

Advanced Education—Post-secondary Institutions Report Card

INTERNAL CONTROLS—A REPORT CARD

This report includes an update on the report card on internal controls over financial reporting, together with comparative assessments from our 2014 and 2015 audits of colleges, technical institutes, MacEwan University and Mount Royal University. Our October 2016 report included the results of our audits at Athabasca University, the University of Alberta, the University of Calgary and the University of Lethbridge.¹

To govern effectively, a board of governors needs management to provide accurate and timely financial information throughout the year. Strong, sustainable processes improve management's decision making ability and provide opportunities to use results analysis to communicate to Albertans the institution's performance and accountability for results. The Minister of Advanced Education, through the department, must ensure the boards of governors of post-secondary institutions hold management accountable for sustaining strong internal control environments and improving identified control weaknesses in a reasonable period of time.

Consistent with our prior report cards, 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

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 the institution's financial controls are for preparing accurate financial statements. We occasionally make observations to management at the end of our financial statement audit of less significant control weaknesses that do not require immediate remediation like recommendations do. We would note a caution in the report card, however, if numerous observations are identified at a particular institution. Numerous observations would be a strong indication the institution's overall financial processes and internal controls may not be adequate.

Our conclusion on the status of outstanding recommendations considers not just the number, but also the age and nature of the outstanding recommendations. A summary of outstanding recommendations by institution is given on page 90. Six of the nine outstanding recommendations to institutions are older than three years. We repeated to three institutions our 2013² recommendation to improve systems to ensure compliance with legislation.

¹ *Report of the Auditor General of Alberta—October 2016*, pages 61–71.

² *Report of the Auditor General of Alberta—February 2013*, no. 7, page 60. Individual institutions received the recommendation between February 2013 and February 2014. All institutions worked collaboratively to implement centralized process improvements to facilitate implementation of the recommendation within three years. All, except four institutions, have fully implemented the recommendation. We repeat the recommendation to three institutions: Northern Lakes College, Olds College and Portage College. We have not followed up with one institution (Keyano College), because the institution's operation was affected by the 2016 wildfires in Fort McMurray.

Effective control environments include clear policies, well-designed processes and controls to implement and monitor compliance with policies, and secure information systems. Such control environments help provide timely and accurate financial and non-financial information to manage and govern the institutions. Recommendations not implemented promptly erode the effectiveness of the institution's control environment. A weak control environment impacts the quality of decision making by management and the board of governors. As a result, an institution may not achieve its goal to operate cost-effectively and manage operating risks.

The report card

- ◆ Significant improvement is required.
- ▲ 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 improvements are needed

Institution	Financial Statements Preparation		Outstanding Recommendations
	Accuracy	Timeliness	
Keyano College			
2016	◆	N/A ³	◆
2015	◆	▲	◆
2014	●	●	●
Northern Lakes College			
2016	▲	●	◆
2015	▲	●	●
2014	◆	●	◆
Portage College			
2016	▲	●	◆
2015	●	●	●
2014	●	●	▲
Lakeland College			
2016	●	●	◆
2015	●	●	●
2014	▲	●	●
Olds College			
2016	●	●	◆
2015	▲	●	●
2014	◆	◆	◆
Alberta College of Art + Design			
2016	▲	●	●
2015	●	●	●
2014	●	●	▲

³ Management could not meet the expected timeline because the institution's operations were affected by the Fort McMurray wildfire.

Institutions with adequate internal controls and processes over financial reporting

Institution	Financial Statements Preparation		Outstanding Recommendations
	Accuracy	Timeliness	
Bow Valley College 2016 2015 2014	● ● ●	● ● ●	● ● ●
Grande Prairie Regional College 2016 2015 2014	● ● ●	● ● ●	● ● ●
Lethbridge College 2016 2015 2014	● ● ●	● ● ●	● ● ●
MacEwan University 2016 2015 2014	● ● ●	● ● ●	● ● ●
Medicine Hat College 2016 2015 2014	● ● ●	● ● ●	● ● ●
Mount Royal University 2016 2015 2014	● ● ●	● ● ●	● ● ●
Northern Alberta Institute of Technology 2016 2015 2014	● ● ●	● ● ●	● ● ●
NorQuest College 2016 2015 2014	● ● ●	● ● ●	● ● ●
Red Deer College 2016 2015 2014	● ● ●	● ● ●	● ◆ ●
Southern Alberta Institute of Technology 2016 2015 2014	● ● ●	● ● ●	● ● ●

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

Financial statements preparation

Most institutions have sustainable internal controls and processes to promptly prepare reliable financial statements. Having more reliable data allows institutions to report better results analysis of their performance from measurable targets. Management of institutions should continue to make process improvements to ensure the sustainability of their reporting controls and processes, particularly in areas of continually evolving risk such as information technology security and effective use of data.

We identified errors and disclosure deficiencies in the draft financial statements of the Alberta College of Art + Design, Keyano College, Northern Lakes College and Portage College during our audits. These differences indicate the institutions are unable to maintain, from year to year, the required level of internal controls and processes to prepare financial information. We encourage the board of governors of each of these institutions to oversee management's continued improvement of these processes.

Our audit of NorQuest College included examination of amounts recovered from an alleged fraud that occurred in fiscal 2008 to 2012. Since fiscal 2013, the college has implemented internal controls and processes that have adequately mitigated the risk of fraud going undetected. We conclude that the presentation and disclosure in the college's fiscal 2016 financial statements and disclosures made in its 2016 annual report are accurate and consistent with the information we obtained during our audit.

We issued unqualified audit opinions on the financial statements of all post-secondary institutions in 2016 (we issued unqualified audit opinions on four universities as reported in our October 2016 report).

Outstanding recommendations

Six more institutions implemented our recommendation to improve systems to ensure compliance with legislation. Management of Northern Lakes College, Olds College and Portage College have not yet completed their implementation of all necessary processes to allow them to assert to their board of governors that their institutions are compliant with all applicable legislation. We repeat our recommendation to all three institutions. Management of Keyano College also did not complete the implementation of all necessary processes because of disruptions caused by the Fort McMurray wildfire.

We found Lakeland College management has not fully implemented our recommendation to improve segregation of duties in its finance department (see page 87). We repeat our recommendation and encourage both the board of governors and management to prioritize improvements to process weaknesses.

Red Deer College implemented one other recommendation during the year. Fourteen institutions had no outstanding recommendations at the end of fiscal 2016.

FINDINGS

SUMMARY

We issued no new recommendations to post-secondary institutions. We repeated recommendations to Lakeland College (1), Northern Lakes College (1), Olds College (1) and Portage College (1).

Seven prior-year recommendations were implemented: Alberta College of Art + Design (1), Bow Valley College (1), Lakeland College (1), Lethbridge College (1), Medicine Hat College (1) and Red Deer College (2).

MULTI-INSTITUTION RECOMMENDATION

Matters from prior audit

Improve systems to ensure compliance with legislation

CONTEXT

Starting in 2013, we made a recommendation to all post-secondary institutions⁴ to improve systems to comply with legislation by implementing 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

The post-secondary institutions worked collaboratively to implement the recommendation in two phases. Initially, in 2014, the institutions implemented a sector-wide initiative to engage an external legal firm to identify existing and recently changed or newly enacted legislation impacting post-secondary institutions. In the second phase of implementation, each institution used information obtained collaboratively to integrate compliance with legislation within their risk management systems and processes.

We previously reported that 10 institutions had implemented our recommendation.⁵ In 2016, we examined process improvements implemented at a further nine institutions: Alberta College of Art + Design, Bow Valley College, Lakeland College, Lethbridge College, Medicine Hat College, Northern Lakes College, Olds College, Portage College and Red Deer College.⁶

Our follow-up audit at each of these institutions included examining:

- the legislative compliance framework outlining management's processes to identify legislation that the institution must comply with
- management's process for monitoring to ensure compliance
- instances of non-compliance, along with corresponding mitigation plans
- reporting to the board audit committee

Recommendation implemented—Alberta College of Art + Design, Bow Valley College, Lakeland College, Lethbridge College, Medicine Hat College and Red Deer College

We found management of each institution reported on legislative compliance at least once a year to their board and executive committees. The compliance report included instances of non-compliance along with corresponding mitigation plans. Significant legislative compliance risks were included in each institution's enterprise risk management assessment, and some institutions prepared separate legislation risk registers. The legislative compliance assessments were completed by either management or a special management committee. At each institution, we did not identify any significant legislation related to financial reporting for the fiscal 2016 financial statements that management failed to consider in its reporting.

We conclude that the six institutions mentioned above have implemented processes to ensure compliance with legislation and that these processes are operating effectively.

⁴ *Report of the Auditor General of Alberta—February 2013*, no. 7, page 60, *October 2013*, page 94, *February 2014*, page 75.

⁵ University of Alberta: *Report of the Auditor General of Alberta—October 2015*, page 127. Grande Prairie Regional College, MacEwan University, Mount Royal University, NorQuest College, Northern Alberta Institute of Technology and Southern Alberta Institute of Technology: *Report of the Auditor General of Alberta—February 2016*, page 99. Athabasca University, University of Calgary and University of Lethbridge: *Report of the Auditor General of Alberta—October 2016*, page 64.

⁶ We have not yet followed up on the recommendation to Keyano College, because the college's operations were significantly impacted by the Fort McMurray wildfire that occurred in May 2016.

Recommendation repeated—Northern Lakes College, Olds College and Portage College

We repeat our recommendation to these three institutions, because in each case management has been unable to fully implement processes to assure the institution's board of governors that the institution complies with all applicable legislation.

CRITERIA: THE STANDARDS OF PERFORMANCE AND CONTROL

The colleges should have effective systems to:

- understand what legislation is applicable
- develop appropriate policies, procedures and controls to ensure the institution complies with legislation
- monitor compliance and report non-compliance to senior management and board audit committees

OUR AUDIT FINDINGS**KEY FINDING**

Management at Northern Lakes, Olds College and Portage College have not implemented all necessary processes required to ensure their institution complies with legislation.

Management of Northern Lakes College and Portage College designed legislative compliance frameworks and prepared legislative compliance guidelines and procedures that their respective executive committees approved. Management of Olds College also implemented processes to identify legislation it must comply with and developed a legislation register that assigned legislation to specific owners.

However, we found these colleges still have not done all of the following:

- ensured that functional units carry out their assigned roles and responsibilities
- completely developed legislative compliance guidelines and procedures, or demonstrated they consistently follow these guidelines and procedures
- regularly updated the list of legislation applicable to them
- regularly monitored compliance with legislation and remediated non-compliance, if any
- reported to senior management and the board of governors on instances of non-compliance and remediation, if any

RECOMMENDATION 8: IMPROVE SYSTEMS TO ENSURE COMPLIANCE WITH LEGISLATION—REPEATED

We again recommend that Northern Lakes College, Olds College and Portage College 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 the board audit committee

CONSEQUENCES OF NOT TAKING ACTION

Without a clear process to ensure they comply with legislation, the colleges face significant financial, operational, legal and reputational risks.

ALBERTA COLLEGE OF ART + DESIGN

Matter from prior audit

Improve systems to ensure compliance with legislation—recommendation implemented—see multi-institutional recommendation

BOW VALLEY COLLEGE

Matter from prior audit

Improve systems to ensure compliance with legislation—recommendation implemented—see multi-institutional recommendation

LAKELAND COLLEGE

Matters from prior audit

Improve systems to ensure compliance with legislation—recommendation implemented—see multi-institutional recommendation

Improve segregation of duties within the finance department—recommendation repeated

CONTEXT

Segregation of duties is a type of internal control intended to prevent fraud. Certain combinations of tasks, if given to a single individual, could allow that individual to commit fraud, such as when the same person is allowed to both approve and issue payments. The aim of segregation of duties is to ensure that such tasks are distributed among more than one person.

In 2016⁷ we recommended that Lakeland College improve segregation of duties within the finance department to ensure that:

- those involved in preparing financial information are segregated from IT administration rights. In the absence of complete segregation, sufficient mitigating controls should be in place and followed
- IT administrator actions are monitored throughout the year
- journal entries are always reviewed before being entered into the financial system

We repeat the recommendation because the college has not completed its design and implementation of the monitoring of IT administrator actions.

CRITERIA: THE STANDARDS OF PERFORMANCE AND CONTROL

The college should ensure that:

- individuals responsible for oversight of financial reporting are not involved in the preparation of the financial statements or daily financial processes
- IT administration rights are segregated from those involved in the preparation of financial information. In the absence of complete segregation, sufficient mitigating controls should be in place and followed
- IT administration actions are monitored throughout the year

⁷ *Report of the Auditor General of Alberta—February 2016*, no. 14, page 103.

OUR AUDIT FINDINGS**KEY FINDING**

The college has not implemented adequate processes to segregate duties related to IT administrator rights within the finance department.

Management has improved controls over segregation of duties in the finance department. However, control over the IT administration rights of finance staff needs further improvement.

In the prior year, most individuals in the finance department were able to create and post journal entries. The college has since imposed a restriction so that only one individual may create and post journal entries. Management monitors this individual's activities regularly.

Two individuals within the finance department have administration rights, allowing them to perform many functions in the accounting system, including creating, editing and deleting user accounts. Management is monitoring administrator activities performed by these users. However, additional preventive or detective controls are necessary to adequately mitigate the risk. Additional controls to consider include completely segregating the administrator rights from the finance department, further restricting administrator access privileges, or additional monitoring of transactions processed by administrators.

RECOMMENDATION 9: IMPROVE SEGREGATION OF DUTIES—REPEATED

We again recommend that Lakeland College improve segregation of duties within the finance department.

CONSEQUENCES OF NOT TAKING ACTION

Without appropriate segregation of key financial reporting duties, there will be a greater risk of undetected fraud, error and inappropriate transactions occurring at the college.

LETHBRIDGE COLLEGE**Matter from prior audit**

Improve systems to ensure compliance with legislation—recommendation implemented—see multi-institutional recommendation

MEDICINE HAT COLLEGE**Matter from prior audit**

Improve systems to ensure compliance with legislation—recommendation implemented—see multi-institutional recommendation

NORTHERN LAKES COLLEGE**Matter from prior audit**

Improve systems to ensure compliance with legislation—recommendation repeated—see multi-institutional recommendation

OLDS COLLEGE**Matter from prior audit**

Improve systems to ensure compliance with legislation—recommendation repeated—see multi-institutional recommendation

PORTAGE COLLEGE

Matter from prior audit

Improve systems to ensure compliance with legislation—recommendation repeated—see multi-institutional recommendation

RED DEER COLLEGE

Matters from prior audit

Improve systems to ensure compliance with legislation—recommendation implemented—see multi-institutional recommendation

Improve general computer control environment—recommendation implemented

OUR AUDIT FINDINGS

The college has implemented our 2013 recommendation, repeated in 2016,⁸ to improve its general computer control environment. College management developed policies and implemented processes and controls over its information technology environment by:

- finalizing an IT risk management standard that specifies procedures as well as roles and responsibilities
- implementing an IT oversight committee, which provides governance over risks, controls and IT implementations
- updating its risk register and IT standards regularly
- performing a quarterly review of IT risks, including mitigation activities, and reporting them to the IT oversight committee
- controlling and managing changes to IT systems and applications by implementing a change management framework
- updating and testing its disaster recovery plan

We examined the college's policies, standards and procedures and tested their operating effectiveness. We conclude that the college's risk assessment process, management of changes to systems, and testing of its disaster recovery plan are operating effectively.

⁸ *Report of the Auditor General of Alberta—October 2013*, no. 32, page 100 (repeated February 2016, no. 16, page 108).

OUTSTANDING RECOMMENDATIONS

Institution	Outstanding Recommendations		
	3+ Years*	Other	Total
Alberta College of Art + Design	-	-	-
Athabasca University	2	-	2
Bow Valley College	-	-	-
Grande Prairie Regional College	-	-	-
Keyano College**	1	1	2
Lakeland College	-	1	1
Lethbridge College	-	-	-
MacEwan University	-	-	-
Medicine Hat College	-	-	-
Mount Royal University	-	-	-
NorQuest College	-	-	-
Northern Alberta Institute of Technology	-	-	-
Northern Lakes College	1	-	1
Olds College	1	1	2
Portage College	1	-	1
Red Deer College	-	-	-
Southern Alberta Institute of Technology	-	-	-
University of Alberta	-	-	-
University of Calgary	-	-	-
University of Lethbridge	-	-	-
Total outstanding	6	3	9
Ready for follow-up audit***	3	0	
Not yet ready for audit	3	3	

* Originally issued in February 2014 report or earlier

** Outstanding recommendation to improve financial reporting processes

*** Based on management representations to April 25, 2017

The following is a detailed list of outstanding recommendations to public post-secondary institutions. The list does not include Athabasca University, the University of Alberta, the University of Calgary, the University of Lethbridge or the Department of Advanced Education, which were included in our October 2016 report.

KEYANO COLLEGE

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

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

We recommend that the post-secondary institutions⁹ 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

Improve financial reporting processes—February 2016, no. 13, p. 102

We recommend that Keyano College improve its financial reporting by:

- training staff on Canadian Public Sector Accounting Standards
- improving its monitoring and reviewing processes to ensure accurate financial information

LAKELAND COLLEGE

The following recommendation is outstanding and not yet ready for a follow-up audit:

Improve segregation of duties—May 2017, no. 9, p. 88 (originally February 2016, no. 14, p. 103)

We recommend that Lakeland College improve segregation of duties within the finance department.

NORTHERN LAKES COLLEGE

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

Improve systems to ensure compliance with legislation—May 2017, no. 8, p. 86 (originally February 2013, no. 7, p. 60)

We again recommend that Northern Lakes College, Olds College and Portage College 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 the board audit committee

OLDS COLLEGE

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

Improve systems to ensure compliance with legislation—May 2017, no. 8, p. 86 (originally February 2013, no. 7, p. 60)

We again recommend that Northern Lakes College, Olds College and Portage College 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 the board audit committee

The following recommendation is outstanding and not yet ready for a follow-up audit:

Improve access controls to information systems—February 2016, no. 15, p. 105

We recommend that Olds College strengthen its information systems access controls, to ensure it:

- promptly removes system access privileges when staff or contractors leave the college
- discontinues the practice of leaving accounts open for email access after staff are terminated

⁹ As a result of our assessment, we made this common recommendation to all colleges and universities as part of our original audit in February 2013, and then followed up in October 2013, February 2014, February 2016 and May 2017. This recommendation is being repeated to Northern Lakes, Olds College and Portage College in this report.

PORTAGE COLLEGE

The following recommendation is outstanding and not yet ready for a follow-up audit:

**Improve systems to ensure compliance with legislation—May 2017, no. 8, p. 86
(originally February 2013, no. 7, p. 60)**

We again recommend that Northern Lakes College, Olds College and Portage College 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 the board audit committee