

RECOMMENDATION 7: IMPROVE INTERNAL CONTROLS AT THE BOOKSTORE—REPEATED

We again recommend that Alberta College of Art + Design improve its internal control systems for its bookstore operations by:

- properly segregating incompatible job duties
- improving its inventory count procedures and investigating discrepancies between inventory counts and inventory records
- resolving software deficiencies in its inventory management computer application

Criteria: the standards for our audit

The college should have effective internal controls systems at its bookstore. Specifically, it should:

- properly segregate responsibilities of employees to avoid potential for undetected fraud or error
- apply basic procedures including independent verification of counts, to accurately and completely account for inventory
- use operating software that provides reliable management information

Our audit findings

KEY FINDINGS

- Bookstore management duties of the director of facilities and ancillary services are still not properly segregated.
- The college's finance department does not check inventory during the year.
- Deficiencies persist in the bookstore's inventory software.

The college has not assessed the risks associated with the director of facility and ancillary services maintaining the incompatible job duties of bookstore management. The director can still authorize and process transactions, perform reconciliations and approve write-offs on discrepancies in the inventory system. We found no effective compensating controls to mitigate the risks of all these tasks being completed by the same individual.

The college's finance group performed some test counts of inventory at year-end. However, no independent checks are performed during the year on the reliability of counts and the costing of inventory reported in the software application. The group does not follow up on any discrepancies identified during the inventory counts.

¹⁰ Report of the Auditor General of Alberta—February 2013, no. 8, page 62.

Limitations relating to the inventory computer application have not been resolved by management. Management is still unable to print key reports such as exception reports and count sheets. Functional knowledge of the software is also still limited. As a result, there is a higher risk that the application may not be working as efficiently or effectively as it could.

Implications and risks if recommendation not implemented

Without good controls over inventory counts and reliable software, the risk of undetected fraud and error increases as does the misstatement of inventory balances in the financial statements.

Implement proper purchase controls—recommendation repeated

Background

In 2013 we recommended¹¹ that the college ensure purchases are appropriately supported by purchase requisitions and purchase orders, in accordance with its policies and procedures. These weaknesses were first reported to management in 2009. However, the number of non-compliance issues continued to increase over time.

We again repeat this recommendation due to continued compliance issues with policies and procedures.

RECOMMENDATION 8: IMPLEMENT PROPER PURCHASE CONTROLS—REPEATED

We again recommend that Alberta College of Art + Design ensure purchases are appropriately supported by purchase requisitions and purchase orders, in accordance with its policies and procedures.

Criteria: the standards for our audit

The college should have effective controls to ensure that purchases made by staff are supported with authorized purchase requisitions and purchase orders, in accordance with the purchasing procedure.

Our audit findings

KEY FINDINGS

- Some purchase orders were issued after the invoice had been received for payment.
- Some purchase requisitions had a date after the purchase order date.

Similar to the prior year, a sample of purchase transactions tested revealed:

- purchase orders dated after the invoice date, indicating a control deficiency that allowed staff to make purchases before management approved them
- purchase requisitions dated after the purchase order date, indicating a control deficiency that allowed staff to issue purchase orders before management approved the purchase

The college’s staff is still able to make purchases without an approved purchase requisition and a purchase order, which is in contravention of the college’s purchasing procedure.

Implications and risks if recommendation not implemented

If the college does not have controls to make sure staff comply with its purchasing procedure, the college may pay for inappropriate purchases.

¹¹ Report of the Auditor General of Alberta—February 2013, no. 12, page 67.

Implement a change management policy and controls—implemented
Our audit findings

The college implemented our 2013 recommendation¹² to develop and implement a comprehensive change management policy and effective control processes.

The college implemented its approved change management procedures and standards, which were operating effectively based on our sample testing. The college also obtained assurance that changes made to the Banner system, managed by the Southern Alberta Institute of Technology on the college's behalf, followed an appropriate change management process.

GRANDE PRAIRIE REGIONAL COLLEGE
SUMMARY

We recommend the college improve its systems to ensure compliance with legislation—see page 75.

KEYANO COLLEGE
SUMMARY

The college implemented our recommendation to improve general ledger processes—see below.

FINDINGS

Matters from prior audit

Improve general ledger processes—implemented

The college implemented our 2013 recommendation to improve accounting processes for the general ledger and minimize manual processes when creating its financial statements.¹³

The college minimized the use of manual processes to produce the annual financial statements for the year ending June 30, 2013. Balances for significant areas such as capital acquisitions, deferred contributions and endowments are now pulled directly from the general ledger without manual intervention.

LETHBRIDGE COLLEGE
SUMMARY

The college implemented our prior year's recommendation to improve software patch policies and procedures—see below.

FINDINGS

Matters from prior audit

Improve software patch policies and procedures—implemented

The college implemented our 2013 recommendation¹⁴ to implement an appropriate patch policy and procedures to update and protect the servers that host its enterprise resource planning system.

¹² *Report of the Auditor General of Alberta—February 2013*, no. 13, page 68.

¹³ *Report of the Auditor General of Alberta—February 2013*, no. 16, page 78.

¹⁴ *Report of the Auditor General of Alberta—February 2013*, no. 17, page 81.

The college has defined a schedule and process for testing server patches in a test environment and moving them into production. It is following these processes and schedule consistently.

MACEWAN UNIVERSITY SUMMARY

The university implemented our prior years' recommendations to:

- improve and implement university policies—see below
- review endowments and related investment policies—see below
- strengthen controls over posting batched financial transactions—see page 84

FINDINGS

Matters from prior audits

Improve and implement university policies—implemented

The university implemented our 2010 recommendation¹⁵ to improve its control environment by implementing and improving a number of policies.

The university:

- finalized board-approved policies for:
 - code of conduct
 - conflict of interest and commitment
 - safe disclosure
 - fraud and irregularities
 - sponsorships, donations and gifts made by MacEwan
- finalized guidelines on allowable expenses and expense reimbursement
- implemented processes to support the new policies
- initiated a strategy to communicate policy changes to employees

The university requires new employees to sign employee conduct, confidentiality and disclosure agreements. Management assessed requiring employees to acknowledge annually that they understand and agree to follow the code of conduct. Management concluded that educational sessions are more effective than annual signatures in promoting ethical behaviours among employees. The board approved management's approach.

Preserve endowment assets—implemented

The university implemented our 2010 recommendation¹⁶ to improve its endowment and related investment policies and procedures.

The university:

- implemented a board-approved endowment policy to determine the amount it can spend from endowment funds
- developed a plan to alleviate encroachment
- established an endowment fund asset allocation guideline that includes specific benchmarks by asset classes for comparing performance to actual results
- improved its reporting to the board's audit and finance, and investments committees

¹⁵ Report of the Auditor General of Alberta—April 2010, no. 18, page 174.

¹⁶ Report of the Auditor General of Alberta—April 2010, page 170.

Limit use of a system/shared account—implemented

The university implemented our 2013 recommendation¹⁷ to strengthen controls for posting financial transactions, so it can trace transactions to specific users. In 2013, we found that finance employees used a generic system account instead of their own user ID to post batched financial transactions. As a result, there was no traceability to the users who recorded the transactions.

The university improved internal controls by:

- removing the generic system account from the system
- ensuring that the system logs user ID automatically when the user records financial transactions.

MOUNT ROYAL UNIVERSITY SUMMARY

The university implemented our recommendation to review the adequacy of its financial statements closing process and improve its ability to produce timely and accurate financial statements—see below.

FINDINGS

Matters from prior audit

Improve year-end financial reporting—implemented

The university implemented our 2013 recommendation¹⁸ to review the adequacy of its financial statements closing process and improve its ability to produce timely and accurate financial statements.

The university produced timely and reliable financial statements through:

- a revised schedule and processes to narrow the timelines for the financial statement closure
- university-wide communication to inform staff on proper cut-off procedures
- system changes such as functional improvements to the accounting module it uses for capital and amortization calculation transactions
- stronger quality processes that led to more frequent and expansive management reviews of the draft financial statements, notes and supporting working papers

NORQUEST COLLEGE SUMMARY

The college implemented our prior years' recommendations to:

- segregate incompatible job duties within the payroll module—see page 85
- provide guidance on employee spending—see page 85
- regularly maintain information systems—see page 85
- improve quality control for year-end financial information—see page 85
- segregate incompatible job duties in its bookstore—see page 85
- improve computer access controls for accountability—see page 86
- improve controls over donations—see page 86
- improve financial internal controls—see page 86

¹⁷ Report of the Auditor General of Alberta—February 2013, no.15, page 73.

¹⁸ Report of the Auditor General of Alberta—February 2013, no. 18, page 82.

FINDINGS

Matters from prior audits

Segregate incompatible job duties within the payroll module—implemented

The college implemented our 2013 recommendation¹⁹ to segregate access within the payroll module.

The college segregated access rights between the payroll and human resources departments to ensure that only staff with appropriate authority could set up an employee and their payroll information in the system. No exceptions were identified in our testing of the access controls.

Provide guidance on employee spending—implemented

The college implemented our 2013 recommendation²⁰ to:

- improve policies and guidelines on appropriate expenses for travel and hosting working sessions and guests
- follow its policies and processes for employee expense claims and corporate credit cards

The college developed and implemented a new travel and business expense policy that provides guidance to staff on appropriate expenditures. For a sample of expense claims and purchase card transactions tested, no exceptions were identified with the application of the policy.

Regularly maintain information systems—implemented

The college implemented our 2013 recommendation²¹ to regularly maintain its information systems to reduce the risk of security weakness.

The college improved the security patch management practices for its information systems and reduced the threat of security vulnerabilities to its computing environment. Our testing found the college regularly maintains its servers and has consistently applied security patch updates to critical Windows production servers.

Improve quality control for year-end financial information—implemented

The college implemented our 2012 recommendation²² to improve its quality control processes for preparing timely year-end financial information to improve efficiency and accuracy. We repeated this recommendation in our February 2013 report.

The college significantly improved the year-end financial statement preparation process by:

- developing guidelines and schedules to ensure year-end financial information is accurate and timely
- adopting a monthly close process
- providing timely and well-supported financial statements with notes and schedules

Segregation incompatible job duties in its bookstore—implemented

The college implemented our 2010 recommendation²³ to appropriately segregate incompatible duties in its bookstore. We repeated this recommendation in our February 2013 report.

¹⁹ *Report of the Auditor General of Alberta—February 2013*, no. 19, page 84.

²⁰ *Report of the Auditor General of Alberta—February 2013*, no. 20, page 85.

²¹ *Report of the Auditor General of Alberta—February 2013*, no. 22, page 87.

²² *Report of the Auditor General of Alberta—February 2013*, no. 24, page 89 (originally *March 2012*, no. 7, page 25).

²³ *Report of the Auditor General of Alberta—February 2013*, no. 25, page 90 (originally *April 2010*, page 186).

The college:

- defined clear roles and responsibilities for customer service representatives and the coordinator of business services
- implemented new cash handling and inventory count procedures which our sample testing found to be effective

Improve computer access controls for accountability—implemented

The college implemented our 2013 recommendation²⁴ to improve its computer access controls to ensure accountability over its information systems. The college established a generic account policy and control procedures to ensure there is appropriate oversight on the use of shared user accounts. Our testing found that management conducted a risk analysis on shared user accounts and disabled those that were not required.

Improve controls over donations—implemented

The college implemented our 2012 recommendation²⁵ to improve its process to manage donations. The college developed detailed policies and procedures to ensure all donations are tracked and recorded. For a sample of donation receipts tested, no exceptions were identified in the application of the new policy and procedures.

Improve financial internal controls—implemented

The college implemented our 2012 recommendation²⁶ to improve its reconciliation of financial information, review of journal entries and documentation of these controls. We repeated this recommendation in our February 2013 report.

The college:

- approved invoices according to the college's financial policies and procedures
- prepared accurate and timely reconciliations for accounts payable, capital assets, payroll and cash
- reviewed all journal entries before they were posted in the general ledger

For a sample of invoices and journal entries tested and with the preparation of key account reconciliations, we identified no exceptions.

NORTHERN LAKES COLLEGE SUMMARY

We have not completed our 2013 financial statement audit to the date of this report as the college did not prepare timely, accurate financial statements. We will again recommend the college improve its financial reporting processes at the conclusion of the audit.

During 2013 we completed our audit of the college's fiscal 2011 and 2012 financial statements and made the following recommendations.

We recommend the college improve its systems to ensure compliance with legislation—see page 75.

²⁴ Report of the Auditor General of Alberta—February 2013, no. 21, page 86.

²⁵ Report of the Auditor General of Alberta—March 2012, no. 6, page 24.

²⁶ Report of the Auditor General of Alberta—February 2013, no. 23, p. 88 (originally March 2012, no. 4, page 22).

We recommend the college improve its financial reporting processes—see below.

FINDINGS AND RECOMMENDATION

Matter from the current audits

Financial reporting processes

Background

Management is responsible for preparing the financial statements and accompanying notes in accordance with relevant accounting standards. Institutions with weak processes to prepare year-end financial statements are likely to experience difficulty preparing timely and accurate periodic financial reports. There is a direct correlation between a strong year-end process to prepare financial statements and the ability to prepare quality financial information throughout the year.

RECOMMENDATION 9: IMPROVE PROCESSES FOR FINANCIAL REPORTING

We recommend that Northern Lakes College review the adequacy of its financial statements closing process and improve its ability to produce timely and accurate financial statements.

Criteria: the standards for our audit

The college should have effective processes to ensure complete and accurate financial statements are prepared and reviewed on time.

Our audit findings

KEY FINDING

- We found significant errors in the draft consolidated financial statements.

The 2011 and 2012 fiscal year-end consolidated financial statements were completed at the same time. The 2011 draft consolidated financial statements had significant accounting errors in capital assets and collections, accounts payable and accrued liabilities, deferred contributions, deferred capital contributions, Government of Alberta grants, federal and other government grants, sales of services and products, and salaries and benefits. In addition to inconsistencies with the recommended disclosures in the Department of Innovation and Advanced Education pro-forma financial statement template, there were presentation errors in the consolidated statement of cash flow and the note disclosures for deferred contributions, related party transactions and balances and the Canada-Alberta Knowledge Infrastructure Program.

We assessed that there was some improvement in the completeness and accuracy of the 2012 draft consolidated financial statements, but we still found significant accounting errors in cash, accounts receivable, accounts payable and accrued liabilities, Government of Alberta grants, federal and other government grants, and sales of services and products. In addition, we found presentation errors in the consolidated statement of cash flow and in the note disclosures for deferred contributions and related party transactions and balances.

Implications and risks if recommendation not implemented

Without processes to ensure its financial statements are complete and accurate, the college may fail to identify material errors or omissions. As a result, there is a higher risk that management and the board may make decisions based on inaccurate financial information.

OLDS COLLEGE SUMMARY

We have not completed our 2013 financial statement audit to the date of this report as the college did not prepare timely, accurate financial statements. We will again recommend the college improve its financial reporting processes at the conclusion of the audit.

PORTAGE COLLEGE SUMMARY

We again recommend that the college improve the accuracy of its perpetual inventory system at the bookstore—see below.

FINDINGS AND RECOMMENDATION

Matters from prior audit

Improve controls over bookstore inventory—recommendation repeated

Background

In 2010 we recommended²⁷ that the college improve the accuracy of its perpetual inventory system at the bookstore. At that time, we noted two college staff performed a physical count of the bookstore inventory at year-end. The inventory system produced an inventory reconciliation report that identified the discrepancies between the results of the physical count and the perpetual inventory listing. The college performed no follow-up work over the discrepancies.

We repeat this recommendation because the college does not know the root cause of significant differences in the accuracy of its bookstore perpetual inventory system.

RECOMMENDATION 10: IMPROVE ACCURACY OF BOOKSTORE INVENTORY—REPEATED

We again recommend that Portage College improve the accuracy of its perpetual inventory system at the bookstore.

Criteria: the standards for our audit

The college's perpetual inventory systems should accurately reflect the amount of inventory on hand. Periodic physical inventory counts should verify the amounts recorded in the system.

Our audit findings

KEY FINDINGS

- Significant variances still exist between the inventory on hand and inventory in the system.
- The college does not sufficiently investigate the variances.

The college:

- implemented the use of a universal product code identifier in its inventory management system
- performed variance analysis when the inventory physical count was different from quantities reported in the system—Significant variances existed in these amounts. The college limited its examination of the variances to assigning a hypothetical rationale for each discrepancy rather than determining the actual root cause.

²⁷ Report of the Auditor General of Alberta—March 2012, no.15, page 34 (originally April 2011, page 82).

To fully implement this recommendation, the college should examine its bookstore practices and controls to identify and eliminate the root cause of the discrepancies between the amounts of inventory on hand and that in the perpetual inventory system.

Implications and risks if recommendation not implemented

Without effective systems in place to track inventory, the college has a higher risk of undetected fraud and misappropriation occurring as well as inaccurate financial information at the bookstore.

RED DEER COLLEGE SUMMARY

The college implemented our recommendation to implement policies and guidance on appropriate expenses for internal working sessions and hosting—see below.

FINDINGS

Matters from prior audit

Systems over costs for internal working session and hosting guests—implemented

The college implemented our 2010 recommendation²⁸ to:

- implement policies and guidance on appropriate expenses for internal working sessions and hosting guests
- strengthen its processes to ensure staff follow its policies and process for employee expense claims and corporate credit cards

Management improved its policy for hosting, internal working sessions and employee expense claims. We conclude the policy provides sufficient guidance and control. For a sample of transactions tested, no discrepancies were identified with employees applying the policy.

²⁸ *Report of the Auditor General of Alberta—April 2010*, page 167.

OUTSTANDING RECOMMENDATIONS

The following is a list of outstanding recommendations to public post-secondary institutions. The list does not include the University of Alberta, University of Calgary, University of Lethbridge, Athabasca University or the Department of Innovation and Advanced Education, which were included in our October 2013 report. Institutions are listed alphabetically with recommendations organized from oldest to newest.

MULTI-INSTITUTIONAL RECOMMENDATION

Improve systems to ensure compliance with legislation—February 2013, no. 7, p. 60

We recommend that the post-secondary institutions²⁹ implement systems to:

- understand what legislation they must comply with
- develop appropriate policies, procedures and controls to ensure compliance with legislation
- monitor and report non-compliance to senior management and board audit committees

ALBERTA COLLEGE OF ART + DESIGN

Improve risk management systems—March 2012, no. 3, p. 19

We recommend that the Alberta College of Art + Design:

- finalize its enterprise risk management framework document
- periodically update and manage the framework as it identifies new potential risks and opportunities
- enforce compliance with its risk management policy by requiring the president and CEO to periodically report the risks and mitigating strategies to the board

Improve controls over contracts—February 2013, no. 9, p. 64

We recommend that Alberta College of Art + Design improve controls over contracts by:

- developing, documenting and enforcing contract procedures
- standardizing contracts with templates that ACAD's legal counsel approves
- developing systems to track and monitor all contracts prepared by all its departments

Implement a disaster recovery plan—February 2013, no. 10, p. 65

We recommend that Alberta College of Art + Design implement and test a disaster recovery plan.

Strengthen controls over procurement cards transactions—February 2013, no. 11, p. 66

We recommend that Alberta College of Art + Design strengthen its processes over the authorization, review and approval of procurement card transactions.

Improve controls over expense claims and purchase card transactions—February 2014, no. 4, p. 76

We recommend that Alberta College of Art + Design strengthen its controls over expense claims and purchase card transactions by:

- improving documentation to support the business reason for and cost effectiveness of expenses
- improving staff training on their responsibilities for complying with policies monitoring expenses and reporting results to the board

²⁹ As a result of our assessment, we made the following common recommendation to all of the colleges and universities as part of our February 2013, October 2013 and February 2014 reports.

Improve periodic financial reporting—February 2014, no. 5, p. 78

(Originally April 2008, p. 180; repeated April 2010, p. 160)

We again recommend that Alberta College of Art + Design improve its processes and controls to increase efficiency, completeness and accuracy of financial reporting.

Implement and enforce procedures for codes of conduct and conflict of interest

—February 2014, no. 6, p. 79

(Originally April 2011, p. 72)

We again recommend that Alberta College of Art + Design develop, implement and enforce procedures for code of conduct and conflict of interest.

Improve internal controls at the bookstore—February 2014, no. 7, p. 80

(Originally February 2013, no. 8, p. 62)

We again recommend that Alberta College of Art + Design improve its internal control systems for its bookstore operations by:

- properly segregating incompatible job duties
- improving its inventory count procedures and investigating discrepancies between inventory counts and inventory records
- resolving software deficiencies in its inventory management computer application

Implement proper purchase controls—February 2014, no. 8, p. 81

(Originally February 2013, no. 12, p. 67)

We again recommend that Alberta College of Art + Design ensure purchases are appropriately supported by purchase requisitions and purchase orders, in accordance with its policies and procedures.

GRANDE PRAIRIE REGIONAL COLLEGE

Improve conflict of interest procedures—February 2013, no. 14, p. 72

We recommend that Grande Prairie Regional College update its policy and procedures, and implement a process for directors and employees to annually disclose potential conflicts of interest in writing, so the college can manage the conflicts proactively.

MACEWAN UNIVERSITY

Systems over costs for internal working sessions and hosting guests—April 2010, p. 165

We recommend that MacEwan University:

- implement policies and guidance on appropriate expenses for events related to internal working sessions and for hosting guests
- follow its policies and processes for employee expense claims and corporate credit cards

Ensure contracts are signed before work begins—April 2011, no. 3, p. 75

(Originally November 2006, no. 9, p. 35)

We again recommend that MacEwan University have signed contracts (interim or final) in place before projects start.

Improve financial business processes—March 2012, no. 1, p. 13

We recommend that MacEwan University improve its financial business processes by:

- establishing clearly documented processes and controls
- developing clear roles and responsibilities and communicating these to staff
- training staff on the policies, processes and controls relating to their roles and responsibilities
- implementing monitoring and review processes to ensure staff follow the policies, processes and controls

Improve security of PeopleSoft computer system—March 2012, no. 2, p. 15

We recommend that MacEwan University improve the security of its PeopleSoft system to ensure that the university:

- uses the system to assign access permissions based on job roles, and properly limit access
- defines, monitors and enforces rules for segregation of duties
- authorizes and reviews logs of critical data changes
- provides appropriate oversight to maintain the integrity of security controls

MEDICINE HAT COLLEGE

Improve enterprise risk management systems—March 2012, no. 12, p. 31

We recommend that Medicine Hat College improve its risk assessment process by:

- documenting its assessment of risks for their impact and likelihood of occurrence
- prioritizing the key risks and clearly linking those risks to a program, operational plan or procedures designed to manage and monitor those risks
- formally reporting the key risks and mitigating actions to the board

Oversight by the board of governors—July 2013, no. 8, p. 62

We recommend that Medicine Hat College provide the Board of Governors with suitable and sufficient information regarding significant events and risks related to the college's international activities; and that the Board of Governors strengthen its processes to:

- ensure it is aware of significant risks the college faces
- monitor compliance of the college's international activities with the board's policies

Strategic and operational planning—July 2013, no. 9, p. 67

We recommend that Medicine Hat College implement systems to:

- clearly define the strategic and operational objectives for its international education activities
- provide business cases that assess the risks, benefits, costs and legal requirements before providing training in foreign countries
- set clear and measurable targets for planned outcomes
- periodically measure and report on progress towards achieving targets, meeting objectives and outcomes

Program management and monitoring—July 2013, no. 10, p. 72

We recommend that Medicine Hat College improve its management of its international education activities by:

- assessing and clearly defining the roles and responsibilities of its International Education Division
- implementing effective program delivery and quality assurance processes at its offshore campuses
- implementing an appropriate system of internal controls, financial reporting and accountabilities for its international education activities
- implementing contract management practices to ensure risks have been appropriately managed
- aligning the structure and management of the division to reflect these changes and to ensure adequate oversight

Improve controls over travel expenses—July 2013, no. 11, p. 77

We recommend that Medicine Hat College improve controls over travel expenses by enforcing its travel policy.

NORQUEST COLLEGE

Improve controls over contracts—March 2012, no. 5, p. 23

We recommend that NorQuest College improve its controls over contract management.

NORTHERN LAKES COLLEGE

Define goals for preserving economic value of endowments—February 2013, no. 26, p. 92

We recommend that Northern Lakes College define its goals for the use and preservation of the economic value of endowment assets.

Improve controls over tuition revenue—February 2013, no. 27, p. 93

We recommend that Northern Lakes College improve controls over tuition revenue by implementing the following processes:

- review the approved fee schedule entered into the accounting system, to ensure completeness and accuracy
- review user access to the accounting system for tuition fees to ensure that roles and level of access are appropriately granted to individuals

Establish accounts receivable write-off policy—February 2013, no. 28, p. 94

We recommend that Northern Lakes College establish an accounts receivable write-off policy to ensure that balances are valid and appropriately valued.

Improve processes for year-end financial report—February 2014, no. 9, p. 87

We recommend that Northern Lakes College review the adequacy of its financial statements closing process and improve its ability to produce timely and accurate financial statements.

OLDS COLLEGE

Improve systems on financial year-end reporting—February 2013, no. 29, p. 95

(Originally April 2011, p. 68; repeated March 2012, no. 8, p. 27)

We again recommend that Olds College further improve its processes and controls over year-end financial reporting.

Improve segregation of privileged user access roles—February 2013, no. 30 p. 96

(Originally March 2012, no. 9, p. 28)

We again recommend that Olds College segregate privileged systems access from data entry responsibilities and business functions.

PORTAGE COLLEGE

Follow access controls and remove access promptly—March 2012, no. 13, p. 32

We recommend that Portage College ensure that employees follow its system user-access control procedures and that management promptly removes access privileges when staff leave.

Develop and test a business resumption plan—March 2012, no. 14, p. 33

We recommend that Portage College fully develop and test a business resumption plan to ensure that it can resume IT services in a reasonable time after a disaster.

Improve information system change management—February 2013, no. 31, p. 98

We recommend that Portage College develop and implement formal change management policies and control procedures to ensure all changes to systems and applications within the computing environment are implemented in a consistent and controlled manner.

Improve accuracy of bookstore inventory—February 2014, no. 10, p. 88

(Originally April 2011, p. 82; repeated March 2012, no. 15, p. 34)

We again recommend that Portage College improve the accuracy of its perpetual inventory system at the bookstore.

RED DEER COLLEGE

Improve general computer control environment—February 2013, no. 32, p. 100

We recommend that Red Deer College improve its general computer control environment by:

- finalizing its risk assessment process and implementing a comprehensive IT control and governance framework for its key processes
- implementing appropriate security over information and information technology assets
- managing changes to computer programs
- testing its disaster recovery plan and then assessing its adequacy

SOUTHERN ALBERTA INSTITUTE OF TECHNOLOGY

IT strategic plan—February 2013, no. 33, p. 101

We recommend that SAIT reassess and update its IT action plan. We further recommend that SAIT develop:

- a project plan with effective controls to ensure its plan is implemented on time and achieves SAIT's strategic objectives
- an effective process to identify, rank and prioritize all IT projects and update plans as needed.