

Treasury Board and Finance

SUMMARY

DEPARTMENT

Matters from the current audit

There are no new recommendations to the Department of Treasury Board and Finance in this report.

Matters from prior audits

The department has implemented our recommendation to improve processes to select performance measures—see page 156.

ATB FINANCIAL

We have three new recommendations that ATB Financial:

- develop a formal process to accept information technology risks—see page 156
- update and adhere to its information technology change management processes—see page 157
- fix the problems with borrower risk ratings in the new banking system—see page 158

ALBERTA INVESTMENT MANAGEMENT CORPORATION

We report that Alberta Investment Management Corporation has implemented three of our recommendations related to:

- completeness and accuracy of the general ledger—see page 159
- reconciling its revenue from cost recoveries reported in its financial statements to the total fees it recovers from its clients and investment pools—see page 159
- securities reconciliation—see page 159

ALBERTA GAMING AND LIQUOR COMMISSION

We made one new recommendation to Alberta Gaming and Liquor Commission to improve its processes for managing information security patches—see page 160.

We also report that AGLC has implemented our recommendation to obtain sufficient information to comply with International Financial Reporting Standards disclosures requirements in its annual financial statements—see page 160.

FINDING AND RECOMMENDATIONS

DEPARTMENT

Matters from prior audits

Improving processes to select performance measures—implemented

In 2011¹ we recommended that the Department of Treasury Board and Finance work with other ministries to improve processes for selecting measures for public reporting.

Our audit findings

The department provided guidance to ministries such as the requirement for well-established methodology and current data for measures. Ministries incorporated the guidance into their processes to select measures for review.

ATB FINANCIAL

Matters from the current audit

IT risk assessments

Background

Effective risk management is important to ensure that ATB identifies and manages the information technology risks it is exposed to. This allows ATB to develop and implement effective policies, procedures and controls to mitigate those risks. By assessing and ranking risks specific to its computing environment, ATB's IT services department (ITSD) can more efficiently and effectively focus their efforts and use resources to remediate more significant risks. Risk acceptance is also important to organizations. To accept risks, however, organizations must identify and understand the risks and the impact they will have if they are not remediated.

RECOMMENDATION 12: IT RISK ASSESSMENTS

We recommend that ATB Financial implement processes to identify, assess and remediate or accept IT risks.

Criteria: the standards for our audit

ATB should have systems or processes in place to:

- regularly identify and assess organizational risks that are or can be remediated through effective IT processes, procedures and controls
- identify or implement effective policies, procedures or controls to remediate identified risks
- formally accept risks when it is decided to not implement a risk mitigation strategy but instead accept the risk

KEY FINDING

ATB accepted risks to its computing environment without following a defined risk acceptance process.

Our audit findings

Although ATB has an enterprise risk management process, ITSD does not have a defined process to identify and assess risks in its computing environment. During our audit of IT

¹ Report of the Auditor General of Alberta—November 2011, no. 3, page 57.

controls, ITSD told us it accepted IT risks instead of following a process or control. For example ITSD accepted risks in areas including:

- access by developers to make changes directly in the production environment
- excess access of individuals with the “fire-fighter” account
- extent to which outsourced service providers are monitored
- not requiring defined test and back-out plans for or post implementation verifications of changes to its new banking system

For the above areas of risk acceptance ITSD was unable to provide evidence of:

- the process it went through to identify and accept risks
- an assessment of the impact to ATB
- who accepted the risks and if that person had the authority to do so

ATB was also unable to provide any evidence that its risk management group or senior management outside of ITSD were aware that policies or control processes were not being followed and that the risk of not doing so was being accepted instead.

Implications and risks if recommendation not implemented

Without effective IT risk management practices, ATB Financial may not identify its IT risks, the impact of the risks to ATB Financial, or if its IT risks are being sufficiently mitigated.

Change management

Background

Change management is the process used to request, develop, test, approve and implement changes to IT systems and applications. Effective change management prevents unauthorized changes from being made to important systems that host or process critical data.

RECOMMENDATION 13: IT CHANGE MANAGEMENT

We recommend that ATB Financial ensure its IT change management processes are followed.

Criteria: the standards for our audit

ATB should have effective controls to ensure that its information technology change management process is followed.

KEY FINDING

Changes to ATB’s banking system did not always follow the requirements defined in its change management policy and procedures.

Our audit findings

ATB has a change management process that contains the requirements to make changes to its banking system and what must be documented in ATB’s change management system related to the change.

We selected 30 changes for testing. We noted exceptions where changes made to the banking system did not follow specific requirements in ATB’s change management process.

ATB’s change management process requires risk assessments, test plans, back-out plans and business validations for all changes made. All 30 of the changes selected for testing were documented as completed in ATB’s change management system for these requirements.

However, as the supporting documentation for those requirements were not consistently documented in ATB's change management system management could not demonstrate that those steps were completed, or met the requirements in its change management process.

Also, nine of the 30 changes we selected for testing were considered emergencies. Of these nine changes:

- seven were not related directly to an incident ticket as required by policy
- three were not approved and closed by the end of the next business day after the emergency change was implemented as required by the policy

Implications and risks if recommendation not implemented

Without effective change management processes, ATB Financial could be at risk of allowing unauthorized or untested changes to its banking system which could cause future problems.

New banking system—borrower risk ratings

Background

The borrower risk rating (BRR) is a rating scale of 1 to 13 that is assigned to all of ATB's non-consumer borrowers. BRRs are a significant input for the calculation of the collective loan loss allowance. The risk rating is based on the ability of the borrower to pay back its loan to ATB.

ATB determines or updates a risk rating when:

- a new loan application is completed
- a borrower requests new funds
- it completes the annual loan review
- a material or adverse change in borrower circumstances occurs

ATB's credit department uses the non-consumer risk rating (NCRR) system to calculate ATB's BRRs for individual borrowers. The NCRR system is ATB's system of record for BRRs. Lenders responsible for a loan are also responsible to make sure the BRR is accurate inside the banking system.

RECOMMENDATION 14: BORROWER RISK RATINGS

We recommend that ATB Financial fix the borrower risk ratings in the banking system.

Criteria: the standards for our audit

The borrower risk ratings in ATB's banking system should be accurate.

KEY FINDING

ATB does not have an accurate listing of borrower risk ratings in its banking system.

Our audit findings

We found that the banking system does not have an accurate listing of BRRs for ATB's business and agriculture loans.

We tested 25 business and agriculture loans in the banking system to ensure the BRRs matched the NCRR system. We found that seven of them did not match due to:

- lenders not consistently updating the BRRs in the banking system
- information not flowing correctly from the user interface part of the banking system to the module that is used for reporting

Implications and risks if recommendation not implemented

ATB Financial does not have an accurate reflection of credit risk within its loan portfolio and could report inaccurate financial information because calculations such as the loan loss allowance are dependent upon accurate borrower risk ratings in the banking system.

ALBERTA INVESTMENT MANAGEMENT CORPORATION**Matters from prior audits****General ledger: ensure accuracy and completeness—implemented****Our audit findings**

AIMCo implemented our 2010 recommendation² to implement additional control procedures so that it can ensure the completeness and accuracy of its investment general ledger.

We examined management's quarterly process to reconcile opening and closing book values by taking into account client purchases, redemptions and income. Reconciling differences are examined on a timely basis. We tested the year-end reconciliation in detail and found it to be effective.

AIMCo's revenue from cost recoveries—implemented**Our audit findings**

AIMCo implemented our 2011 recommendation³ to reconcile its revenue from cost recoveries reported in its financial statements to the total fees it recovers from its clients and investment pools.

We examined the reconciliation completed by management at March 31, 2013 and concluded it was completed appropriately.

Securities reconciliation—implemented**Our audit findings**

AIMCo implemented our 2012 recommendation⁴ to obtain third party statements for all investments not held by external custodians and reconcile its records to those statements.

AIMCo developed monthly procedures to trace investments not held by external custodians to third party statements. We tested the reconciliation and noted no exceptions.

ALBERTA GAMING AND LIQUOR COMMISSION**Matters from the current audit****Security patch management****Background**

A critical part of information security is the timely rollout of patches to secure information systems and applications. Patches generally originate from vendors, to fix vulnerabilities and improve software. A good program for managing security patches greatly reduces security vulnerabilities and the risk of information systems being compromised.

² *Report of the Auditor General of Alberta—October 2010*, no. 18, page 157.

³ *Report of the Auditor General of Alberta—November 2011*, no. 15, page 99.

⁴ *Report of the Auditor General of Alberta—October 2012*, no. 32, page 151.

RECOMMENDATION 15: SECURITY PATCH MANAGEMENT

We recommend that the Alberta Gaming and Liquor Commission ensure it consistently applies security patches to its information systems to proactively manage security vulnerabilities.

Criteria: the standards for our audit

AGLC should ensure that servers, applications and other devices are built to a secure standard and remain secured. Vendor-supplied patches to fix known security vulnerabilities should be applied promptly to prevent a system failure from occurring.

KEY FINDINGS

- AGLC does not consistently apply security patches to its computer servers.
- For some servers, over one year had lapsed since a security patch had last been installed.

Our audit findings

As part of our audit at AGLC, we assessed security practices and tested the patch management controls for its information systems. We selected eight servers to test for timely security patch updates. The servers we tested host AGLC's financial applications, databases and other business systems.

We found significant time gaps between security patches for the servers we tested. In some cases, almost one full year had lapsed since a security patch had last been installed. Although management informed us that it takes time to assess how security patches will affect their systems, significant time had lapsed since the last patch had been applied to critical servers. The time between patches increases AGLC's risk of an exposure or system failure.

In 2012 AGLC used key IT resources to develop and implement a new VLT (video lottery terminal) system and network. As a result, some operational activities like patch management were delayed. Management has now begun to catch up on its patch management plans.

Implication and risks if recommendation not implemented

Delayed patch management increases vulnerabilities in AGLC's computing environment, which may allow unauthorized access to its business applications and critical data, resulting in fraudulent or malicious activities.

Matters from prior audits**Improve the quality of employee benefits note disclosure in the financial statements—implemented****Our audit findings**

AGLC implemented our 2012 recommendation⁵ to promptly obtain sufficient information to comply with IFRS standards for disclosures in the employee benefit note in its annual financial statements. In 2013 AGLC prepared the employee benefits note for its fiscal 2013 financial statements in full compliance with IFRS standards for employee benefits. Management hired an independent actuary, received an actuarial assessment report, prepared the appropriate accounting entries and completed its annual financial statement notes in time for the year-end audit.

⁵ *Report of the Auditor General of Alberta—October 2012*, no. 33, page 153.

OUTSTANDING RECOMMENDATIONS

MINISTRY AND DEPARTMENT

The following recommendations are outstanding and not yet ready for follow-up audits:

Inconsistent budgeting and accounting for grants—October 2007, vol. 2, p. 178

We recommend that the Ministry of Treasury Board and Finance, working with other departments, provide guidance to ensure consistent accounting treatment of grants throughout government.

Salary and benefits disclosure—October 2008, p. 371

We recommend that the Ministry of Treasury Board and Finance, through the Salaries and Benefits Disclosure Directive, clarify what form of disclosure, under what circumstances, is required of the salary and benefits of an individual in an organization's senior decision making/management group who is compensated directly by a third party.

Chief executive officer compensation disclosure—October 2008, no. 3, p. 32

We recommend that the Treasury Board and Finance consider applying the new private-sector compensation-disclosure requirement to the Alberta public sector.

Public agencies: Disclosure of termination benefits paid—October 2009, no. 2, p. 29

We recommend that the Ministry of Treasury Board and Finance increase transparency of termination benefits by adopting disclosure practices for Alberta public agencies that disclose termination benefits paid.

Improve ministry annual report processes—July 2012, no. 10, p. 65

We recommend that the Department of Treasury Board and Finance work with ministries to improve annual report:

- preparation processes for identifying significant performance measure variances and developing explanations for these variances for reporting
- approval processes, including senior management sign-off of a summary of the year's performance measure variances and significant variance assessments

Improve performance measure reporting guidance and standards—July 2012, no. 11, p. 67

We recommend that the Department of Treasury Board and Finance improve its guidance for:

- performance measure target setting
- variance identification
- significant performance measure variance assessments and annual report explanation development
- preparing the results analysis

Management has identified these recommendations as implemented—to be confirmed with follow-up audits:

Government credit cards—October 2007, no. 17, vol. 1, p. 174

We recommend that the Department of Treasury Board and Finance, working with all other departments, further improve controls for the use of government credit cards by:

- communicating responsibilities to all cardholders
- clarifying the support required to confirm both the nature and purpose of transactions
- providing guidance to senior financial officers and accounting staff on dealing with significant non-compliance

ALBERTA INVESTMENT MANAGEMENT CORPORATION

The following recommendations are outstanding and are not yet ready for follow-up audits:

Help clients meet financial reporting requirements—October 2010, no. 17, p. 156

We recommend that Alberta Investment Management Corporation identify financial reporting requirements in its investment management agreements with clients. The Alberta Investment Management Corporation should meet with the clients to understand their financial reporting frameworks, their financial accounting requirements and the investment-related information they need to prepare financial statements.

Investment risk IT system—November 2011, no. 14, p. 97

We recommend that Alberta Investment Management Corporation improve its controls over the investment risk IT system.

ATB FINANCIAL

The following recommendations are outstanding and not yet ready for follow-up audits:

Treasury management: Liquidity simulations—October 2008, p. 128

We recommend that Alberta Treasury Branches further expand its use of liquidity simulations as a forward looking liquidity risk measurement tool. We also recommend that the Asset Liability Committee and the Board Oversight Committee consider whether the results of liquidity simulations indicate a need to modify its business plan.

Treasury management: Interest rate risk modeling and stress testing—October 2008, p. 134

We recommend that Alberta Treasury Branches define its significant interest rate risk exposures and model those significant exposures to assess the effects on future financial results.

Internal control weaknesses—October 2008, no. 29, p. 278

We recommend that Alberta Treasury Branches validate and approve business processes and internal control documentation developed by its internal control group and implement plans to resolve identified internal control weaknesses.

Service auditor reports: User control considerations—October 2009, p. 227

We recommend that Alberta Treasury Branches improve its processes related to service providers by ensuring its business areas:

- receive service provider audit reports
- review service provider audit reports and assess the impact of identified internal control weaknesses
- put end-user controls in place to complement service provider controls

**Treasury management: Interest rate risk model assumptions—April 2011, no. 1, p. 48
(Originally October 2008, p. 132)**

We again recommend that Alberta Treasury Branches improve processes for creating, applying and validating assumptions used in its interest rate risk models.

**New banking system internal controls—October 2012, no. 30, p. 148
(Originally November 2011, no. 16, p. 102)**

We again recommend that ATB Financial confirm that the key controls in the new banking system, as identified in its risk and control matrices, are implemented and operate effectively.

Payment card industry—October 2012, no. 31, p. 149

We recommend that ATB Financial put in place processes to monitor its compliance with the Payment Card Industry's requirements.

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit:

Securitization policy and business rules—October 2008, no. 31, p. 280

We recommend that ATB Financial develop and implement a securitization policy and securitization business rules.

