



# Alberta Advanced Education

## Report on Post-Secondary Institutions 2017

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February 2018

## 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 2016 and 2015 audits of colleges, technical institutes, MacEwan University and Mount Royal University. Our October 2017 report included the results of our audits at Athabasca University, the University of Alberta, the University of Calgary and the University of Lethbridge.<sup>1</sup>

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. 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 financial controls are for preparing accurate financial statements. We occasionally make observations to management at the end of our financial statement audits. The observations usually relate to the less significant control weaknesses that do not require immediate remediation like recommendations do. We would consider noting a caution in the report card, typically over financial statement accuracy, if we make more than two observations to a particular institution. Numerous observations would be a strong indication that the institution's overall financial processes and internal controls may not be sustainable.

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 on page 12. Three of the eight outstanding recommendations to institutions are older than three years.

<sup>1</sup> *Report of the Auditor General of Alberta—October 2017, page 9.*

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

#### Institutions where improvements are needed

Institution	Preparation of financial statements		Outstanding recommendations
	Accuracy	Timeliness	
<b>Keyano College</b>			
2017	◆	◆	◆
2016 <sup>2</sup>	◆	N/A	◆
2015	◆	▲	◆
<b>Alberta College of Art + Design</b>			
2017	▲	●	●
2016	▲	●	●
2015	●	●	●
<b>MacEwan University</b>			
2017	●	●	▲
2016	●	●	●
2015	●	●	●
<b>Northern Lakes College</b>			
2017	▲	●	●
2016	▲	●	◆
2015	▲	●	●

<sup>2</sup> We did not assess Keyano College’s timeliness in our 2016 audit as the Fort McMurray wildfire of May 2016 significantly impacted college operations and the timing of the college to complete its annual financial reporting.

**Institutions with adequate internal controls and processes over financial reporting**

Institution	Preparation of financial statements		Outstanding recommendations
	Accuracy	Timeliness	
<b>Bow Valley College</b>			
2017	●	●	●
2016	●	●	●
2015	●	●	●
<b>Grande Prairie Regional College</b>			
2017	●	●	●
2016	●	●	●
2015	●	●	●
<b>Lakeland College</b>			
2017	●	●	●
2016	●	●	◆
2015	●	●	●
<b>Lethbridge College</b>			
2017	●	●	●
2016	●	●	●
2015	●	●	●
<b>Medicine Hat College</b>			
2017	●	●	●
2016	●	●	●
2015	●	●	●
<b>Mount Royal University</b>			
2017	●	●	●
2016	●	●	●
2015	●	●	●
<b>Northern Alberta Institute of Technology</b>			
2017	●	●	●
2016	●	●	●
2015	●	●	●
<b>NorQuest College</b>			
2017	●	●	●
2016	●	●	●
2015	●	●	●

Institution	Preparation of financial statements		Outstanding recommendations
	Accuracy	Timeliness	
<b>Olds College</b>			
2017	●	●	●
2016	●	●	◆
2015	▲	●	●
<b>Portage College</b>			
2017	●	●	●
2016	▲	●	◆
2015	●	●	●
<b>Red Deer College</b>			
2017	●	●	●
2016	●	●	●
2015	●	●	◆
<b>Southern Alberta Institute of Technology</b>			
2017	●	●	●
2016	●	●	●
2015	●	●	●

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

**Preparation of financial statements**

Alberta’s post-secondary institutions continue to build sustainable internal controls and processes to promptly prepare reliable financial reporting. Sustaining good financial reporting directly impacts the ability of institutions to report better results analysis of their performance from measurable targets. Management of institutions must continuously evolve their financial reporting controls and processes to identify and mitigate emerging and changing risks to their operations, particularly in areas such as information and related technology.

Sustaining strong financial reporting controls and processes is challenging. Keyano College still must make significant improvements in its financial reporting processes. Our audit continues to find material differences in the college’s draft financial reporting. We expect to complete our audit of the college’s 2017 financial statements in February. When our audit is complete, we will repeat our prior recommendation to improve financial reporting processes. The board of governors must oversee and hold management accountable for the prompt improvement of these processes.

We found that the Alberta College of Art + Design and Northern Lakes College prepared accurate 2017 financial reporting. However, we have made observations to management of both institutions to improve their operating and financial reporting processes. Weaknesses in these processes increase the potential for errors in the accuracy of future financial reporting. Management of these institutions should promptly rectify these weaknesses and continue to build on sustaining the internal controls and processes they have implemented in the past few years.

MacEwan University also promptly prepared accurate financial reporting for 2017. Subsequent to the university's year-end, management disclosed a significant potential loss of funds resulting from a breakdown in internal control around vendor master files. Management immediately examined the university's processes for changing vendor master files and what improvements to identified weaknesses were required. As a result, we conclude that a recommendation to management to take action is not necessary. We performed additional procedures to assess the impact on the 2017 financial statements as a result of the internal control breakdown. We concluded that the presentation and disclosure in the 2017 financial statements are accurate and consistent with the information we obtained during our audit.

We issued unqualified audit opinions on the fiscal 2017 financial statements of the 15 post-secondary institutions where our audits are complete. These opinions are in addition to the unqualified opinions we provided on all four universities we reported on in our October 2017 report.

### **Outstanding recommendations**

Northern Lakes College, Olds College and Portage College have implemented our sector-wide recommendation to improve systems to ensure compliance with legislation. Keyano College is the only institution that has not yet implemented this recommendation. Lakeland College has implemented a recommendation to improve segregation of duties.

We issued one new recommendation to MacEwan University relating to improving processes for management to regularly communicate with the board of governors and its committees on the adequacy and operating effectiveness of the university's internal control environment. The effectiveness of the board of governors' oversight suffers if management does not provide regular and complete information on changes to risks, internal controls, and processes at the institution. Management should implement this recommendation promptly as gaps in the information that management provides to the board may significantly increase the risks to the institution over time.

We also issued one new recommendation to the Alberta College of Art + Design and one to Northern Lakes College.

Eleven of the 16 institutions we examine in this report have no outstanding recommendations. Overall, 14 of the 20 public post-secondary institutions we audit have no recommendations.

## Findings

### Summary

There were three new recommendations that we issued to institutions.

We recommended that:

- the Alberta College of Art + Design enforce compliance with purchasing procedures—page 7
- MacEwan University strengthen its controls for supporting key financial and business processes—page 10
- Northern Lakes College promptly remove the user access of terminated employees—page 11

Four prior-year recommendations were implemented: Lakeland College (1), Northern Lakes College (1), Olds College (1) and Portage College (1).

### Multi-Institution Recommendation

#### Matters from prior audit

#### Improve Systems to Ensure Compliance with Legislation

Starting in 2013, we recommended to all post-secondary institutions<sup>3</sup> 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 into their risk management systems and processes.

We previously reported that 16 institutions had implemented our recommendation.<sup>4</sup> In 2017, we examined process improvements implemented at Northern Lakes College, Olds College and Portage College.

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

We found management of each institution reported on legislative compliance at least once a year to the board and executive committees. The compliance report included

<sup>3</sup> *Report of the Auditor General of Alberta—February 2013*, no. 7, page 60; *October 2013*, page 94; *February 2014*, page 75.

<sup>4</sup> 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. Alberta College of Art + Design, Bow Valley College, Lakeland College, Lethbridge College, Medicine Hat College and Red Deer College: *Report of the Auditor General of Alberta—May 2017*, page 85.

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 2017 financial statements that management failed to consider in its reporting.

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

## Alberta College of Art + Design

### Matters from current audit

#### Compliance with Purchasing Procedures

##### Context

The Alberta College of Art + Design uses contracts, as part of its purchasing process, to acquire goods or services from other organizations. The college has a clearly defined procedure to administer purchasing activities through contract. For any purchase contract greater than \$75,000, the college is required to secure competitive price quotations by tender invitation. The college's Director of Facilities and Ancillary Services is required under the procedure to administer all tendering information and processes. The college's procedures allow for sole-sourcing of goods and services but have additional requirements for documentation of qualifications. Approval is required from the Director of Facilities and Ancillary Services and either the responsible vice-president or the president.

##### Criteria: the standards of performance and control

The college should have controls to ensure its prescribed purchase procedures are enforced.

##### Our audit findings

###### Key Finding

The college has not consistently applied its tendering policies to obtain proper approvals or business cases on all sole-sourced contracts.

We tested a sample of contracts greater than \$75,000 and found that not all followed the tendering process as prescribed by the college's purchasing procedures document. In addition, none of the contracts tested was approved by the Director of Facilities and Ancillary Services. We found no documentation to explain the deviation from the college's procedures and the business reason for sole-sourcing the contracts. All the exceptions were related to acquisition of IT services. The contracts were appropriately approved by the vice-president overseeing IT operations.

##### RECOMMENDATION:

###### Consistently enforce purchasing procedures

We recommend that the Alberta College of Art + Design enforce consistent compliance with its purchasing procedures.

### Consequences of not taking action

Without effective processes to ensure compliance with its purchasing procedures, the college is unable to demonstrate that the contracts it enters into provide value for money.

## Lakeland College

### Matters from prior audit

#### Improve Segregation of Duties Within the Finance Department—Implemented

##### Context

In 2016,<sup>5</sup> we recommended that Lakeland College improve its segregation of duties within the finance department to ensure that:

- those involved in preparing financial information do not have IT administration access privileges
- monitoring of IT administrator actions occurs throughout the year
- review of journal entries into the financial system occurs throughout the year

##### Our audit findings

Lakeland College has implemented our recommendation to improve the segregation of duties within the finance department.

Management limited administration rights to one individual who is not responsible for processing transactions. In addition, management continues to monitor administrator activities.

We examined the access permissions of finance personnel and confirmed that administrator privileges were segregated from responsibilities for processing transactions. We examined transactions recorded in the general ledger subsequent to the change and confirmed that the administrator was not involved in posting or approving journal entries. We also tested management's monitoring of reports of administrator and transaction activity. We observed that the monitoring was completed regularly.

## MacEwan University

### Matters from current audit

#### Strengthen Controls Supporting Key Financial and Business Processes

##### Context

Strong internal controls and processes ensure reliable financial reporting, effective and efficient operations, and compliance with laws and regulations. Management designs, implements and maintains an entity's internal controls and processes.

While a strong internal control environment will mitigate many risks within an entity, over time they may fail to effectively mitigate new and emerging risks. Changes to existing controls may also introduce new risks, causing unintended consequences. To limit the possibility of weaknesses in internal control environments from newly introduced risks, management must design internal controls well, re-examine the processes and controls regularly, and periodically test whether the processes and internal controls are operating effectively.

<sup>5</sup> *Report of the Auditor General of Alberta—February 2016*, no.14, page 103.

The board of governors and its audit committee play a critical role in overseeing the entity's risk management processes. Board members need to understand what management is doing to regularly identify potential gaps in the control environment and the related processes. Board members also need to understand the changes in controls that management has decided to make, or not make, in response to risks.

Management should regularly report to the audit committee on the operating effectiveness of its internal control processes. In some board-governed entities, boards require senior management to regularly certify that internal controls and related processes are well-designed and operating effectively. The board of governors and its committees should not, as part of their governance roles, take on management's responsibilities in implementing internal controls and processes. Board members need sufficient information from management so that they can ask appropriate oversight questions about what processes and controls are in place and signal where changes in preferred behaviour and internal controls may be required.

Appropriate and sufficient information allows the board and its committee members to identify where specialist help may be required. However, the board, its committees and management cannot assume that they have mitigated the university's risks and exposure just by using specialists, including external or internal auditors. Board members and management need to be clear on their respective roles and responsibilities and the level of assurance they can derive from the work of a specialist.

#### **Criteria: the standards of performance and control**

The university should have processes to:

- identify risks and implement adequate controls to mitigate the risks in its key financial and business processes
- document changes made to its internal control processes and explain to the board of governors and its committees the rationale behind significant changes
- regularly report on the operating effectiveness of its internal control system to the board of governors and its committees

#### **Key Findings**

Management does not:

- adequately assess whether there are gaps in existing controls
- adequately assess whether changes in processes may introduce weaknesses to the control environment
- provide sufficient regular reporting to the board and its committees on the operating effectiveness of its internal controls

#### **Our audit findings**

We examined recent board and audit committee meeting agendas as well as information that management provided to the audit committee. We note that management regularly provides the board of governors and its audit committee with information on the university's operations, including operational variances during the year and an annual update on the university's enterprise risk management register.

However, management did not always inform the audit committee of significant changes in the university's internal controls and processes. The university's process to change its existing internal controls does not include assessing whether a change may introduce weaknesses to the control environment.

During the year, management decided to change its controls surrounding approval of journal entries. Previously, documentation was required to show which individual staff member approved a given journal entry. However, since management has given only authorized individuals access in the system to approve journal entries, management considers documentation of who does the approval unnecessary and therefore no longer requires this documentation. Documentation of approvals is a fundamental control to provide evidence that the appropriate approver has ensured the accuracy and legitimacy of journal entries. Senior-level approvals were also removed from processes related to changes to vendor master files. We found no evidence that management communicated to the audit committee this change in fundamental control, or its conclusion on why the change would not introduce risks or weaknesses to the university's control environment.

Changes to internal control processes may create risk exposures to the university that management may not identify. While management need not report every change in processes to the board and its related committees, management does need to identify and report when those items impact the university's overall risk environment.

**RECOMMENDATION:**

**Strengthen controls supporting key financial and business processes**

We recommend that MacEwan University improve its processes for management to regularly communicate to the board of governors and its committees the adequacy and operating effectiveness of the university's internal control environment.

**Consequences of not taking action**

Without sufficient, timely information on the university's internal controls and processes designed to mitigate risks, the board of governors and its committees cannot govern effectively.

## Northern Lakes College

### Matters from current audit

#### Promptly Remove System User Access of Terminated Employees

##### Context

System access controls are a foundation for data security to ensure that users cannot make unauthorized changes to systems, applications or data within them. Effective access controls typically include procedures such as formal access requests, approvals, access monitoring and segregation of duties.

##### Criteria: the standards of performance and control

Northern Lakes College should have effective controls to ensure it removes the system access of terminated employees promptly.

##### Our audit findings

###### Key Finding

The college does not consistently remove the system access of terminated employees promptly.

We examined system user access controls for the college's network and applications. We found instances where the college deviated from documented processes and did not appropriately remove access privileges once employment was terminated. Deficiencies included the IT group not receiving or promptly processing user access terminations from the system.

##### RECOMMENDATION:

###### Promptly remove system user access of terminated employees

We recommend that Northern Lakes College consistently apply procedures to promptly remove terminated employees' system access.

##### Consequences of not taking action

Unless terminated employees have their system access removed promptly, the college risks unauthorized access to its critical personal, business and financial information.

## Outstanding Recommendations

Institution	Outstanding recommendations		
	3+ years*	Other	Total
Alberta College of Art + Design	-	1	1
Athabasca University	2	-	2
Bow Valley College	-	-	-
Grande Prairie Regional College	-	-	-
Keyano College**	1	1	2
Lakeland College	-	-	-
Lethbridge College	-	-	-
MacEwan University	-	1	1
Medicine Hat College	-	-	-
Mount Royal University	-	-	-
NorQuest College	-	-	-
Northern Alberta Institute of Technology	-	-	-
Northern Lakes College	-	1	1
Olds College	-	1	1
Portage College	-	-	-
Red Deer College	-	-	-
Southern Alberta Institute of Technology	-	-	-
University of Alberta	-	-	-
University of Calgary	-	-	-
University of Lethbridge	-	-	-
<b>Total outstanding</b>	<b>3</b>	<b>5</b>	<b>8</b>
Ready for follow-up audit***	0	0	0
Not yet ready for follow-up audit	3	5	8

\* Originally issued in March 2015 report and earlier.

\*\* Outstanding recommendation to improve financial reporting processes.

\*\*\* Based on management representations to January 31, 2018.

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 2017 report.

## **Alberta College of Art + Design**

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

### **Consistently enforce purchasing procedures—February 2018, page 7**

We recommend that the Alberta College of Art + Design enforce consistent compliance with its purchasing procedures.

## **Keyano College**

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

### **Improve systems to ensure compliance with legislation—February 2013, no. 7, page 60**

We recommended that Keyano College implement systems to:

- understand what legislation it 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

### **Improve financial reporting processes—February 2016, no. 13, page 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.

## **MacEwan University**

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

### **Strengthen controls supporting key financial and business processes—February 2018, page 10**

We recommend that MacEwan University improve its processes for management to regularly communicate to the board of governors and its committees the adequacy and operating effectiveness of the university's internal control environment.

## Northern Lakes College

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

**Promptly remove system user access of terminated employees—February 2018, page 11**

We recommend that Northern Lakes College consistently apply procedures to promptly remove terminated employees' system access.

## Olds College

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

**Improve access controls to information systems—February 2016, no. 15, page 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