



Report of the Auditor General of Alberta

April 2009



Mr. Len Mitzel, MLA
Chair
Standing Committee on Legislative Offices

I am honoured to send my *Report of the Auditor General of Alberta—April 2009* to the members of the Legislative Assembly, as required by section 20(1) of the *Auditor General Act*.

[Original signed by Fred J. Dunn]
Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
April 6, 2009

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Introduction

Report of the Auditor General of Alberta—April 2009

Message from the Auditor General

What we do and why we now report semi-annually

Role of our Office

Our goal is to provide timely, useful, and relevant information to our clients—the Legislative Assembly, and the people of Alberta. The reports we give to the Legislative Assembly identify opportunities and propose solutions to improve the use of public resources, and improve and add credibility to the government’s financial reporting. We focus on the assets, revenues and expenses of the province, and government program initiatives that affect the well-being of people.

Semi-annual reporting more helpful

In April 2008, we changed from annual to semi-annual reporting to help government improve its accountability. There is no reason to delay reporting important recommendations and findings that need action. It also allows the Public Accounts Committee to provide more timely consideration of the issues raised in our reports. By reporting more frequently, we also enhance our own accountability for use of public money. The result is more useful reporting that helps government and informs the Legislative Assembly and Albertans.

Report highlights

Two numbered recommendations

In this Report, we have made one numbered recommendation to the University of Lethbridge and one numbered recommendation to the Department of Sustainable Resource Development. These recommendations require a formal response from government.

Improving the processes to assess and monitor research related business relationships

- Recommendation No. 1—University of Lethbridge should strengthen processes for assessing and monitoring business relationships related to research, and periodically report key information on risks to the Board of Governors. Without adequately assessing the risks and benefits of research projects, there’s an increased risk of research money not being effectively used.

Improving public reporting of performance

- Recommendation No. 2—Department of Sustainable Resource Development should publicly report relevant and sufficient reforestation performance information to confirm the effectiveness of regulatory systems. Otherwise, it’s unclear if standards are being complied with, or are stringent enough to ensure satisfactory reforestation.

We have also issued 19 unnumbered recommendations to several post-secondary institutions. The sheer number of recommendations, combined with the fact that many of them relate to weaknesses in basic internal controls that expose institutions to fraud and error, is a cause for concern. Also, some of the recommendations focus on improving financial reporting, which can help management to better run the institutions, and audit committees to provide more effective oversight.

Weak internal controls increase the risk of fraud and error

The control weaknesses that we identified generally relate to segregation of duties, timely reconciliations, and access to assets and information systems. Although good internal controls do not eliminate the risk of fraud and error, the risk can be significantly reduced by ensuring:

- incompatible duties are properly segregated.
- reconciliations are being routinely performed.
- access to assets and information systems is restricted to appropriate staff.

Grant MacEwan College

Two post-secondary institutions have a greater proportion of the recommendations. First, Grant MacEwan College has four new recommendations. These, when combined with past recommendations, demonstrate that the College has an ineffective control environment for an institution of its size. The College needs to solve its staffing and systems information issues, and its internal control weaknesses. Until it resolves these issues, the College continues to be unnecessarily exposed to risks of fraud and error. On page 81 and 84, we refer to management informing us of three forensic investigations.

Bow Valley College

Second, Bow Valley College has six new recommendations. The College informed us of an alleged fraud in November 2008. As a result, we audited the processes the College used in its investigation, and the College's related internal control systems. Our audit produced five recommendations and demonstrated that the College could make significant improvements in its contracting processes. However, we commend the College for advising our Office in a timely manner, conducting a thorough and effective investigation, and committing to make the necessary changes to improve its systems.

In the current economic climate, effective internal controls are even more critical because of increased pressures in meeting budgets and reduced investment income to fund operations.

Understanding the province's financial reporting

In June, we will report on the consolidated financial statements of the province for the fiscal year ended March 31, 2009. This Report includes a chapter called, *Alberta's consolidated financial statements*, where we discuss several topics that are important in understanding Alberta's consolidated financial statements. Our goal is to promote a better understanding of the province's financial affairs.

Acknowledgement and thanks

I am grateful to the following parties and thank them for their advice, suggestions, and support.

Members of the Legislative Assembly, in particular members of the Standing Committee on Public Accounts who, through their suggestions, identify audits that would help them do their work as legislators.

Members of the public, who contact us with concerns about government systems. They help us to plan the focus of our future audit work.

Members of the Provincial Audit Committee, who provide wise counsel. This group of senior business executives with financial, business and governance skills has an important advisory role to government and our Office.

The organizations that we audit, whose cooperation is fundamental to our success. Senior management and board members of audited organizations meet with us to discuss our audit plans, findings, and recommendations. They give us the necessary information, reports, and explanations to our questions.

Various advisors, who contribute their expertise to help us complete our major systems audits.

Finally, I thank my staff—and the agent firms they work with—for their thorough and professional work. They are dedicated to objective and cost-effective auditing. The audits and issues that they deal with are challenging and often sensitive, but are important for the members of the Legislative Assembly and the people of Alberta. I believe that effective auditing is always important, however, in a period of economic difficulty and restraint, effective independent and objective auditing becomes even more important.

[Original signed by Fred J. Dunn, FCA]
Fred J. Dunn, FCA
Auditor General

April 6, 2009

Recommendation highlights

This Report contains 22 recommendations, all listed, starting at page 7. We have numbered two recommendations that need a formal response from the government. Of the two numbered recommendations, one is new, and the other one repeats a previous recommendation where implementation progress was too slow. By repeating this recommendation, we expect the government to formally recommit to its implementation.

Prioritizing our recommendations

As part of the audit process, we provide recommendations to government in documents called management letters. We use our public reporting to bring our recommendations to the attention of Members of the Legislative Assembly (MLAs). For example, members of the all-party Standing Committee on Public Accounts refer to the recommendations in our public reports during their meetings with representatives of government ministries and agencies.

To help MLAs, we prioritize recommendations in our public reports to indicate where we believe they should focus their attention. We categorize them as follows:



- **Key recommendations**—these are the numbered recommendations we believe are the most significant. By implementing these recommendations, the government will significantly improve the safety and welfare of Albertans, the security and use of the province's resources, or the governance and ethics with which government operations are managed.
- **Numbered recommendations**—these recommendations require a formal response from the government.
- **Unnumbered recommendations**—these recommendations, although important, do not require a formal response from government.

Reporting the status of recommendations

We follow up all recommendations and report their status in our public reports. The timing of our follow-up audits depends on the nature of our recommendations. To encourage timely implementation, and assist with the timing of our follow-up audits, we require a reasonable implementation timeline on all recommendations accepted by the government or the entities we audit. We recognize some recommendations will take longer to fully implement than others but we encourage full implementation within three years. Typically, we do not report on the progress of an outstanding recommendation until management has had sufficient time to implement the recommendation and we have completed our follow-up audit work.

The status of our recommendations is reported as follows:

- Implemented—we briefly explain how the government implemented the recommendation.
- Repeated—we explain why we are repeating the recommendation and what the government must still do to implement the recommendation.
- Progress report—we provide information when we consider it useful for MLAs to understand management's actions.
- Satisfactory progress report—we may want to state that progress is satisfactory based on the results of a follow-up audit.
- Changed circumstance—if the recommendation is no longer valid, we briefly explain why.

Outstanding recommendations

We have a chapter called Outstanding recommendations—see page 107. It provides a complete list of the recommendations that are not yet implemented. Although management may consider some of these recommendations implemented, we do not remove recommendations from the list until we have been able to complete follow-up audit work to confirm implementation.

April 2009 recommendations

—Indicates a key recommendation

Green print—numbered recommendations

Black print—unnumbered recommendations

Systems audits

- Bow Valley College—Contracting in the International Education and Workplace Training Department**
- Page 16 **Contract reviews—Recommendation**
We recommend that Bow Valley College develop a process to ensure personal services contracts are reviewed before departments initiate them to ensure all contracts are valid.
- Page 18 **Contracting processes—Recommendation**
We recommend that Bow Valley College ensure it has an appropriate personal services vendor selection method to evaluate potential vendors.
- Page 19 **Vendor maintenance—Recommendation**
We recommend that Bow Valley College improve its controls for setting up new vendors by requiring that vendor change requests be appropriately approved.
- Page 20 **Processing of contract payments—Recommendation**
We recommend that Bow Valley College improve internal controls for processing contract payments by ensuring proper segregation of incompatible duties, and proper authorization of vendor invoices.
- Page 21 **Unethical conduct in the workplace—Recommendation**
We recommend that Bow Valley College improve processes for dealing with unethical conduct in the workplace by clearly defining and communicating to staff the responsibilities and actions required in the event of such conduct.
- University of Lethbridge—Research Investment—Alberta Terrestrial Imaging Corp. (ATIC)**
- Page 26 **Improve processes for investing in research projects—Recommendation No. 1**
We recommend the University of Lethbridge:
- strengthen processes for assessing risks and benefits relating to prospective business relationships.
 - strengthen processes to oversee and monitor financial and other risks throughout the life of business relationships.
 - periodically report to the Board of Governors key information on financial and other risks in research management.
- Reforestation—Follow-up**
- Page 52 **Performance information—Recommendation No. 2—repeated**
We again recommend that the Department of Sustainable Resource Development publicly report relevant and sufficient reforestation performance information to confirm the effectiveness of its regulatory systems.

Financial statement and other assurance audits

- Advanced Education and Technology**
- Page 78 **Preserving endowment assets—Recommendation**
We recommend that the following Institutions define their goals for the use, and preservation of the economic value of endowment assets (inflation proofing):
- Alberta College of Art and Design (ACAD)
 - Grande Prairie Regional College
 - Keyano College
 - Lakeland College
 - Lethbridge Community College
 - Medicine Hat College
 - Mount Royal College
 - NorQuest College
 - Olds College
 - Portage College
 - Red Deer College
- Page 82 **Grant MacEwan College—Parking services fees—Recommendation**
We recommend that Grant MacEwan College improve its systems to control, collect, and account for parking services fees.
- Page 83 **Grant MacEwan College—Sports and Wellness Centre—Recommendation**
We recommend that Grant MacEwan College:
- establish policies and procedures for issuing complimentary memberships and discounts for using the Sports and Wellness Centre facilities.
 - improve its system to control and safeguard cash collected at sporting events.
- Page 84 **Grant MacEwan College—Prompt completion of sub-ledger reconciliations—Recommendation**
We recommend that Grant MacEwan College promptly reconcile sub-ledgers to the general ledger to ensure it records all transactions accurately.
- Page 85 **Grant MacEwan College—Capital assets—Recommendation**
We recommend that Grant MacEwan College improve its capital asset processes by:
- documenting its assessment on the appropriate accounting treatment for costs related to construction and renovation projects.
 - coding and recording transactions accurately the first time.
- Page 87 **NorQuest College—Internal controls over cash—Recommendation**
We recommend that NorQuest College improve its controls over cash received from tuition and student fees.
- Page 88 **NorQuest College—Procurement cards—discrepancy log—Recommendation**
We recommend that NorQuest College improve controls to ensure that procurement cardholders comply with its procurement card policy.
- Page 89 **NorQuest College—Procurement cards—compliance with procurement card policy—Recommendation**
We recommend that NorQuest College ensure that its procurement card statements are supported by adequate documentation and are approved by an authorized individual before making payments.

Page 90 **Northern Alberta Institute of Technology—Review of procurement card transactions—Recommendation**

We recommend that the Northern Alberta Institute of Technology improve its processes to review and approve staff's procurement card transactions.

Page 91 **Lakeland College—Improve payroll controls—Recommendation**

We recommend that Lakeland College:

- adequately segregate staff access to the PeopleSoft payroll system to ensure only valid changes are made.
- review change reports generated from the payroll system for appropriateness.
- prepare monthly reconciliations of the payroll system to the general ledger and promptly review the reconciliations.

Page 92 **Lakeland College—Segregation of duties over journal entries—Recommendation**

We recommend that Lakeland College properly segregate the incompatible functions of preparing and approving journal entries.

Page 93 **Mount Royal College—Segregation of payroll duties—Recommendation**

We recommend that Mount Royal College adequately segregate duties for processing payments to casual and contract employees.

Page 94 **Bow Valley College—Quarterly financial reporting—Recommendation**

We recommend that Bow Valley College improve its financial reporting to the Board by:

- including—at least quarterly—complete statements of financial position, changes in net assets and actual year-to-date operating results.
- improving its quarterly processes and controls to ensure accurate financial information.

Page 95 **Medicine Hat College—Periodic reporting to the Board—Recommendation**

We recommend that Medicine Hat College improve its financial reporting to its Board by including—at least quarterly—complete statements of operations, financial position and changes in net assets.

Alberta Capital Finance Authority

Additional skilled resources required—Recommendation

Page 103 We recommend that management of Alberta Capital Finance Authority secure additional skilled resources to help implement new required financial accounting standards and to ensure the cost-effective preparation and management review of its annual financial statements.



Systems audits

Report of the Auditor General of Alberta—April 2009

Bow Valley College—Contracting in the International Education and Workplace Training Department

1. Summary

What we examined

College finds funds were inappropriately diverted

Bow Valley College (the College) informed us of an alleged fraud¹ by a senior employee² that took place from July 2005 to November 2008. The College alleges that approximately \$189,000 was diverted to businesses operated or controlled directly or indirectly by the employee. The College investigated and referred the matter to the local police authority, which is presently conducting a criminal investigation. We commend the College for advising our Office in a timely manner and conducting an effective and thorough investigation.

Our examination focused on the International Education and Workplace Training Department (IED) and the processes surrounding the alleged inappropriate activity and the transactions involved. We did not do a complete review of the College's internal controls over contracting processes. Our examination focused on processes within which the alleged fraudulent activities occurred. However, we expanded our work to include broader internal control processes when necessary.

Why is it important to Albertans

Albertans need to know that the College safeguards and uses public funds appropriately.

What we found

College has internal control weaknesses in personal services contracting

Weaknesses in the College's system of internal controls enabled the Director to allegedly prepare and submit invoices for payment of commissions to businesses controlled directly or indirectly by him pursuant to contracts for which no services were provided. The Director could initiate and approve

¹ Specific allegations are contained in a Statement of Claim filed November 26, 2008, with the Court of Queen's Bench of Alberta in the Judicial District of Calgary as Action No.: 0801-14764.

² The Director of the International Education and Workplace Training Department at the College was terminated in November 2008. Throughout this report, we refer to him as the Director.

personal services contracts without any secondary review, initiate and approve new vendors in the computer systems, initiate and approve invoices, and arrange to have the payment hand delivered to his department. We identified opportunities for management to improve internal controls over contracts, vendor maintenance and payment processing, and improve processes for dealing with unethical conduct in the workplace.

What the College needs to do

We recommend changes to the College's system of internal controls

The College needs to develop a process to review contracts before its departments sign them to ensure the contracts are valid. The College also needs to improve existing processes to ensure it has an appropriate personal services vendor selection method to evaluate potential vendors.

The College has inadequate controls over vendor maintenance, and needs to improve its processing of contract payments. It should also ensure that responsibilities and actions for dealing with unethical conduct are clearly defined and communicated to staff. By improving its controls, the College could significantly limit the risk of fraud.

2. Audit objectives and scope

College conducted an investigation and concluded that funds were diverted

College management was informed by certain staff that they had concerns about some personal service contracts in late 2008. The College investigated and concluded that commissions were paid pursuant to contracts for which no services were provided to the College. Our objectives were to:

- review the processes the College used in its investigation.
- review internal control processes that failed to prevent or detect the alleged inappropriate activity.

We examined processes surrounding the alleged improprieties

We documented the processes involving personal services contracts, vendor maintenance and payment processing within the context of the alleged inappropriate activity. We interviewed key employees and performed walkthroughs when necessary. We did not examine any financial processing or information technology controls beyond the scope of the alleged conduct within IED. Nor did we review the College's general processes for contract accountability and monitoring, examine contracts that other College departments administer, or review the processes for the procurement of goods or other services. Due to concerns at IED, we did however examine processes used College-wide for personal services contracts.

3. Background

The College is a post-secondary institution serving primarily the City of Calgary and communities in southern Alberta. It provides instruction and training to assist adult learners through:

- academic upgrading.
- career entry training in business.
- health and service industries.
- English as a second language.

IED, a College department, develops strategies to recruit international students

Operating within the College is the International Education and Workplace Training Department. One purpose of IED is to develop strategies to recruit international students for the College. International students enroll at the College by either:

- using an agent to assist with all or part of the enrolment process and obtaining the appropriate government visas; or
- dealing directly with the College (without using an agent to complete all applications and requirements).

Agents contracted by IED enter into contracts with the College

Prospective agents must enter into a personal services contract with the College. Personal services contracts with agents are authorized by the IED Director, unless the contract amount exceeds \$50,000. In that case, the appropriate Vice President authorizes the contract. The College pays the agent for services provided based on a fee schedule.

Contract relationships appeared suspicious

The College advised us that, during 2008, IED staff expressed concerns about certain contracts approved by the Director. In October 2008, the College investigated processes used for these contracts in IED. The investigation discovered the alleged inappropriate activity.

Our Office was notified after the College conducted an investigation

The College notified us in November 2008 and asked us to review their investigation to date and provide feedback and advice. We commend the College for its efforts in handling this matter most professionally by effectively investigating, involving us early in the investigation, and fully cooperating during our examination.

4. Audit findings and recommendations

Director had control of the process for personal services contracts

The College alleges that approximately \$189,000 in commission payments for international students not represented by an agent was diverted to parties directly or indirectly controlled by the Director. We determined that the College completed a thorough and detailed investigation. Due to weaknesses in the College's internal controls, the Director was able to:

- initiate and approve personal services contracts without any secondary review.
- initiate and approve vendor maintenance requests.
- initiate and approve invoices.
- arrange for hand delivery of payment in the form of cheques to his department.

We found significant internal control weaknesses

We reviewed key processes within the scope of the alleged inappropriate activity in IED. However, we extended our work to include College-wide internal control processes when necessary. As a result, our work identified broader weaknesses in the College's systems of internal control.

4.1 Contract reviews

Recommendation

We recommend that Bow Valley College develop a process to ensure personal services contracts are reviewed before departments initiate them to ensure all contracts are valid.

Background

College policy enables deans and directors to initiate contracts and approve invoices up to \$50,000

The International Education and Workplace Training Department (IED) enters into personal services contracts to acquire agent services for the College. College departments are responsible for identifying a need and ensuring that budgeted funds are available. The College's policy authorizes deans and directors "to approve any changes within the total approved budgets for their department and for all budget transfers within their department" up to certain signing limits depending on the nature of the transaction. The signing authority limit is \$50,000, enabling deans and directors to initiate and approve contracts under this amount without a separate review. Deans and directors can also approve supplies and services requisitions up to \$50,000. Deans and directors are responsible to ensure the terms and conditions of the contract are met before payment is authorized.

Use of standard contracting template encouraged, but not required

Although policy does not require departments to use a standardized contract template developed by legal counsel, the College strongly encourages departments to use it. The College expects its HR department and legal counsel to review deviations from the template before a contract is finalized. This is to prevent the College from agreeing to unreasonable or imprudent terms and conditions.

Criteria: the standards we used for our audit

The College should:

- have internal controls to ensure all contracts are valid, consistent with College objectives and are associated with proper vendors.
- control the process for using the standardized contract template and for amending it.

Our audit findings

Director initiated and approved contracts relating to alleged inappropriate activity

The College did not review contracts before the IED Director signed them. As a result, the Director had the authority to sign all contracts up to \$50,000 without any separate approvals. College policy enabled the Director to allegedly establish a scheme to invoice the College for a commission fee payable to businesses operated or controlled directly or indirectly by him, when no such commissions were owing. College management advised us that departments can initiate and approve contracts up to \$50,000 if there is an apparent need and budgeted funds are available to cover the expected expenditures.

Director changed contract terms in the standard contract template without a secondary review

IED did not follow the typical guidelines other College departments follow when entering into personal services contracts with vendors. The Director initiated contracts with agents of international students that included terms and conditions different from those of the standard contract template. The deviations in certain contracts the Director signed were never reviewed or approved to ensure the College was aware of and had approved, the terms for paying commissions to these agents. We were advised by the College that the Director kept all signed personal services contracts with these agents in an IED file and did not share the final contracts with other departments. The Finance Department processed the vendor invoices without having copies of these contracts, so it could not match the payments to the contract.

An effective control process would define separate roles for initiating and approving contracts.

Implications and risks if recommendation not implemented

College departments may sign invalid contracts inconsistent with, or contrary to, the College's objectives. Contracts may not provide value for money or may be used to commit fraud.

4.2 Contracting processes**Recommendation**

We recommend that Bow Valley College ensure it has an appropriate personal services vendor selection method to evaluate potential vendors.

Background

IED used informal contractor selection process

The International Education and Workplace Training Department (IED) used an informal method to contract with agents. Agent vendors either contacted the College to become an approved vendor or were often hired based on internal "word of mouth". This resulted in a listing of approximately forty approved agent vendors.

Criteria: the standards we used for our audit

The College should have an adequate process to evaluate service providers and vendors before signing a contract with them. A best-practice approach to contracting should include:

1. An appropriate contractor selection method is chosen.
2. Competition is open, fair, and gets good value.
3. Proposals are evaluated fairly against predetermined criteria.

Our audit findings

College policy silent on proper process

College policies did not provide guidance to departments on the proper process for contractor selection. As a result, IED did not use an appropriate method to evaluate agent vendors. Our interviews with staff revealed that the desired method for evaluating agents is to require them to complete a proposal for contract. But nearly all personal services contracts in IED were prepared without a proper proposal process. Only 1 of 13 personal services contract files related to these agents we tested had a completed proposal form. Staff said that an informal process was generally used for these contracts.

Implications and risks if the recommendation not implemented

Without an appropriate vendor selection method, the College may not get the best value for money and may risk fraudulent activity.

4.3 Vendor maintenance

Recommendation

We recommend that Bow Valley College improve its controls for setting up new vendors by requiring that vendor change requests be appropriately approved.

Background

Finance routinely makes vendor changes

The College uses the Agresso financial system to record collections, pay invoices, and report its financial results. College Finance staff set up new vendors in Agresso and edit vendor information in the system to properly pay vendors. Finance staff make these changes when departments request them.

Segregation of duties should exist

A common control in good control environments is to have one person initiate a change and then have a different person approve the change.

Criteria: the standards we used for our audit

The College should have an adequate system for creating and changing vendor information that mitigates the risk of setting up inappropriate or fictitious vendors.

Our audit findings

Vendor changes do not go through a secondary review

College policy authorizes Finance to set up a vendor file in Agresso with only a submitted fee-for-service invoice if it is under \$5,000 and approved by a department staff member with the appropriate signing authority. Finance does not require a signed contract to set up a new vendor, nor does it require a second staff member to approve the addition of a vendor. Any later invoices submitted for an established vendor, regardless of amount, will be processed if approved by a department staff member with the appropriate signing authority.

Due to this weakness in vendor maintenance controls, the Director could initiate and approve new vendors. The first invoice for each vendor was less than the \$5,000 threshold per invoice, thus avoiding the requirement of a separate authorization. The Director could then request later invoices be processed for these vendors up to his authorized \$50,000 signing limit.

Implications and risks if recommendation not implemented

Without more effective controls to create and change vendors in the master vendor file, the College risks fictitious or inappropriate vendors being set up and funds being diverted.

4.4 Processing of contract payments

Recommendation

We recommend that Bow Valley College improve internal controls for processing contract payments by ensuring proper segregation of incompatible duties, and proper authorization of vendor invoices.

Background

Finance processes contract payments

While each department is responsible for entering into and signing contracts, Finance is responsible for processing contract payments. Departments are responsible for authorizing contracts, approving contract invoices and forwarding them to Finance for processing. Finance ensures invoices are approved by a person with the proper signing authority and then processes payments.

Criteria: the standards we used for our audit

The process for paying invoices should include control mechanisms such as segregation of duties and proper authorization.

Our audit findings

IED generates invoices for their vendors

Finance processes payments for internally generated vendor invoices. IED generates vendor invoices for agency contracts when vendors ask its staff to do so. This process is inappropriate. From these payment requests, IED staff calculate the amount owed to the vendor based on records in the computer system and prepare the invoice for payment. For most invoices, a staff person signed as invoice preparer and the Director provided the approval. The invoices are then forwarded to Finance for payment. Finance was not given the contract or supporting documentation for the invoice, so it could not compare this information with the IED internally generated vendor invoice.

Director initiated and approved invoices

The College alleges the Director was the initiator (preparer) and approver of invoices for commissions payable to businesses operated or controlled directly or indirectly by him, when the Director knew that no such commissions were owing. For these invoices, the “prepared by” section of the invoice remained unsigned and the Director signed only the “approved by” section. Finance processed the payment for these invoices. Our interviews with Finance staff revealed that they issued payment because a person with the proper signing authority signed the invoices. An effective control system would ensure that there is proper segregation between the generation and approval of an invoice.

Payments were delivered to the Director

The Director requested cheques payable to the entities used in the alleged scheme, to be hand delivered to his department in sealed envelopes. Our interviews with Finance staff revealed that they were unaware of unusual dealings for these contract payments. An effective control system would ensure cheques are not delivered to the invoice approver.

Implications and risks if recommendation not implemented

If the College does not improve the controls for processing contract payments, vendors may be paid for services not provided and payments may go to fictitious or inappropriate vendors, or both.

4.5 Unethical conduct in the workplace

Recommendation

We recommend that Bow Valley College improve processes for dealing with unethical conduct in the workplace by clearly defining and communicating to staff the responsibilities and actions required in the event of such conduct.

Background

College has policies for ethical business practices and *Code of Conduct*

The College has an *Ethical Business Practices* policy (the *Ethics Policy*) that specifically refers to fraudulent acts and requires all employees to report allegations of fraud or other irregular activities. The College also has a *Code of Conduct* (the *Code*) that deals specifically with intimidation, harassment, and violence in the workplace. The *Code* has detailed procedures to report a breach of the *Code*, which body to report to, and what investigative steps follow.

Criteria: the standards we used for our audit

College guidance should include sufficient detail for employees to understand how to report a breach of the *Ethics Policy* and what investigative steps will follow. It should also attempt to protect employees who, in good faith, report suspicious activities. The College should regularly make its employees aware of its *Ethics Policy*.

Our audit findings

College’s policy on ethical business practices is silent on critical matters such as reporting irregular activities

The *Ethics Policy* does not provide a way to report irregular activities. Nor does it attempt to provide protection to staff who report problems. It also does not refer to specific training or other methods to make employees aware of the *Policy*. Interviews of College employees revealed that employees suspected irregular activity for IED agent contracts much earlier in 2008, long before the October 2008 investigation. These employees were unsure of how to report the allegations and were concerned about their job security. It was not until later in

2008 that the allegations came to light, when HR and the Vice President, College Services interviewed these employees on another matter.

Implications and risks if recommendation not implemented

Insufficient guidance and protection for employees may result in unreported fraud or other inappropriate activities.

University of Lethbridge—Research Investment—Alberta Terrestrial Imaging Corp. (ATIC)

1. Summary

Examined University’s decision to form ATIC and the ongoing oversight of it

What we examined

We examined the steps the University of Lethbridge (University) took to assess potential risks and benefits of creating Alberta Terrestrial Imaging Center (ATIC), a not-for-profit company to research strategic priorities for the University. ATIC is owned by the University and Iunctus Geomatics Corp. (Iunctus), a private company. We also examined the ongoing oversight of ATIC and the University’s business relationship with Iunctus.

Why is this important to Albertans

This was the first private company jointly owned by the University and an independent third party. The University needs to properly assess potential risks associated with its decision to enter into these types of relationships, and maintain oversight and monitoring to ensure it meets the objectives. Relationships such as ATIC can be beneficial to the University; helping it meet its long-term strategies and aligning to the Alberta government priorities.

What we found

The University’s system to perform effective assessment of risks and benefits on potential business relationships and ongoing monitoring of existing relationships needs improvement. Specifically, we found:

Information to Board incomplete

- management should have provided more complete information to the Board of Governors (Board) on the recommendation to pursue the business relationship. The information provided was incomplete and management did not assess the reasonability of the information.

Monitoring of ATIC could improve

- the University could improve its monitoring process to determine if ATIC continues to meet the University’s objectives. The University does not have well-defined measures to assess if ATIC is meeting the University’s objectives.

What needs to be done

The University needs to develop stronger processes in considering courses of action and monitoring ongoing activities when dealing with business partners. As well, the University needs to assess and document its ongoing risks with its business relationship with ATIC.

2. Audit objective and scope

Our objective was to determine if the University has effective systems to evaluate the potential risks and benefits of entering a business relationship, and systems to monitor the effectiveness of the business relationship. We did not assess the viability of ATIC or the potential benefits the University may receive from it.

We examined documents relating to the business relationship between the University, ATIC, and Iunctus. We also interviewed University employees, as well as current and past members of the Board of Governors.

3. Background

Iunctus’
background and
contribution

Iunctus is a private company formed by former University graduate students. It produces and distributes geo-spatial information products. Iunctus has the Canadian property rights to the SPOT (Satellite Pour L’observations De La Terre) Satellite Imagery and is the archive of those images. Pursuant to an agreement between Iunctus and the University, Iunctus will provide satellite imagery to the University through ATIC for academic and non-commercial purposes. Iunctus will continue to sell the images for commercial purposes.

University
President declares
conflict of interest

The University’s President declared a financial conflict of interest relating to this business relationship. Due to the President’s conflict, the Board directed the Vice President Finance and Administration (VP Finance) to administer the interaction between the University and ATIC.

ATIC formed to
do optical remote
sensing

On June 21, 2005, the University and Iunctus incorporated ATIC. The two parties agreed to establish a research facility on the University campus to carry out research that directly supported other strategic research initiatives of the University and Iunctus. The University also wanted to promote optical remote sensing as a strategic area of research excellence and to attract high quality faculty and students.

Board of
Governors
oversees
management

The Board oversees the University's administration. A key element of board governance is that it is separate from management and that it includes the idea of challenge to ensure that decisions made are prudent and are in the best interest of the University.¹ The Board Finance Committee assists the Board in fulfilling its responsibility in the oversight of the financial plans, policies and practices of the University.

Recommendations
submitted by
management and
approved by the
Board of
Governors

The Board passed the following key motions dealing with the University's relationship with Iunctus and ATIC:

- October 2004—authorized management to proceed with a 10-year ground lease with Iunctus to establish a ground station on University property. The Lieutenant Governor approved this through an Order in Council².
- June 2005—authorized:
 - Management to enter into a *Relationship Agreement*, a *Unanimous Shareholder Agreement*, and a *Lease Agreement* with Iunctus and ATIC.
 - Management to advance \$350,000 to ATIC so they could pay for:
 - \$100,000 for transfer and storage of the SPOT archive.
 - \$150,000 for compensation costs for ATIC's program director.
 - \$100,000 for general support of ATIC's operations.
 - Appointment of a University Board member on ATIC's Board of Directors.
 - Appointment of an independent member on ATIC's Board.
- August 2005—authorized management to:
 - Incorporate ATIC into a not-for-profit entity.
 - Purchase \$500,000 of additional research equipment (using funds from an Alberta Innovation and Science grant.)
 - Confirm that the conditions of a grant with Alberta Innovation and Science were satisfied.

In addition to the expenses approved by the Board in June 2005 and August 2005, the University had paid \$864,000 of ATIC expenses by March 2008. This figure consists of \$322,000 for equipment and \$542,000 for wages, license fees and other operating costs.

¹ University of Lethbridge—*Charter of Expectations for Board of Governors*— Section 3.4.2. states—“ensure Senior Administrators identify the principal risks to the University and ensure appropriate systems are in place to manage the risks”.

² O.C. 206/2005

4. Our findings and recommendations

In our *October 2008 Public Report* (page 231), we made the following recommendation to the University of Lethbridge:

“We recommend that University of Lethbridge management periodically report to the Board of Governors key information on financial risks in research management.”

We subsequently looked into the relationship between the University and ATIC. Specifically we looked at:

- assessment of risks and benefits of establishing the relationship.
- monitoring the ongoing relationship.

As a result of our subsequent work, we have extended our original recommendation to the following:

4.1 Improve processes for investing in research projects

Recommendation No. 1

We recommend that the University of Lethbridge:

- **strengthen processes for assessing risks and benefits relating to prospective business relationships.**
- **strengthen processes to oversee and monitor financial and other risks throughout the life of business relationships.**
- **periodically report to the Board of Governors key information on financial and other risks in research management.**

We also include information relative to the University handling of the President’s declared conflict of interest in Section 4.1.3.

4.1.1 Improve processes for risk assessment

Background

In June 2005, management recommended to the Board Finance Committee that they approve and recommend to the Board that the University be authorized to:

- enter into a *Relationship Agreement, Unanimous Shareholder Agreement, and a Lease Agreement* with Iunctus and ATIC.
- advance \$350,000 to ATIC for certain costs.
- nominate a University Board member to ATIC’s Board of Directors.
- nominate a private citizen as an independent member on ATIC’s Board of Directors.

Board of
Governors
approved
recommendation
to form ATIC

Documents presented to the Board of Governors

To assist the Board's Finance Committee and the Board in making these decisions, management presented an information package about the proposed business venture. This package included:

- a covering memo outlining the rationale for the recommendation, including the benefits for the University.
- a letter from the University's lawyer discussing the relationship between the University and Iunctus.
- an Order in Council approving a 10-year land lease agreement with Iunctus.
- confirmation of Natural Sciences and Engineering Research Council of Canada research grant to provide \$200,000 in support of ATIC.
- *Returns on Investment* on ATIC as prepared by the VP Research.

Criteria: the standards we used for our audit

The University should have effective processes to assess risks and benefits when deciding to enter into business relationships.

Our audit findings

Incomplete information to the Board

The process that management and the Board used to assess the potential financial risk of the business relationship with Iunctus was inadequate. Management presented incomplete information on the business venture to the Board Finance Committee and the Board. Based on this information, the Board passed a motion authorizing management to enter into the arrangement with Iunctus to form ATIC.

Limited financial information presented to Board, and reasonability of information not assessed

In our review of the information package and from interviews we conducted with management and Board members, we found the following:

- Management and the Board did not assess Iunctus' financial or corporate condition to determine any potential risks with this company.
- A summary sheet of *Returns on Investment* was the only financial information included in the Board information package. This document indicated that initial investments by Alberta Innovation and Science, and Western Economic Diversification Canada of \$1.5 million each would leverage additional funds from other agencies of \$18.2 million over five years. The returns listed were contributions or grants that would potentially be available to ATIC. Iunctus was listed as a source of \$4.25 million. It is unclear from the documentation provided as to how and when this \$4.25 million would be provided, or how it was determined.

- We did not see analysis of the expected cash flows from ATIC. Nor did we see a discussion of the risks associated with the projected revenue sources, and what the University's role would be in funding ATIC should projected revenues not materialize.

No business case
for ATIC

Management did not prepare a business case or a detailed summary of a business case for the Board. Management prepared an ATIC grant proposal for research grant applications but did not share it with the Board. The grant proposal did not include all of the items that we would have expected in a business case. In our view, management should have prepared a business case for ATIC that outlines the objectives, the various options management considered, the financial information for each option and the University's risks and benefits for each option. With the business case, the Board then could:

- decide if the University should proceed with the proposal.
- determine the maximum amount of funds the University was prepared to invest into the proposal.
- create a process to annually review ATIC's performance.
- discuss and approve an exit strategy³ in the event the business venture fails.

Board oversight
should have been
greater

The Board did not provide adequate oversight and guidance to this proposal. We would expect that the Board's oversight in this decision would have been enhanced due to:

- the President's conflict of interest as discussed in section 4.1.3,
- the University is breaking new ground in establishing a private business enterprise with an independent third party, and
- the financial risk to the University should ATIC's revenues not materialize, as discussed in section 4.1.2.

Implications and risks if recommendation not implemented

Ineffective assessment and monitoring of ongoing business relationships expose the University to increased risk.

³ Exit strategy conditions were covered in the *Relationship Agreement* and *Unanimous Shareholder Agreement*.

Types of information management reported to the Board of Governors

4.1.2 Improving oversight and monitoring

Background

Management provided updates about ATIC to the Board Finance Committee and the Board. These updates included:

- grants the University or ATIC received for this research facility.
- problems with retaining personnel in key management positions.
- inability to obtain timely ATIC financial information.
- budget projections.

In the June 6, 2005 submission to the Board Finance Committee, management asserted the following reasons for pursuing this endeavour:

- it would benefit a large number of University's departments.
- researchers working in ATIC would have access to the state of the art research infrastructure.
- unique training opportunities for undergraduate and graduate students.
- access to SPOT imagery for academic purposes.

In addition, the ATIC grant proposal contained a set of goals, objectives and performance measures. Management never prepared a progress report on whether these were being met.

Criteria: the standards we used for our audit

The University should monitor ATIC ongoing operations to ensure it continues to meet the University's objectives and resolve any risks to the University.

Our audit findings

The University's ongoing monitoring of potential risks related to ATIC could be strengthened. The University has been associated with this business venture for over three years. As a start-up company, ATIC encountered a number of challenges. We found ample documentation outlining the various grants that the University or ATIC received. However, we found little documentation or challenge relating to ATIC's actual performance compared to the original business proposal. The University needs to consider several factors such as financial risk, opportunity costs and reputational risks when making decisions.

ATIC in operation three years, experienced challenges

Ongoing monitoring of business relationship weak

It is not clear to us what processes management or the Board used to ensure the ATIC investment remained a viable concept. We saw no evidence of reviewing previous budget projections or seeing if the benefits the University expected through this arrangement actually occurred, such as access to the SPOT imagery. There was no reporting on the performance measures as outlined in ATIC's grant proposal application. The University did not receive timely financial information from ATIC. Thus, it was difficult for the University to properly monitor its investment in ATIC.

As of March 31, 2008, ATIC owes the University \$864,000

According to the University's financial statements as of March 31, 2008, ATIC owes the University \$864,000. This indebtedness arose from the University paying for some of ATIC's expenses for equipment, licensing fees and employee compensation. The VP Finance told us that the University paid these expenses as ATIC was experiencing cash flow problems. Given the circumstances, we would have expected the Board to approve the University paying for ATIC expenses on a temporary basis. As noted earlier, the Board passed a motion in June 2005 authorizing management to contribute \$350,000 to ATIC using \$150,000 of internally allocated funds and \$200,000 from specific grant funding obtained for ATIC. However, the Board did not pass a motion authorizing management to pay for the additional expenses in excess of \$350,000.

ATIC to repay funds by 2011

The University believes ATIC will be able to repay the \$864,000 by March 31, 2011. This is partially based on an ATIC four-year pro forma statement that was provided to management by ATIC in March 2009. To protect its investment, the University entered into a General Security Agreement and a Priority Agreement for any receivables with ATIC in the fall of 2008.

University needs to develop a strategy

Management advised us that the University is currently only paying for a University employee working at ATIC. Grant revenues will be used to repay this expense until March 2010. However, if ATIC cannot secure new government grants after March 2010 or increase its sales revenue, the University may be called upon to provide additional funding for ATIC's operations. The University needs to develop a strategy as to how it will address ATIC's future if it cannot meet its financial obligations as they become due.

Implications and risks if recommendation not implemented

Need to protect University's integrity and reputation

The University of Lethbridge needs to ensure decisions made by management and Board protect its resources, integrity and reputation. Without full information, the Board cannot properly assess if risks are being adequately managed.

President declares conflict

4.1.3 Conflict of interest declared by the President

The President of the University declared a financial conflict of interest to the Board Chair in 2003 when the University entered into preliminary discussions with Iunctus. The following plan was put in place to manage the ongoing conflict:

Plan put in place to manage the conflict

- The President excused himself from all involvement regarding the University's relationship with ATIC and Iunctus.
- The VP Finance was appointed as the University's representative on all matters regarding ATIC and Iunctus.

Additional reporting requirements needed

The Board did not communicate to management any specific approval or reporting requirements regarding ATIC. In our view, this was a significant gap in the process, given that:

- this was a new type of business arrangement for the University.
- the President was unable to provide guidance because of his conflict.
- the President's authority was delegated to a position of lesser authority.
- the University was paying ATIC's expenses on an interim basis due to ATIC's cash flow problems.

Further consideration should have been given to establishing clear approval and reporting requirements with revised materiality levels to reflect the additional risks associated with this unique set of circumstances. Not only would this have helped demonstrate proper handling of the conflict of interest, it would have protected management from allegations of wrongdoing.

Complaint lodged against the President

In December 2004, a faculty member lodged a complaint against the President for signing a research grant application and not disclosing his conflict of interest. A portion of the research grant relating to this application was going to be allocated to the University's involvement with ATIC.

Complaint
investigated

The President informed the Board Chair of the allegations made against him. The Board formed an Investigative Task Force (ITF) composed of three Board members to review the allegation. The faculty member withdrew the complaint before the ITF completed its review, however, the ITF continued with their review and made three recommendations which the University implemented:

Three
recommendations
made

- review the protocol for institutional grant applications.
- review the conflict-of-interest implementation protocol.
- advise the Natural Sciences and Engineering Research Council of Canada of the President's conflict of interest.

President cleared
of wrongdoing

The ITF cleared the President of any wrongdoing. We reviewed the findings and have no further recommendations to those made by the Investigative Task Force.

Drinking Water—Follow-up

1. Summary

Follow up on three recommendations from 2006 report

What we examined

In our *October 2005–2006*¹ *Annual Report*, we made six recommendations about the Department of Environment’s systems for regulating drinking water in Alberta. In 2006 we concluded that the Department had necessary systems to fulfill its drinking water mandate and our recommendations focused on improving the design of some of these systems. This year, we did a follow-up audit to assess the Department’s progress in implementing three out of these six recommendations. The remaining recommendations require a longer implementation timeframe and we will follow them up later. The recommendations selected for this follow-up represent areas that are directly involved in managing risks associated with waterworks operations. In this Report, we follow up on our 2006 recommendations that the Department of Environment:

- make its approvals and registrations system more effective.
- improve its drinking water inspection processes.
- work with its drinking water partners to update strategies to deal with Alberta’s needs for certified water treatment operators.

The remaining recommendations deal with support activities and information needs, such as improving and updating the Department’s information systems, enhancing central policy support and partnerships, as well as improving regulatory and information systems around water well drilling activities.

Why it is important to Albertans

Drinking water important to health

We did the original audit because quality of drinking water is important to the health of Albertans and people who visit this province. Systems to properly operate and monitor potable² water treatment and distribution are vital to the well-being of people.

¹ *Annual Report of the Auditor General of Alberta, 2005–2006* (vol. 1, pages 37–61).

² Potable water is defined by *Environmental Protection Enhancement Act* as: “water that is supplied by a waterworks system and is used for drinking, cooking, dish washing or other domestic purposes requiring water that is suitable for human consumption.”

Plan developed to implement our 2006 recommendations	<p>What we found</p> <p>The Department developed a plan to implement our 2006 recommendations, and assigned responsibility for timelines and progress reporting for each recommendation we made. The Department is now better positioned to maintain its drinking water safety performance.</p>
Good progress but not yet fully implemented	<p>The Department has made good progress, but not yet fully implemented our recommendations for improving systems for approvals and registrations and drinking water inspection processes. We conclude that the Department has implemented our recommendation on certified waterworks operators.</p>
Department improved approvals and inspections—but needs to do more	<p>Significant improvements have been made in the areas of approvals and inspections. We highlight a number of good practices we observed during our fieldwork. However, a number of important steps remain to be taken. In the approvals area, we identified increased application processing times, issues with design drawing documentation for older facilities and no formal system to follow-up on short-term approval conditions. In the inspections area, the Department’s initiative to assess and inspect applicable industrial and private waterworks remains to be completed.</p>

What remains to be done

Approvals and registrations

- improve timeliness of approval actions by establishing and following guidelines for application processing times.
- clarify design documentation requirements for original engineering plans and design drawings.
- establish a system to follow-up on short-term approval conditions.

Inspections

- confirm regulatory requirements for industrial and private facilities with existing waterworks.
- finalize the list of industrial and private facilities that need to be included in the municipal drinking water inspection program.
- inspect industrial and private facilities that have waterworks supplying potable water.

2. Audit objectives and scope

2.1 Our audit objective

Our objective was to determine if the Department of Environment has implemented three of our numbered recommendations from our *2005–2006*

Report:

- Approvals and registrations
- Inspection systems
- Waterworks operators

2.2 Our scope

What we did

In performing the audit, we:

- visited three of the six Environment district offices.
- interviewed management and staff.
- accompanied drinking water inspectors on four facility inspection visits.
- examined documentation in areas related to all three recommendations.
- reviewed 22 inspection and 20 approval files for individual facilities to confirm proper documentation and timeliness.

We conducted our fieldwork from October to December 2008 and focused on the Department's actions since our *October 2006 Public Report*.

3. Background

Municipalities provide most drinking water

Potable water in Alberta is mostly provided by municipal waterworks. Some industrial and private facilities also produce potable water for on-site consumption and supply to nearby communities.

Two sources of water

Water treatment facilities obtain water either from surface water bodies or from groundwater aquifers. An increasing number of communities in Alberta do not rely on local water treatment facilities and obtain drinking water through regional distribution pipelines.

Risks depend on water source

Different risks are associated with different drinking water sources. Generally, groundwater is less likely to contain bacteria, viruses, other organic and non-organic matter than surface water. However, groundwater may contain high concentrations of naturally occurring elements that may require additional treatment and monitoring, such as heavy metals. In some cases, groundwater contains elements such as iron and manganese that do not create direct and immediate health risks, but affect taste and odour.

Three types of waterworks

Water treatment facilities include:

- surface water treatment facilities that draw raw³ water from lakes and rivers. For regulator purposes, this includes operations that rely on groundwater sources that do not meet the criteria for high quality groundwater⁴.
- high quality groundwater treatment facilities that rely on groundwater meeting established criteria.
- water distribution systems that transport potable water from treatment facilities to consumers.

At the time of our audit there were 592 municipal waterworks. There were also 67 industrial and private facilities with *Environmental Protection and Enhancement Act (EPEA)* waterworks clauses in the approval. The municipal waterworks included:

- 247 approvals for surface water and low quality groundwater treatment.
- 180 registrations for high quality groundwater treatment.
- 165 registrations for distribution systems.

There are 30 facilities that were approved and registered, but are still required to follow approval conditions until directed to follow corresponding codes of practice. These are included in the numbers above.

Approvals for facilities that rely on surface water and low quality groundwater

Surface water and groundwater facilities sources that don't meet criteria for high quality groundwater are issued an approval under *EPEA* if they meet the legislative requirements. Approvals are customized to each waterworks system and contain extensive monitoring and reporting requirements. Approvals expire after 10 years and can be renewed. At the time of the renewal, waterworks operations are re-evaluated and renewed approval conditions reflect most current standards and best practices.

³ Raw water is drawn from the environment and has not been treated.

⁴ High quality groundwater is defined by *EPEA Potable Water Regulation* as the groundwater that:

- (i) does not require treatment to comply with the applicable physical, chemical and radiological Maximum Acceptable Concentration or Interim Maximum Acceptable Concentration, except for fluoride, specified in the *Guidelines for Canadian Drinking Water Quality*, published by Health Canada, as amended or replaced from time to time, for the parameters listed in the *Standards and Guidelines for Municipal Waterworks, Wastewater and Storm Drainage Systems*, published by the Department, as amended or replaced from time to time,
- (ii) contains a concentration of naturally occurring fluoride of less than or equal to 2.4 milligrams per litre, and
- (iii) is not under the direct influence of surface water;

Registration for high quality groundwater facilities and distribution systems

High quality groundwater treatment facilities and distribution systems are issued registrations under the *EPEA* if they meet the legislative requirements. Unlike approvals that are customized to each facility, registrations direct facilities to follow the *Code of Practice for Waterworks System using High Quality Groundwater* (2003) or the *Code of Practice for Waterworks System Consisting Solely of a Water Distribution System* (2008), respectively. Registrations don't expire and registered waterworks would be required to adjust their operations in accordance with future updates to their respective code of practice.

Inspection frequency targets are based on risk

The Department has set specific inspection frequency targets for all waterworks regulated by the *EPEA*. All water treatment facilities that rely on surface and low quality groundwater must be inspected annually. Water treatment systems that rely on high quality groundwater and water distribution systems must be inspected every two years. A report must be generated within 30 days after each inspection and provided to the facility owner and operator. These reports outline contraventions discovered and the required corrective action. If contraventions were found, an operator must respond within 30 days on the corrective action taken or planned.

The Department regulates and certifies waterworks operators

Availability of qualified operators is critical for safe and effective operation of all waterworks systems. Even in cases where waterworks infrastructure is of older design and construction, a knowledgeable operator should be able to make it perform at a level that meets current water treatment standards. Regulation of waterworks operators is the responsibility of the Department of Environment. Jointly with Alberta Water and Wastewater Operators Association (AWWOA)⁵, the Department ensures the development and delivery of professional training programs, as well as development and administration of appropriate professional examinations. The Department issues certifications to qualified waterworks operators, ensures that ongoing certification requirements are met and maintains the waterworks operator database for the province.

⁵ AWWOA is an industry association with a mission to contribute to the training of its members and persons employed in the water and wastewater field. Refer to www.awwoa.ab.ca.

4. Conclusions

4.1 Improving Approval and Registration systems—satisfactory progress

Background

Our 2006
recommendation

In our *2005–2006 Annual Report* (No. 1—vol. 1, page 37), we recommended that the Department improve its approval and registrations systems by:

- strengthening supporting processes such as training, manuals, checklists, and quality control for approvals and registrations,
- ensuring that applications are complete and legislatively compliant,
- documenting important decisions in the application and registration processes,
- processing applications and conversions promptly,
- maintaining consistency in the wording of approvals and registrations across the province, and
- following up short-term conditions in approvals.

Our audit findings

Training and professional support

We found the Department took the following positive steps in implementing our recommendation. The Department:

Created two
positions in policy
and training

- created the Policy and Procedures Coordinator position, as well as the Policy and Training Coordinator position to address gaps in training and professional supports in approval and compliance areas. These positions are instrumental in implementing training and professional support initiatives.

Updated forms
and manuals

- updated the approval template and manual, and the approval resume form to reflect the most recent standards and guidelines. The new templates were used in all Alberta Environment offices we visited.

Reinstated annual
approvals
workshop

- reinstated the Municipal Approvals Workshop and has held it annually, starting in 2006. The workshop promotes further professional development, communication, learning and knowledge sharing. The 2008 workshop agenda covered such areas as recent industry developments in water treatment and disinfection technology, updates and discussion around regulatory practices and policies, as well as provided an open forum where approvals staff from all regions could share views and address their concerns with management.

Set up resource website for staff

- launched the new web-based professional resource accessible to both approvals and compliance staff. Drinking water is one of the areas represented on this new intranet portal, which serves as the central electronic one-stop information resource for key document templates, process manuals and policy guides, applicable legislation, standards and codes, professional development and training information, etc.

Developed training plans

- developed plans to formalize training and professional development process. These will include introducing formal training courses as well as new and updated orientation training programs.

We conclude that the Department has implemented this part of our recommendation.

Completeness, timeliness and documentation of approval actions

We reviewed all 20 approval actions from 2008

We reviewed all 20 approval actions that were completed in 2008 at the three district offices we visited. These actions included four initial approvals and registrations, 11 approval renewals, four amendments, and one conversion from the approval to registration under distribution system *Code of Practice* registration.

Increased average approval times: 12 weeks in 2008 from seven weeks in 2006

We assessed the time interval from when the Department received applications for an approval action to when applications were deemed administratively complete, and to when approvals and registrations were formally issued. On average, it took approximately 12 weeks for applications to be deemed administratively complete, and an additional 18 weeks for approvals to be issued. Five renewal and amendment applications took over one year, with one amendment application taking as much as 80 weeks to achieve the administratively complete status. For these five facilities we found no evidence of performance issues during the application delay. These numbers constitute a substantial increase from our 2006 findings, where the average time at the same district offices was approximately seven weeks, and the longest time to reach administratively complete status was 40 weeks. While legislation and regulations do not set time limitations for approval actions, the Department doesn't have consistent guidelines to ensure that approval applications are processed within a reasonable period of time.

Inconsistent filing and unclear approval clauses for design documentation

Engineering design documentation is useful in a number of ways. For initial approvals, the original design documentation allows confirmation of proper construction. The original design documentation is typically not required for application renewals, but may at some point be required for upgrades, expansions, engineering assessments, emergency situations, decommissioning, etc. We found that new facility applications and upgrade application files

contained relevant engineering design documentation. However, for older facilities there were inconsistencies in documentation of original plans and design drawings. Current standard approval clauses are not clear about what sets of design drawings must be retained by approval holders, however the regulations are specific in this regard.

We conclude that the Department has not fully implemented this part of our recommendation, specifically with respect to the timeliness of approval actions and design documentation requirements for the existing waterworks.

Short-term conditions follow up

No system to follow up on short-term approval conditions

The Department relies on individual approval writers to track these short-term conditions⁶, but our interviews with management and staff revealed that there is no clear consistent system to perform this function. The unmet conditions may be identified as contraventions by the inspection process. There is no other mechanism to ensure conditions are tracked and are met on time. We conclude that the Department does not yet have a system to follow up on short-term conditions that may be outlined in approvals.

To fully implement this recommendation the Department should:

What remains to be done

- improve timeliness of approval actions by establishing and following guidelines for application processing times.
- clarify standard documentation requirements to ensure they are consistent with the regulations, specifically with respect to the original engineering plans and design drawings.
- establish a system to follow-up on short-term approval conditions. We expect the system to systematically track outstanding conditions on the district level or higher, initiate proactive action on outstanding conditions, and provide management with efficient reporting on the progress.

Implications and risks if recommendation not implemented

Without strong systems to support approval and registration writing, the Department may not be able to ensure that waterworks across the province meet minimum acceptable drinking water standards.

⁶ Short-term conditions are issued with approved renewals and relate to matters expected to be rectified in a short period of time, such as an engineering assessment for a proposed facility upgrade.

4.2 Improving inspection systems—satisfactory progress

Background

Our 2006 recommendation

In our *2005–2006 Annual Report* (No. 2—vol. 1, page 43), we recommended that the Department of Environment improve its drinking water inspection processes by:

- applying the same inspection frequency targets to all waterworks regulated by the *Environmental Protection and Enhancement Act*,
- ensuring inspectors receive sufficient training in waterworks systems and operations,
- revising documentation tools and practices, including making them more risk focused, and
- informing operators promptly of inspection results, ensuring operators respond appropriately and conclude on each inspection.

Our audit findings

Inspection frequency targets for all *EPEA* waterworks

67 industrial and private waterworks

There are presently 67 industrial and private regulated waterworks. This represents approximately 10% of all regulated waterworks in Alberta. In 2006, we found that industrial and private waterworks that supply potable water for on-site or public use were not included in the municipal drinking water inspection program. Unlike municipal waterworks, industrial and private facility approvals are not specific to drinking water and cover a very broad range of issues ranging from air emissions to soil protection. If there are waterworks on-site supplying potable water, the facility approval would contain separate clauses making these waterworks subject to applicable regulations. In 2006 such waterworks were only inspected once every 10 years as part of an industrial inspection program with relatively limited attention to drinking water.

Some facilities not included in drinking water inspection program

Industrial and private waterworks to be in municipal inspection program

The Department is implementing an initiative to include applicable industrial and private waterworks in the municipal drinking water inspection program. Surface water treatment facilities need to be inspected annually. Drinking water distribution systems need to be inspected once every two years. The initiative includes the assessment of non-municipal waterworks, and the establishment of the process to include appropriate waterworks in the municipal drinking water inspection program. The final outcome of the initiative will be a list of industrial and private waterworks that must be inspected using appropriate drinking water inspection tools and at appropriate frequency. While the

Department has made progress on this initiative, it is not yet complete. We observed the following:

- the file review portion of the industrial facility assessment has been completed, but Environment’s staff have not conducted site visits to confirm what waterworks exist and whether they supply potable water. Review of and conclusions on the assessment results need to be done.
- although final conclusions and decisions on the assessment are still to be made, most district offices we visited have started to regularly inspect known industrial and private waterworks using drinking water inspection process and tools. However, this is not done across the province.

Site visits to confirm facility assessments remain to be done

Inspections started but not province-wide

We conclude that the Department has not yet fully implemented this part of our 2006 inspection systems recommendation, as it has not yet completed the assessment process for applicable industrial and private waterworks.

Training and professional support

A formal mentorship system for municipal waterworks inspectors has been established and implemented. Each inspector is assigned a senior experienced colleague who acts as a mentor. Mentors ensure that their trainees complete the coursework and obtain the training to work on progressively complex types of facilities. The process is recorded and maintained on each inspector’s file. This system ensures that inspectors receive appropriate training and are only assigned to inspections where their experience is matched to the facility complexity level. Management informed us it may expand this system to other inspection areas.

Mentorship system for inspectors in place

The Policy and Training Coordinator position is responsible for developing training programs or courses. While the development of one water-sampling course is in the planning stages, the development of the overall training program is not completed. This is an ambitious undertaking that will take time for the Department to complete. Nevertheless, we conclude that the Department has implemented this part of our 2006 inspection systems recommendation.

Training program needs more time to fully develop

Risk based tools and practices

To implement this part of our recommendation, the Department:

- developed the Risk Based Inspection form and process (RBI). The RBI identifies contraventions by primary and secondary risk areas, focuses inspection process based on risk and results in a clear pass or fail conclusion.

Made inspections more risk-based

Standardizing process to deal with non-compliance

- is developing the Municipal Potable Water Routing Chart and Non-Compliance Matrix. Although the routing chart has not been finalized, the non-compliance matrix is in use by individual inspectors. The Matrix provides criteria for assessing the risk level and significance of non-compliances. It outlines the appropriate compliance or enforcement action, and ensures that contraventions are dealt with consistently across the province.

Piloted new software and hardware

- as part of the RBI initiative, piloted new inspection software and hardware. This inspection system promotes efficiency, improves documentation and avoids process duplication through direct, on-site electronic entry of the inspection results. This is an important step toward electronically linking data and inspection results to the Department's central information management system. The piloted process also ensures an immediate electronic sign-off by facility operators on the inspection results and corrective actions required.

Improved process to document inspections

- improved processes in documenting inspections. Although not consistent across all files, there was an improved use of inspection diary notes and better documentation of follow-up and communication with other internal and external stakeholders.

We conclude that the Department has implemented this part of our 2006 inspection systems recommendation.

Timeliness of inspection reports and operator responses

We sampled 22 waterworks inspection files. All completed inspections we reviewed were documented in main facility files and in the Department's central electronic information management system. For inspections completed since January 2008, the required operator responses were either received on time or received without substantial delays. After comparing our present findings for these district offices with those from our 2006 audit, we conclude that the Department has implemented this part of the recommendation.

To fully implement our 2006 inspection systems recommendation the Department should:

What remains to be done

- confirm regulatory requirements for existing industrial and private waterworks. The Department has identified a number of industrial and private approvals with existing drinking water clauses that may not meet the potable water definition and would not need to be included in the drinking water inspection program. We expect the Department to visit all such facilities to confirm their operation, and consider amending their approvals to reflect the current regulatory requirements.

- finalize the review of all applicable industrial and private waterworks, and clearly determine what waterworks meet the potable water definition and must be included in the drinking water inspection program.
- inspect appropriate industrial and private facilities that have waterworks supplying potable water.

Implications and risks if recommendation not implemented

Without confirming regulatory requirements and routinely inspecting waterworks facilities, the Department will not know whether facilities comply with Alberta’s drinking water legislation and regulations, and therefore supply water that is safe for people to drink.

4.3 Certified Waterworks Operators—implemented

Background

2006 recommendation

In our *2005–2006 Annual Report* (No. 3—vol. 1, page 49), we recommended that the Department of Environment, working with its drinking water partners, update its strategies to deal with the province’s needs for certified water treatment operators. Availability of qualified waterworks operators in the province was one of the concerns raised in our 2006 audit report. Rural areas were particularly prone to shortages of qualified operators.

Our audit findings

Operational Assistance Pilot Program

2008 pilot program for short-term operator support

The Department launched the pilot program in the spring of 2008. The program provides a short-term solution for municipalities that face sudden and unanticipated shortage of qualified operators. Under this program the Department provides a temporary waterworks operator to a facility for up to two weeks, after which the facility is expected to find a permanent replacement. The Department assumes the cost of providing this temporary operator assistance through contracts with three private service providers that ensure province-wide program coverage. From the spring of 2008 to January 2009, the Department processed 32 applications for emergency operator assistance. The pilot program will end in early 2009, when a decision will be made about whether and how the program may continue.

Decision on program due in early 2009

Operator Consortium

Department promotes sharing of operators between municipalities

The Department encouraged and supported municipalities in finding ways to share and efficiently utilize their operator resources. A promising model the Department has identified is where neighbouring municipalities enter into agreements to share their operator resources. While the Department is not a

party to these agreements, it encourages dialogue and provides information and technical support to interested municipalities. Presently, there are three potential operator consortia under development.

Regionalization

Department promotes regional water supply

The Department continues to promote the regionalization of water supply in the province, with small stand-alone water treatment facilities replaced by pipelines from large facilities in that region. One of the benefits of regionalization is that it helps alleviate some of the pressure on operator resources in rural areas.

Operator Certification, Training and Professional Support

More operators now

- The number of certified water and wastewater operators in the province has increased from 1,837 in November 2006 to 2,098 in January 2009. As many as 200 operators are expected to complete mandatory entry level training by June 2009. The NAIT Water and Wastewater Technical Program was expanded from 20 positions in 2006 to 28 positions in 2008.

Updated training and exam materials

- The Department, working with the Alberta Water and Wastewater Operators Association (AWWOA) and with input from operators and other professionals, reviewed and updated examination materials for the operator Levels I and II and is in the process of updating materials for Levels III and IV. This ensures that examination and training materials reflect the most recent standards and codes of practice.

Operator newsletter restarted

In partnership with AWWOA, the Department has also reintroduced the operators' newsletter. The newsletter is an important mechanism to maintain communication and inform operators of any important regulatory changes or technological developments.

Minimum Operator Attendance Guidelines

Operator attendance guidelines introduced

In January 2009 the Department introduced *Minimum Certified Operator Attendance Guidelines for Waterworks Systems*⁷. Based on facility level and remote monitoring capability, the guidelines outline minimum operator visit frequency, maximum acceptable operator response time and other factors that relate to adequate supervision of waterworks. Although these are guidelines and not requirements, this is a very important step forward in dealing with situations where operators manage more than one facility or perform additional non-water related tasks.

⁷http://www.environment.alberta.ca/documents/Minimum_Certification_Operator_Attendance_Guidelines_for_Waterworks_Systems.pdf

Emergency preparedness— Follow-up

Emergency preparedness—changed circumstances

Background

In 2002 we conducted a review of systems at the Ministry of Municipal Affairs (Ministry) to manage the risks arising from its responsibility to oversee and coordinate emergency preparedness across the province. In our *2001–2002 Annual Report* (No. 46—page 220), we put forward a two-part recommendation. We recommended that the Ministry:

- improve its procedures to promote and coordinate emergency preparedness plans developed by Alberta government departments and ministries, and
- reassess the present and future suitability of the existing Emergency Operation Center.

In our *2002–2003 Annual Report* (page 248), we found the Ministry implemented the second part of our recommendation. In our *2003–2004 Annual Report* (page 269), we followed up with the Ministry on the first part of the recommendation. We found the Ministry made progress however still had not implemented it.

Our findings

This year we met with Ministry staff to follow up on the part of the recommendation that was still outstanding. Management advised us of a number of significant changes that have occurred since our 2003–2004 follow up. These changes include the creation of the Alberta Emergency Management Agency (AEMA) in June of 2007 and the enactment of the *Government Emergency Management Regulation* in January 2008. AEMA leads the co-ordination, collaboration and co-operation of all organizations involved in the prevention, preparedness and response to disasters and emergencies in Alberta.

AEMA is also responsible for preparing and managing an overall comprehensive emergency plan for the province known as the *Alberta Emergency Plan*. This plan calls for each department to prepare a *Business Continuity Plan*, a *Consequence Management Plan* and in some instances hazard-specific plans. The department plans are submitted to AEMA for review and coordination. Management told us that AEMA conducts a minor review of the plans every year and a major review every two years.

With the changes that have occurred within the Ministry since our 2002 audit, we believe our outstanding recommendation is no longer valid. AEMA is in its infancy and requires time to fully develop its processes as it oversees the *Alberta Emergency Plan*. It is our intention at some future time to audit AEMA's performance to ensure it is fulfilling its mandate in an efficient and effective manner.

Reforestation—Follow-up

1. Summary

The Department of Sustainable Resource Development monitors and regulates several key components of forest management that help ensure that Alberta's forests are not depleted. These components include:

- harvest planning and operations,
- balancing wildlife, industrial and recreational demands on forests,
- fire suppression and pest control, and
- reforestation.

This audit focuses on the last component listed—reforestation. If the Department does not ensure through its regulatory systems that private sector operators sufficiently reforest cutblocks, Alberta's forests are in danger of depletion. However, each of the other components includes risks that could deplete the forests despite compliant reforestation efforts. We will consider these other components in future work.

What we examined

In 2006, we audited systems the Department of Sustainable Resource Development used to regulate reforestation. This year, we conducted follow-up work to assess if the Department implemented the five recommendations in our *2005–2006 Annual Report* (vol. 1, page 109) to:

- report on the effectiveness of regulatory activities,
- improve controls over the quality of performance information,
- make reforestation monitoring and enforcement more rigorous and effective,
- clarify the Forest Resource Improvement Association of Alberta's (FRIAA) accountability through a memorandum of understanding, and
- improve controls over seed management.

Our original audit identified two key issues. First, performance reporting was inadequate to assess if regulatory requirements and the underlying processes of both the Department and industry were resulting in successful reforestation. Management did not have complete and accurate data available to support the performance measure it intended to report annually. Second, the Department's processes to monitor industry and enforce reforestation requirements were not rigorous enough.

Follow-up of 2006 audit on systems to regulate reforestation

- Two key issues:
- Performance reporting
 - Monitoring and enforcement

Why it is important to Albertans

Forestry is the third largest economic sector in Alberta after petroleum and agriculture. The forestry industry employs about 50,000 people in Alberta and accounts for several billion dollars of economic activity. Also, Alberta's forests are environmentally significant in cycling carbon, protecting watersheds, and providing habitat for wildlife. In Alberta, industry has been delegated the operational responsibilities to ensure that harvested forests are reforested and managed so that both the economy and environment benefit from the forests in the future. Through the Department of Sustainable Resource Development, the government monitors industry to ensure they fulfill their responsibilities and obligations. If the Department does not adequately monitor industry, Alberta's forests may not be adequately maintained, harming both the environment and future economic development.

What we found in this follow-up audit

Still no performance reporting

The Department has not yet implemented a process to report on the effectiveness of reforestation activities. The Department has decided not to use the *Reforestation rate in harvested areas* measure that we reported on in our original audit. It had continued to report this measure was in development. The Department is now in the earliest stages of developing new measures for reforestation. Therefore, we have repeated our recommendation originally made in 2006.

We also found that management implemented edit checks in the database used to collect data on reforestation. Therefore, we assessed the recommendation on quality of performance information as implemented.

Improved monitoring and enforcement

For reforestation monitoring and enforcement, the Department is implementing a formal quality control system over its forest management operations. The system includes standardized protocols for Department staff to follow when they monitor industry's compliance with reforestation requirements. Also, this quality control system will include an ongoing independent review and certification using ISO 9001 standards. Independent certification of the quality control system is a best practice. We believe this quality control system will bring the necessary rigour to make monitoring for compliance effective when fully implemented. We report what remains to be done in section 4.2.

Management also took steps to assess the sufficiency and integrity of the provincial seed inventory. We report what remains to be done in section 4.3.

The Department implemented our recommendation to clarify accountability with the FRIAA. This is discussed in section 4.4.

What remains to be done

Relevant performance measures and regular reporting needed

The Department needs to identify relevant and sufficient performance measures for reforestation and formally implement an ongoing reporting process. The measures the Department selects must be based on complete, accurate, and sustainable data.

The Department took significant steps towards implementing our recommendations on monitoring and enforcement, and seed management. Some steps remain before we can consider these recommendations fully implemented. These steps are enumerated in sections 4.2 and 4.3 respectively.

2. Audit objective and scope

2.1 Our audit objective

Our audit objective was to determine if the Department of Sustainable Resource Development had implemented five recommendations made in our *2005–2006 Annual Report* by:

- measuring and reporting on its performance as the regulator of reforestation,
- improving controls to collect complete, accurate and timely reforestation information,
- strengthening monitoring and compliance processes that ensure forestry operators fulfill their reforestation obligations,
- clarifying accountability for reforestation with the Forest Resource Improvement Association of Alberta, and
- assessing whether there is an adequate supply of seeds, and controls to ensure seeds are planted in the correct zone.

2.2 Our scope

In performing the audit, we:

What we did

- discussed with management, and assessed the actions they took regarding the Department's reforestation performance measure,
- tested if Department staff were following the new processes implemented to improve monitoring and compliance of industry reforestation activities,
- reviewed the memorandum of understanding the Department signed with FRIAA, along with other supporting documentation, and
- reviewed reports prepared by management summarizing plans and actions for upgrading seed management.

Timing and extent of audit work

We conducted our field work from September to December 2008 and focused on the Department's actions in response to our *2005–2006 Annual Report*. In addition to the work at the Department's main office, we visited four field offices, as well as the Alberta Tree Improvement and Seed Centre. We interviewed a total of 17 people and reviewed 18 forest operator files in the field offices.

3. Background

Original Report explained reforestation

Our original Report in 2006 included an explanation of reforestation in Alberta. Readers can access this material at page 111 (Volume 1) of our *2005–2006 Annual Report*. The background explains:

- Provincial authority to regulate forests
- Sustainable forests
- Harvesting forests
- Forest management agreements
- Timber quotas and permits
- Reforestation standards
- Reforestation from start to finish
- How the Department regulates reforestation
- Risks related to reforestation

4. Findings

4.1 Performance information—recommendation repeated

Still no reporting on reforestation

We have repeated this recommendation, first made as Key Recommendation No. 13 in our *2005–2006 Annual Report* (vol. 1, page 118), because the Department still does not report adequately on the effectiveness of reforestation activities. The recommendation has been reworded because the Department no longer plans to include in its annual report the performance measure referred to in our 2006 audit.

Recommendation No. 2—repeated

We again recommend that the Department of Sustainable Resource Development publicly report relevant and sufficient reforestation performance information to confirm the effectiveness of its regulatory systems.

Background

In 2006 we made two recommendations to the Department on performance information for reforestation. The first is repeated above. The second recommendation in our *2005–2006 Annual Report* (No. 14—vol. 1, page 118) had two parts:

- strengthen quality control processes for performance information, and
- re-examine the target for its planned performance measure – *reforestation rate in harvested areas*.

Problems with performance information and reports

The Department was unable to report on its *reforestation rate in harvested areas* performance measure in its 2006–2007 annual report because it decided that more work was required to ensure the data entered into the Alberta Regeneration Information System (ARIS) was complete and accurate. Our original audit also found that quality control processes for performance information, including data entered into ARIS by industry, and validation of establishment and performance surveys performed by industry, needed to improve. We also suggested that the Department’s one proposed performance measure did not provide complete information on reforestation and suggested supplementary performance indicators.

Criteria: the standards we used for our audit

The Department should:

- measure and report on its performance as the regulator of reforestation, and
- have controls to collect complete, accurate and timely reforestation information.

Our audit findings

Performance reports

During our 2006 audit the Department was planning to include in its annual report the *reforestation rate in harvested areas* as a performance measure for the reforestation program. When we performed our follow-up audit in the fall of 2008 management indicated that they had decided not to use this measure in their annual report because the measure did not give a complete picture of the state of Alberta’s forests.

Still no suitable performance reporting

We are repeating our recommendation because, as the timeline below shows, the Department has planned to report publicly on reforestation for almost five years but it still has not done so. When our field work concluded in December 2008, the Department was just starting work on possible performance reports for the public. Internally, the Department has some performance reports but is still developing others.

Here is a timeline of the Department's development of a reforestation performance measure:

- 2004–2007 Ministry Business Plan lists “Reforestation” performance measure as “new” and “to be determined”.
- 2005–2008 Ministry Business Plan does not include reforestation performance measure.
- 2006–2009 Ministry Business Plan lists *reforestation rate in harvested areas* as a reforestation performance measure.
- 2006–2007 Ministry Annual Report did not report on the measure because the Department found the source data to be incomplete and inaccurate.
- 2007–2010 Ministry Business Plan indicates additional work needed to confirm integrity of data. Results and targets will not be published until work is concluded.
- 2007–2008 Ministry Annual Report includes a sidebar (pg. 58) indicating the Ministry is continuing to refine management reports taken from ARIS.
- 2008–2011 Ministry Business Plan—no reforestation performance measure included.

Both management and public need reports on Department's performance

Providing the public with a broader picture of the state of Alberta's forests is useful. However, in our opinion, both management and the public should also have performance information to determine if industry is complying with reforestation regulations and whether the Department's reforestation regulations and programs result in reforestation to targeted levels. Management has access to data about reforestation results, but we could not see evidence that this information is formally reported and used within the Department to assess whether its programs are achieving targeted outcomes. For example, some of the data we were shown indicates restocking levels within Alberta are high overall (greater than 90%), but there are some operators and forest management areas with low restocking levels (60% range). We saw no evidence that these results were reported to and reviewed with the Department's senior management. We also found that compliance issues logged in a Department database are not compiled and reported in a manner to meaningfully analyze compliance-issue trends across the province.

Performance information needed to confirm systems work

In section 4.2 below we note the actions management has taken to strengthen the Department's monitoring and enforcements systems. Anecdotally management told us that most of the time industry is complying with reforestation regulations and the reforestation standards are resulting in targeted reforestation outcomes. However, without relevant and sufficient performance information, management cannot objectively assure itself or Albertans that the Department's monitoring and enforcement systems are resulting in the anecdotal outcomes.

While the Department plans to develop a comprehensive measure of “forest health”, it has not yet identified or formally committed to a new measure. Management was in only the earliest of stages of developing a new measure and therefore could not provide us with specific alternatives they were considering when we concluded our field work in December 2008. During the audit, we asked whether management would have a new measure ready for the 2009–2012 Ministry Business Plan and management indicated that the earliest a measure would be ready is the 2010–2013 Plan.

Quality control process for performance information

The Department took two main actions to improve the quality of performance information.

ARIS data
validated

One action was to implement the Forest Operations Monitoring Program (FOMP) which includes the Silviculture/ARIS Monitoring process (SAM). This program is described in more detail in the monitoring and enforcement section below. SAM audits carried out by the Department include validating establishment and performance survey results entered into ARIS by industry against source documentation. Also, when a FOMP inspection detects any error in ARIS, the item is tracked for follow-up to ensure that industry corrects the error.

Automated
computer controls
implemented

The second action was to implement automated computer controls within ARIS to improve the completeness and accuracy of information in that database. For example, once key data has been entered initially by industry, adjustments cannot be processed by industry unless submitted through Department staff. This control helps ensure that data entered and validated by the Department cannot be changed later without the adjustment also being validated. ARIS also now has many automated checks that test submissions from industry when initially loaded into the database. These automated business rules test for errors such as missing fields or values exceeding certain thresholds set by the Department. We used computer assisted audit techniques to confirm that these business rules were implemented.

Quality control
over performance
data implemented

These two key actions mean that the Department has implemented the part of our recommendation in the *2005–2006 Annual Report* (No. 14—vol. 1, page 118) dealing with quality control for performance information. However, since the Department has not yet developed a new performance measure, we have not yet directly tested the use of data supporting any performance report results.

Performance
measure target no
longer relevant

Since the Department decided not to proceed with the *Reforestation rate in harvested areas* performance measure, the part of our recommendation dealing with the target for that measure is no longer relevant.

Implications and risks if recommendation not implemented

If the Department does not measure and publicly report reforestation outcomes, the public will not have assurance that industry is complying with reforestation standards or that the standards themselves are stringent enough to ensure satisfactory reforestation.

4.2 Monitoring and enforcement—satisfactory progress

Background

In our *2005–2006 Annual Report* (No. 15—vol. 1, page 122), we recommended that the Department strengthen its monitoring of reforestation activities by:

- bringing more rigour to the review of forestry operator plans,
- making its field-inspection program more effective, and
- promptly identifying and correcting non-compliance with legislation.

We had found that harvest and silviculture plans submitted by operators annually were not consistently reviewed and there was no process to follow up on problems. In a few cases, forestry offices could not find operating plans. The Department did not have a risk-based system to identify where to deploy its monitoring resources. At the time of our audit, the Department was behind on its non-compliance reviews and its enforcement goals were not clear.

Criteria: the standards we used for our audit

The Department should have processes to ensure that forestry operators reforest harvested lands in accordance with the regulatory standards.

The Department should monitor compliance with, and enforce, its reforestation regulatory standards.

Our audit findings

Monitoring for compliance—the Department designed, and is implementing, a formal system of quality control and quality assurance to improve its monitoring system.

New quality
control program

The Forest Operations Monitoring Program (FOMP) includes guidance and forms for forestry branch staff to use when carrying out monitoring and compliance activities. A key activity in FOMP is the Department's staff review of operators' compliance with annual harvest and silviculture plans. It also includes a selection process using risk-based criteria.

Some implementation issues

We visited four field offices and reviewed 18 operator files to verify that Department staff were following the FOMP processes and forms. The Department first used the new processes and forms in 2008. While evidence shows that the FOMP implementation is progressing in the field, we saw that field staff are still learning the new processes and forms. For example, we found forest officers were using an old version of the annual operating plan checklist instead of the new one in one of the four offices. We also found inconsistency in the interpretation of a FOMP requirement to perform a minimum number of on-site inspections of performance surveys for each operator.

Management committed to independent certification of quality control system

Management has committed to a quality assurance component for FOMP. Management will obtain ongoing independent certification that the quality control system is operating to internationally recognized standards. At the time our work was completed in December 2008, management had already had a pre-certification assessment completed by an independent auditing firm and planned to obtain certification in the spring of 2009. This quality assurance component will help ensure that management corrects any existing implementation issues and maintains its processes in the future.

Non-compliance and enforcement—the Department may identify non-compliance through:

- field office reviews of reports and documents submitted by industry,
- site inspections of cut blocks performed by Department staff, and
- an annual compliance review of key reforestation activities.

Warning or penalty at the discretion of field officer

The Department has a manual that describes the processes and responsibilities for enforcement actions. The manual provides guidance to staff on assessing penalties on behalf of the Minister in cases when the legislation allows discretion in whether to issue a penalty and how much. The criteria for assessing penalties include the operator's history of infractions and the extent of environmental impact an infraction had. Decisions on whether to impose a penalty must also be reviewed by a supervisor. We obtained evidence that these processes are being followed both in the field and head office.

Also, when the Department finds non-compliance with operating requirements during any of its field-office monitoring processes, FOMP requires it to document these issues in an action plan. The Department discusses the action plan with the operator and follows up to ensure compliance issues are fixed. The Department prefers to give operators the opportunity to fix issues and treats FOMP findings as an education process rather than an enforcement system. However, if field office staff believe that non-compliance issues are significant

or recurring, they may penalize the operator following the processes in the enforcement manual.

Department was behind in reviews

A finding in our 2006 audit was that the Department was behind in its annual compliance review. This was significant because the Department can bring enforcement actions forward only within a two-year period. Because the Department was behind in reviews, compliance actions could not be taken within the two-year window. The purpose of this review, conducted from head office, is to identify operators who have not completed planting and regeneration surveys within the legislated timelines. The review relies on data entered in ARIS.

2007 compliance review completed

When we concluded our follow-up work, the Department had caught up on its reviews and was finishing its 2007 compliance review. Management indicated that, of the issues detected through the compliance review, most are data-entry errors—rather than industry not performing a reforestation activity. Management provided anecdotal evidence these data entry errors have decreased since our original audit, but that the compliance review still identifies a significant number of data errors in legacy data. Since compliance findings are not compiled and reported by the number of cutblocks with compliance issues, management could not readily show compliance-issue trends across Alberta.

New penalties for data errors

In the past the Department staff could only ask operators to correct data errors and follow up with them repeatedly until the errors were fixed. However, in 2008 the *Timber Management Regulation* was amended so that operators can be penalized by the Department for submitting inaccurate or incomplete data including their legacy data. The Department plans to start penalizing operators for inaccurate data in 2009 when the 2008 submissions are reviewed.

When the review finds cases where operators have not completed reforestation activities or are late in doing so, the Department decides whether to issue a warning or assess a monetary penalty using the criteria in the enforcement manual. Management's rationale for assessing a warning or penalty is documented and approved by the Executive Director of the Forest Management Branch. We reviewed a total of 13 incident files from the last four reviews and found management had completed the reviews and was following the enforcement framework.

What remains to be done

The Department will finish implementing this recommendation when it:

- obtains the quality assurance certification over the FOMP process,
- ensures that all field offices are using the current forms and processes,

- ensures staff are clear on the minimum number of on-site performance survey inspections required, and
- follows through on the plan to use the penalty provisions of the *Timber Management Regulation* for inaccurate regeneration survey data.

Implications and risks if recommendation not implemented

Without effective monitoring and enforcement processes, the Department may fail to ensure operators fulfill their reforestation obligations.

4.3 Seed inventory—satisfactory progress

Background

No assurance of right seed for right area

In our *2005–2006 Annual Report* (vol. 1, page 129), we recommended that the Department assess whether there was enough of the right type of seed available to reforest harvested areas. Our own testing indicated that there may not be enough seed because some operators that we sampled did not have seed stored at the seed centre.

Cutblocks should have seeds from same zone

For trees to grow most successfully, a cutblock must be replanted with seeds taken from the seed-zone that the cutblock is within. In our original audit, we also recommended that the Department strengthen controls to maintain seed-zone integrity after the seeds left its Seed Centre for privately-owned nurseries.

Criteria: the standards we used for our audit

The Department should ensure its seed inventory is managed and maintained to support reforestation goals.

Our audit findings

Not enough seed for all zones

The Seed Centre's management compiled an inventory listing by tree type and seed-zone. To forecast the amount of seed required for each type in each zone, they also compiled the amount of seed requested from the Centre for each type and zone for the last three years. They then compared the inventory to the forecast and concluded that, overall, there is enough seed for the most common types of trees harvested in Alberta. However, not all zones have enough seed for each type of tree.

Actual seed requirements could vary from forecast

We also tested the inventory to the forecast. Using management's assumption that the last three years of activity is an appropriate predictor of future seed requirements, our comparison found that management's conclusion is supported. As part of the annual operating plan review, the FOMP process also checks whether operators are ensuring they have enough seed to meet their reforestation plans. Management's approach to comparing future seed

requirements to availability is reasonable. However, actual future requirements can vary because operators amend harvest plans based on the market prices for specific types of wood as well as forest fires and pest impacts.

Analysis of seed alternatives needs to be done formally

When an operator does not have enough seed to replant in a particular zone, it can purchase seed from the Department or another operator if available. If seed is not available from the correct zone, the Department can authorize an operator to use seed from an adjacent zone, which will grow albeit sometimes not as well as seed from the same zone. The Department has not analyzed seed availability in alternate zones for zones that are forecasted to be short on seed.

Seed-zone integrity depends on co-operation of private nurseries

To determine whether the privately-owned nurseries have controls to maintain seed-zone integrity, management surveyed 23 nurseries about their processes. At the time of our audit, management had received 18 responses and was following up with the remaining five nurseries. Management plans to follow up these surveys with site visits in 2009. After the survey and inspections are complete, management will be able to assess if any changes in policy or processes are necessary to maintain seed-zone integrity at the nurseries.

What remains to be done

The Department will finish implementing this recommendation when it:

- documents the availability of seeds in alternate zones for the zones that management has identified a shortage of seed based on its forecast or operator harvest plans, and
- completes the nursery site inspections and concludes what additional measures, if any, are necessary to ensure that seed-zone integrity is maintained between the Seed Centre and planting.

Implications and risks if recommendation not implemented

Slower re-growth or reduced yields could result from using seeds from an unmatched zone.

4.4 Forest Resource Improvement Association of Alberta—implemented Background

Memorandum of Understanding (MOU) needed to clarify accountability

In our *2005–2006 Annual Report* (No. 16—vol. 1, page 127), we recommended that the Department clarify its accountability expectations with the FRIAA through a memorandum of understanding. The Department did not have a strategy or cost estimate of how to treat cutblocks transferred to the FRIAA's responsibility between 1995 and 2000 (legacy cutblocks). We also found reporting requirements and linkage of the FRIAA's operations to the Department's goals were unclear.

Our audit findings

MOU signed between Department and FRIAA

The Department signed a memorandum of understanding with the FRIAA establishing accountability for reporting on programs. We reviewed an FRIAA business plan submitted to the Department that describes how the FRIAA's programs relate to the Department's goals.

Department will review FRIAA plans and activities

Like other operators, the FRIAA prepares silviculture plans that the Department reviews. Also, the FRIAA must carry out performance surveys for cutblocks that it is responsible for. The Department will review the FRIAA's plans and surveys through the same FOMP process used for other operators. This is the process that will validate the FRIAA's reforestation activities.

Direction provided on treating legacy cutblocks

The memorandum of understanding does not say how the legacy cutblocks—that are not sufficiently restocked to standard and that have been transferred to the FRIAA—will be treated. However, other documentation, including a March 2006 grant agreement, provided to us during our audit and discussions with management, indicates that overall the Department does not plan to require further treatments to try to bring stocking up to standard because in most cases it is impractical to do so at this stage of growth. Instead, the FRIAA will carry out performance surveys on these cutblocks and the Department will then take this updated information and adjust its estimate of forests available for future harvest and other purposes. The grant agreement provides the FRIAA with direction on prioritizing the use of grant funds for blocks that can be cost effectively treated to improve stocking.

Investigation of Information Technology incidents

Summary

Need for a central security office In our *October 2008 Public Report* (page 54), we noted that the Government of Alberta (GOA) uses a distributed, or decentralized approach to information technology. Under this model, we identified that while a decentralized approach might work well for program delivery, it posed significant challenges from a security perspective. We recommended the establishment of a central security office to secure GOA's information assets (Recommendation No. 4—page 53).

Two IT incidents at the Department of Transportation Subsequent to the release of our *October 2008 Report*, we were made aware of two incidents at the Department of Transportation that were characterized as computer “penetration” attempts. Our investigation of these incidents reaffirmed the security risks associated with using a decentralized model.

Background

Outsourcing IT becoming more common Over the past few years, many organizations, including organizations within GOA, have outsourced work in their Information Technology (IT) environments. Outsourcing is an effective way to reduce costs and use the experience and technical expertise of the people doing the work. Although outsourcing has many benefits, it also has risks because it is difficult for management to properly oversee contractors.

Entails both benefits and risks

Department's IT environment maintained jointly with Service Alberta Service Alberta and the Department of Transportation (the Department) share the responsibility for maintaining the Department's IT environment. The Department is responsible for maintaining its internal applications, and the maintenance and support of its IT infrastructure has been outsourced to Service Alberta.

Department responsible for maintenance contract for web applications The Department has directly outsourced maintenance of its web applications, and is responsible for establishing and monitoring this contract with its service provider. The IT infrastructure that has been outsourced to Service Alberta includes routers, servers, and firewalls. Service Alberta has, in turn, outsourced specific maintenance activities for this infrastructure to other IT sub-contractors.

Service Alberta is responsible for contractors that it assigns to the Department As the primary service provider, Service Alberta is responsible to select and approve the IT contractors that it assigns to the Department, and to oversee and monitor sub-contractors to ensure that they comply with their contracts in performance of their duties.

Department responsible for day-to-day oversight

Day-to-day oversight of contractors, whether contracted by Service Alberta or by the Department of Transportation, is the responsibility of the Department of Transportation.

Computer systems maintained by these sub-contractors were the subject of the two security incidents.

What we examined

Small programs and malicious software on Department computers

The two incidents reported at the Department were:

- small programs (also called “services”), of unknown origin, were discovered on a web server. They would allow other computer code to be run.
- malicious software was detected on an important server (a domain controller).

Our objective was to identify the cause or source of these two security incidents.

Between February 4 and 27, 2009, we reviewed the actions that the Department and Service Alberta took after the incidents were identified.

What we found

Unauthorized programs on web server

The first incident involved a contractor hired by the Department of Transportation to maintain their web applications. The contractor, as part of upgrading a web server, found unauthorized services running on the web server. Services are programs that run in the background without user intervention, designed to perform specific functions. They can be set to run when the computer starts up or be executed manually when required. In this case, many services were started and programmed to run code located in a temporary directory. No code was found in the temporary directory when it was searched, so the services were not actually doing anything.

Programs were not doing anything

Source of—and reason for—programs unknown due to lack of investigation

This concerned the Department because neither the contractor nor Department staff knew why the services were there or when they had been installed. The Department removed the services and ran a virus scan on the web server. It did not find any malicious software. After the contractor, hired by the Department, removed the services they did not try to find out where the services came from. The services may have been set up by a previous contractor for testing, or for another purpose, or they may have been installed by someone not authorized to do this. Because a detailed, documented investigation wasn’t done, it’s impossible to know.

Malicious software downloaded to domain controller while contractor did update

The second incident involved the downloading of malicious software to the Department’s domain controller while it was being updated by a contractor. A domain controller is a server that enforces security rules for a Windows network and responds to user or computer authentication requests. In this situation, maintenance of this domain controller was outsourced to Service Alberta, which in turn

outsourced the maintenance activities to a contractor. The contractor was logged into the domain controller from within the Department network and used an Internet browser to visit websites.

Industry good practice not followed—contractor accessed Internet while working on domain controller

The Department stated that it believed the contractor was trying to download updated drivers, but in the process, downloaded a Trojan as well (a Trojan is a malicious computer program that is downloaded with other legitimate programs). Industry good practices require that when you perform maintenance on a computer like a domain controller, you should avoid surfing the Internet—because of weaknesses in Internet browsers and the risks of virus infections. Several days later, the domain controller became unstable because of the Trojan, and Service Alberta was called in to handle the incident.

Service Alberta conducted investigation; did not identify any evidence that an attacker exploited the system

Service Alberta checked the domain controller and found the Trojan. Service Alberta followed its incident-response procedures, but could not determine the website from which the Trojan had been downloaded. It disconnected the domain controller from the network, repaired the damage and performed an investigation. The investigation did not identify any evidence that an attacker may have exploited the system. Neither the Department nor Service Alberta could identify what websites the contractor visited.

Compromised domain controller serious—can expose whole network

This incident is serious because of the important role the domain controller plays in the Department of Transportation network. If this computer had been compromised, it could have been exploited to gain full access to the entire Department of Transportation's network, possibly including key business information of the Department of Transportation.

Other observations

Security practices questionable

In the course of conducting our investigation, we became concerned with some of the security practices of the service providers. For example:

- there is no documentation explaining who installed the services on the web server, when they were installed, or for what purpose.
- there is no evidence that any incident response procedures were followed by the Department of Transportation upon discovery of the unauthorized services on the web server.
- the incident involving the Department of Transportation domain controller was the result of poor technical administrative practices.
- not all of the information related to the domain controller logs was retained for an adequate period of time, in case this was needed for follow up with the sub contractors.

We will follow up in 2011

As a result of these findings, we will conduct a detailed review of Service Alberta's and Departmental oversight and management of sub-contractors in 2011.



Financial statement and other assurance audits

Report of the Auditor General of Alberta—April 2009

Alberta's consolidated financial statements

1. Summary

We discuss several topics that are important in understanding Alberta's consolidated financial statements. Our goal is to promote a better understanding of the province's financial affairs.

We organize our discussion as follows:

Background on the consolidated financial statements

Specific topics:

- Expanding the consolidated financial statements
- Pensions
- P3s
- Portfolio investments and derivatives

We also note coming changes in auditing standards.

The consolidated financial statements for the year ended March 31, 2009, are yet to be prepared and audited. Some topics we discuss in this chapter may change before the financial statements of the province for this year are completed.

2. Background

The consolidated financial statements of the province are prepared by the Office of the Controller. The consolidated financial statements bring together the financial statements of individual ministries, as well as agencies, boards and commissions.

The Controller prepares the consolidated financial statements in accordance with generally accepted accounting principles, as codified by the Public Sector Accounting Standards Board. Our responsibility is to express an opinion on whether the consolidated financial statements are presented fairly, in all material respects, in accordance with those principles.

3. Specific topics

Recent expansion of the government reporting entity

Expanding the consolidated financial statements

Recently, accounting standards changed to require that governments include in their financial statements all organizations that they control, including schools, universities, colleges and hospitals, collectively known as the SUCH sector. The standard promotes accountability and transparency by presenting a more comprehensive picture of a government’s finances.

Governments were allowed some time to transition to the new standard. The first phase was to include the SUCH sector using a method called modified equity accounting. The effect of this accounting, sometimes called “one-line” consolidation, can be seen in the 2008 consolidated financial statements as follows:

(p. 24 of the consolidated financial statements)
 Revenues – Increase in equity of Crown-controlled SUCH sector organizations \$156 million

(p. 25)
 Financial assets – Equity in Crown-controlled SUCH sector organizations \$3,519 million

(p. 49)
 Schedule 8 – Equity in Crown-controlled SUCH sector organizations.

Schedule 8 provides explanation of the build up and change in the reported equity.

This form of accounting will be continued in the 2009 consolidated financial statements.

The deadline for the final phase of transition is the year ending March 31, 2010. In the 2010 consolidated financial statements, Albertans will see what is called a “line-by-line” consolidation of the SUCH sector. Instead of showing the province’s involvement as a one-line investment, the financial statements will include the SUCH sector’s revenues, expenses, assets and liabilities together with the rest of the province’s revenues, expenses, assets and liabilities.

Net assets and surplus will increase

Had the province applied line-by-line consolidation in the year ended March 31, 2008, net assets would have increased by about \$12 billion and annual surplus by about \$2 billion.

Surplus will increase because of how capital grants to the SUCH sector are recorded. Previously, capital grants were an expense of the ministries, but not revenue to the SUCH sector entity until the assets were bought, or constructed, and used. With line-by-line consolidation, in the consolidated financial statements these capital grants are no longer considered an expense, but are recognized for what they are in each SUCH sector entity: either cash or capital assets.

Accounting policies are harmonized during consolidation process

Consolidation brings together the financial statements of entities to produce one set of financial statements.¹ To properly consolidate SUCH sector entities, the accounting policies of the SUCH sector entities are harmonized with those of the province.

Harmonization is a complex process. In some instances, what is required under the accounting standards used by the SUCH sector is different from what is required under government accounting standards. For example, art collections are included in the financial statements of SUCH sector entities, but are not allowed to be included in the financial statements of governments. So when the financial statements of the SUCH sector are consolidated into the financial statements of the province, art collections are excluded.

Budget versus actual comparisons may change

As explained above, the net operating results of the SUCH sector are currently included as one item in the consolidated financial statements: "increase in equity in Crown-controlled SUCH sector organizations." This one item is the net amount of SUCH sector revenues and expenses, but there is no corresponding budget amount, because Alberta prepares its budget on the basis of immediate expensing of grants to the SUCH sector made by each ministry.

After the transition to line-by-line consolidation, this one aggregate amount will be replaced. Instead, revenues and expenses of the SUCH sector will be included in the relevant specific categories of the consolidated statement of operations. The government is currently investigating the most meaningful presentation to compare budget to actual amounts.

¹ Alberta's consolidated financial statements also include the results of government business enterprises (GBEs), but they are not harmonized. GBEs follow a different set of accounting standards. GBEs currently use Canadian private sector standards, and will eventually transition to International Financial Reporting Standards.

Endowments will be recognized in the consolidated financial statements

Endowments are special kinds of donations to organizations, such as universities or hospitals, that are made for specific purposes. Donors usually have an expectation that the endowment assets will be held in perpetuity, and maintain their value, with income from the endowment assets being used for purposes the donor intended.

By including the SUCH sector endowments in the province's consolidated financial statements, the government is not transferring the endowment assets to itself. The endowments remain at the organizations to which they are endowed. However, their inclusion in the consolidated financial statements will allow Albertans to see the amount of assets that has been entrusted to the province to be used for specific purposes.

Pensions

Pension obligation is recorded in the financial statements

The province is trustee and sponsor of several public sector pension plans. Accounting standards require that the province's consolidated financial statements include the province's liability under pension plans. The liability is the province's share of the difference between the assets that are in the plans, and the present value of expected pension benefits to be paid. At March 31, 2008, about \$7.8 billion in pension obligations was recorded.

Understanding pension assumptions is critical

Pension plan accounting requires several estimates (plan assumptions) about the future. Important plan assumptions include inflation, salary growth and the expected rate of return on assets in the pension plan.

The financial statements of individual pension plans disclose sensitivities of changes in these plan assumptions. Small changes in these assumptions can create large changes in the pension obligation recorded in the financial statements. For example, the financial statements of the Alberta Teachers' Retirement Fund disclose that a 0.50% decrease in rate of return on assets would increase accrued pension benefits by about \$517 million.

Best estimates are used

Setting assumptions is a continual process that results in the assumptions being revised regularly. In this way, Albertans can be assured that the recorded pension obligations are the government's best current estimate.

As part of our audit, we assess whether the assumptions used are reasonable.

P3s

Public-private partnerships (P3s), as defined by the government, are a form of procurement for capital assets and associated long-term operations that includes a component of private finance. Payments to contractors are performance based.²

P3s are recorded in the financial statements

P3s are included in the province's financial statements, in accordance with accounting standards. P3 assets include the Edmonton and Calgary ring roads (Edmonton opened in 2007 and Calgary in 2009). At March 31, 2008 the value of P3 assets recorded was \$679 million. The value of both these P3 assets when completed will be about \$887 million, with an associated obligation of \$512 million. The difference represents progress payments made during construction.

P3 contractual obligations disclosed

The consolidated financial statements provide additional P3 disclosures, including amounts due under contractual obligations, and operation and maintenance payments, over the life of the contract.

The consolidated financial statements, including the disclosures, are in accordance with accounting standards.

Portfolio investments and derivatives

Portfolio investments are recorded at their cost in the consolidated financial statements in accordance with accounting standards. In the main, these are the fixed income securities and equities held in the Heritage Fund, endowments such as the Alberta Heritage Scholarship Fund, the Alberta Sustainability Fund and the Capital Account.

"Other than temporary" write downs are recorded

Accounting standards require that an asset be written down (reduction in value recorded) if a decline in value is "other than temporary." Given recent market volatility, the government has determined in its quarterly reporting to Albertans that the declines in several investments are other than temporary.

Derivative are financial contracts

Derivatives are financial contracts accounted for at the value of underlying instruments, rates or indexes such as publicly traded securities, interest rates, currency exchange rates, or market indexes. Derivatives cover a wide assortment of financial contracts, including forward contracts, futures, options, and swaps. They are used to improve investment return and to manage interest rate and currency risks. In short, a derivative contract links its holder to the risks and reward of owning an underlying financial instrument without actually

² P3s are defined in the province's *Public Private Partnerships Management Framework: Procurement Process*, September 2006.

owing that instrument. But derivative contracts carry the risk that the counterparty will not pay its obligation when it becomes due.

Derivatives are recorded in the financial statements

Derivatives are recorded in the consolidated financial statements based on whether or not they are accounted for as hedges³. If derivatives are designated as hedges, gains and losses on the derivatives are recorded in the same period as the gains and losses of the specific assets being hedged. Derivatives not designated as hedges are recorded based on their fair value at year end. Fair value is the amount that would be paid or received in settlement of the contract at that date. The fair values fluctuate until the derivative has matured.⁴

No specific derivative accounting standards

Specific disclosures of balances associated with derivatives, including gains and losses, is not required under PSAB accounting standards.⁵ PSAB is developing accounting standards for financial instruments, and is expected to issue an exposure draft in June 2009.

Auditing standards

The Auditor General, as a member of the auditing profession, follows Canadian auditing standards.

Auditing standards set by an independent organization

Auditing standards are set by an independent organization called the Auditing and Assurance Standards Board, part of the Canadian Institute of Chartered Accountants (CICA). The CICA will soon adopt the auditing standards of an organization called the International Auditing and Assurance Standards Board.

Specific changes coming to our audit opinion

As the new auditing standards are adopted by the Auditor General, Albertans will notice changes. Our audit opinion will cover two years, rather than one. This is consistent with current practice in much of the private sector. Also, when appropriate, in our audit opinions, we may add what is called an “emphasis of matter” paragraph. We will still say, in our opinion, whether the financial statements are fairly stated. But we will use the additional emphasis of matter paragraph to draw attention to a particular matter that we believe is important for readers of the financial statements to consider.

³ To hedge is to enter into an additional contract designed to offset losses that would arise if an existing financial instrument declined in value.

⁴ The consolidated financial statements disclose the notional amount for derivative contracts. The notional amount of a derivative contract is the amount to which a rate or price is applied to calculate the exchange of cash flows. Notional amounts measure activity.

⁵ The consolidated financial statements do not separately disclose derivative gains and losses. These gains and losses are included in net investment income. However, in reporting the financial affairs of the province, the government recently disclosed derivative gains and losses in the Alberta Heritage Savings Trust Fund, in the *2008-2009 Alberta Heritage Savings Trust Fund Third Quarter Update* (p. 8).

Advanced Education and Technology

Overview

Three common themes from audits of Institutions

This summary highlights three themes in our recommendations to Colleges and Technical Institutes (together referred to as Institutions). Implementing these recommendations will help Institutions' Boards and Management to better meet their responsibilities. Management of all Institutions should consider these recommendations and assess if they can improve their financial reporting and internal-control systems. We do not provide an opinion on the effectiveness of any Institution's internal-control systems. The themes are:

- **improve financial reporting**—provide timely, relevant and accurate financial reports to senior management and audit committees.
- **improve internal-control systems**—improve basic fundamental internal controls to safeguard assets such as cash, limit information systems access to appropriate staff, clarify and segregate roles and responsibilities of staff, and reconcile financial records promptly to ensure valid payments, complete revenue recognition and accurate and valid financial information
- **preserve endowment assets**—define goals for the use, and preservation of the economic value of endowment assets (*to inflation proof*).

Summary of recommendations

Increased fraud risk at some Institutions

We reported the internal control weaknesses from our financial statements' audits to management. We did not assess if the weaknesses resulted in potential frauds in all cases—management is responsible for this assessment. But, such weaknesses increase the risk of fraud. We report a couple of cases where management informed us of alleged fraudulent activity. On page 13, we also report our assessment of Bow Valley College's investigation of an alleged fraud.

Significant internal-control weaknesses at Grant MacEwan

We continue to report significant weaknesses at Grant MacEwan College that indicate an ineffective control environment for a college of its size. The College needs to solve its staffing and information system issues, and internal control weaknesses. Until then the College is exposed to continued risks of fraud and error going undetected, and inaccurate financial information for management and the Audit Committee.

Current economic climate increases budget pressure and reduces income

In the current economic climate, effective internal controls are critical because of increased pressures in meeting budgets and reduced investment income to fund operations. These constraints may reduce Institutions' abilities to hire the right level and number of staff, and to implement effective internal controls and information-technology controls. This increases Institutions' risks of fraud and errors.

Missed goals and lower efficiency may result

Without proper financial reporting and effective internal controls, Institutions may not manage business risks effectively, and may not detect fraud and error. Additionally, they may not achieve their goals and objectives, use resources effectively and efficiently, or ensure reliable reporting or compliance with laws.

Financial reporting

Management and Audit Committee need good information

Management needs timely, relevant and accurate financial information to run an Institution. Management provides summarized financial information to an Institution's Audit Committee to allow it to effectively oversee and objectively assess the Institution's overall performance. Financial reporting gives management and the Audit Committee information to deal with business issues and risks, to assess actual results against budget, and to assess if the Institution is meeting its objectives efficiently and effectively.

Several recommendations made

Bow Valley College

Bow Valley College should improve its financial reporting to the Board by:

- including—at least quarterly—complete statements of financial position, changes in net assets and actual year-to-date operating results.
- improving its quarterly processes and controls to ensure accurate financial information—see page 94.

Medicine Hat College

Medicine Hat College should improve its financial reporting to its Board by including—at least quarterly—complete statements of operations, financial position, and changes in net assets—see page 95.

Grant MacEwan College

To improve the accuracy of financial reports to management and its Audit Committee, Grant MacEwan College should improve its capital asset processes by:

- documenting its assessment of the appropriate accounting treatment for costs for construction and renovation projects.
- improving its processes to code and record transactions accurately the first time—see page 85.

This year, Grande Prairie Regional College implemented a similar recommendation to improve its financial reporting and year-end processes (see page 97), while Alberta College of Art and Design (ACAD) has not yet implemented a similar recommendation from our *April 2008 Report* (page 180).

Internal-control systems

Basic elements of internal control:

- restricted access
- defined roles and separate duties
- prompt reconciliation
- physical safeguarding

Some basic elements of effective internal-control systems over payroll, payments for goods and services, and revenue recognition are:

- restricting access—to information systems, sensitive documents such as cheques, human resources and payroll records—to appropriate staff.
- clearly defining staff roles and responsibilities and segregating incompatible functions so that no one person can initiate, approve, and record transactions.
- completing timely reconciliations so financial records accurately reflect all transactions such as revenues, cash collected, and payments made.
- physically safeguarding attractive assets such as cash by restricting access to appropriate staff.

Management must consider potential fraud—as well as errors

Management must consider the risk of potential fraud or other inappropriate activity (theft of cash, payments to fictitious employees and suppliers, misuse of resources) against the Institution, as well as the risk of errors in financial reports. A strong control environment can reduce these risks to an acceptable level, but not eliminate them.

Grant MacEwan College

Grant MacEwan College should:

- improve its systems to control, collect, and account for parking services fees—see page 81.
- establish policies and procedures for issuing complimentary memberships and discounts for using the Sports and Wellness Centre facilities—see page 83.
- improve its system to control and safeguard cash collected at sporting events—see page 83.
- promptly reconcile sub-ledgers to the general ledger to ensure it records all transactions accurately—see page 84.

Bow Valley College

In our Systems Audit section—see page 13, we reported five recommendations related to improving internal controls on contracting, vendor information maintenance and defining the actions, responsibilities and reporting requirements for allegations of fraud.

NorQuest College

NorQuest College should:

- improve its controls over cash from tuition and student fees—see page 87.
- improve controls to ensure that procurement cardholders comply with its procurement card policy—see page 88.
- ensure that its procurement card statements are supported by adequate documentation and approved by an authorized individual before making payments—see page 89.

NAIT	NAIT should improve its processes to review and approve staff procurement card transactions—see page 90.
Lakeland College	<p>Lakeland College should:</p> <ul style="list-style-type: none"> • adequately segregate staff access to the PeopleSoft payroll system to ensure only valid changes are made—see page 91. • review change reports generated from the payroll system for appropriateness—see page 91. • prepare monthly reconciliations of the payroll system to the general ledger and promptly review the reconciliations—see page 92. • properly segregate the incompatible functions of preparing and approving journal entries—see page 92.
Mount Royal College	Mount Royal College should adequately segregate duties for processing payments to casual and contract employees—see page 93.
Define goals to inflation proof endowments	<p>Endowment assets</p> <p>ACAD, Grande Prairie Regional College, Keyano College, Lakeland College, Lethbridge Community College, Medicine Hat College, Mount Royal College, NorQuest College, Olds College, Portage College, and Red Deer College should define goals for the use, and preservation of the economic value of endowment assets (<i>to inflation proof</i>)—see below.</p>

Our audit findings and recommendations

Colleges and Technical Institutes (Institutions)

1. Cross-Institution recommendations

1.1 Preserving endowment assets

Recommendation

We recommend that the following Institutions define their goals for the use, and preservation of the economic value of endowment assets (inflation proofing):

- **Alberta College of Art and Design (ACAD)**
- **Grande Prairie Regional College**
- **Keyano College**
- **Lakeland College**
- **Lethbridge Community College**
- **Medicine Hat College**
- **Mount Royal College**
- **NorQuest College**

- **Olds College**
- **Portage College**
- **Red Deer College**

Background

\$100 million of endowments in Colleges and Institutes

Public Colleges and Institutes in Alberta collectively have about \$100 million of endowment funds in long-term investments. Earnings from endowment investments support education, research and teaching. Each year, Institutions limit spending of endowment earnings to a percentage set out in policies. Investment managers normally manage Institutions' endowment funds in accordance with policies and investment objectives set by the Institutions' Investment Committees. While some donors encourage spending all endowment investment earnings, other donors expect Institutions to preserve the real value of endowments over time.

Goal to preserve economic value of endowments

Criteria: the standards we used for our audit

Institutions should establish goals and performance measures for the preservation of endowments and have appropriate administrative policies and processes to help meet their goals.

Our audit findings

Goals not set in policy, or unclear, or not followed

We found that:

- Grande Prairie, Lakeland, Medicine Hat, NorQuest, Olds and Portage do not have policies—nor have they clearly defined their goals—on preserving the economic value of endowments.
- ACAD, Lakeland, Lethbridge and Mount Royal have policies for capitalizing investment income to endowments, but it is unclear if the intent is to partly or fully protect the economic value of endowments.
- Keyano has a policy to protect the economic value of endowments, but it is not adhering to its policy.

No review of spending policies to ensure sustainability

Institutions have not reviewed or have just started to review their spending policies to assess if current spending levels are appropriate and sustainable over the long term.

Implications and risks if recommendation not implemented

Economic value may not be preserved

Without a clear definition of the goals, performance measures and policies to protect the economic value of endowments, Institutions may not generate sufficient income to support education, research and teaching and meet donors' wishes.

1.2 Colleges and Technical Institutes computer controls—progress report

Background

Department had to provide guidance to Institutions on IT controls

Well-designed and effective information technology controls give Institutions assurance over the security and integrity of their information and systems. These systems are used for financial reporting and to provide efficient, effective, and reliable services to students and staff. In our *April 2008 Public Report* (No. 8—page 195), we recommended that the Department of Advanced Education and Technology give guidance to Institutions on using an IT control framework to develop control processes that are well-designed, efficient, and effective. We also provided a summary of findings for IT controls at Institutions.

Department developed IT control framework

Management’s actions—The Department, working with Institutions, has developed an *Institution Information and Technology Management Control Framework* (the framework), and a proposal to implement it. We have reviewed the implementation proposal and agree that if Institutions properly implement the framework, it should resolve our previous concerns.

Institutions—except Bow Valley, Grande Prairie and Northern Lakes—made progress

Overall, Institutions are making progress on prior recommendations, and we made fewer new recommendations this year. But, we had to repeat recommendations made in management letters at three Colleges—Bow Valley, Grande Prairie and Northern Lakes—because of unsatisfactory progress implementing recommendations within a reasonable time. Alberta College of Art and Design and NorQuest made significant progress resolving problems and improving controls this past year.

ACAD and NorQuest made significant progress

We also audited Lethbridge College’s IT controls this year using the same audit approach as the other institutions and recommended that it:

- conduct a risk assessment and use an IT control framework to develop and implement effective IT controls.
- implement well-designed and effective access and change-management controls.

Benefits of shared systems being realized

Institutions are realizing that using shared systems and infrastructures, and common IT control processes is an efficient and effective way to provide secure, programs and services to students and staff. We support the Department and Institutions’ plan to develop and implement a standardized IT control framework and use shared systems and infrastructure.

2. Recommendations to individual Institutions

2.1 Grant MacEwan College

Significant weaknesses persist

Ineffective internal controls

College started project for financial processes and controls

We continue to report a number of significant weaknesses at the College. These indicate an ineffective control environment for a college of its size. In our *April 2008 Report* (page 187), we reported that the College had initiated a Financial Information Management Enhancement Project to work on broader financial processes, systems and personnel issues. The College issued a request for proposal to select a new information technology system, and plans to start implementing the new system later this year. The College has made staff changes in the Financial Services area, and started to document its business processes. However, it continues to work on hiring the right number and level of staff, and refining its business processes.

Significant weaknesses in inventory and petty cash unresolved from September 2007

On page 186 of our *April 2008 Report*, we recommended that the College improve its systems to manage inventories and petty cash. We also said that management informed us of a forensic investigation into the management of its various stores. Management continues to improve internal controls related to inventory and petty cash, and to finalize its forensic investigation. Because the weaknesses were significant, management should have finished improvements to internal controls and its forensic investigation by now—we first discussed these weaknesses with management in September 2007.

College needs to resolve staffing, process, and control issues

Implementing the new system efficiently and effectively, on time and on budget, depends on sufficient, appropriately skilled staff, and documented policies and procedures for business processes and internal controls. The College needs to solve its staffing and information systems issues, and the internal control weaknesses. Until then, the College is exposed to:

- continued risks of fraud and error going undetected, and
- inaccurate financial information for management and the Audit Committee.

The College also risks not implementing its new information technology system effectively and efficiently, on time and on budget.

2.1.1 Parking services fees

Recommendation

We recommend that Grant MacEwan College improve its systems to control, collect, and account for parking services fees.

Background

College charges for parking

The College collects parking fees from parking meters, pay-on-foot-machines, parking booths, over-the-counter transactions at the City Centre Campus parking office, and deductions from staff salaries. It accepts various forms of payment including cash, debit and credit cards.

Criteria: the standards we used for our audit

The College should have effective controls over parking services, including the collection and recording of parking services fees and fines.

Our audit findings

Inadequate controls for collecting parking fees

We found the following control problems related to collecting parking fees:

- physical access controls were poor: parking attendants had access to both the containers required to remove cash from the parking machines and the designated keys for the machines; they could bypass the need for two people to be present when removing cash from the machines.
- no documentation supported the reconciliation of cash collected from parking meters and pay-on-foot-machines to the reports generated by these machines to ensure that the College deposited all cash received in its bank account.
- reconciliations of cash collected over-the-counter at the City Centre Campus parking office with the report generated by the point-of-sale terminals were not prepared. This reconciliation would help ensure that the College deposits all cash received in its bank account, and records all parking fees and fines in its financial reports.

\$738,000 parking fines from 1999 to 2008 not previously pursued or recorded—\$380,000 uncollectable

The College did not pursue nor record parking fines totaling \$738,000 from 1999 to March 2008. Although the College may have collected fine payments during this period, the College cannot determine—because of poor documentation and processes—if it deposited the cash that it did collect for parking fines during this period, in the College's bank accounts. The College recorded the \$738,000 this year, then wrote off \$380,000 as uncollectable.

Management to assess and investigate if fraud or theft occurred

We reported the internal control weaknesses from our financial statements audits to management, so they can assess and investigate if the weaknesses may have resulted in fraud occurring. We did not assess or investigate if fraud occurred. In our view, the weaknesses increase the risk of fraud or other inappropriate activity.

Implications and risks if recommendation not implemented

Inadequate processes and lack of sufficient reviews increase the risk of fraud and error going undetected and loss of revenue.

2.1.2 Sports and Wellness Centre

Recommendation

We recommend that Grant MacEwan College:

- **establish policies and procedures for issuing complimentary memberships and discounts for using the Sports and Wellness Centre facilities.**
- **improve its system to control and safeguard cash collected at sporting events.**

Background

College sports centre for students and public

The College’s Sports and Wellness Centre (the Centre) offers recreational activities to students, staff, and the public. The Centre has different rates for the public, staff, and day-pass drop-ins.

Ticket sales to sporting events

The College collects cash by selling tickets to sporting events such as hockey, volleyball, and basketball. It also sells merchandise at these events.

Criteria: the standards we used for our audit

The College should have effective controls for the:

- rates charged and payments collected for the use of the Centre’s facilities.
- collection and safeguarding of cash at sporting events.

Our audit findings

Variances in expected membership revenue

Our analysis of the Centre’s membership pass revenue recorded in the financial statements for the year ended June 30, 2008, showed that the College did not collect the expected revenue for passes issued. For example, it issued 220 adult annual passes for public memberships under Plan A (for unlimited use of facilities). But the College recorded revenue of about \$55,000 for this category rather than expected revenue of about \$109,000, based on the yearly fee.

\$54,000 difference for one type of membership

No policies or approval of discounts and complimentary passes

Staff told us the difference represents complimentary passes issued or discounts to members. We did not see documentation supporting who approved complimentary passes or identifying what criteria staff used to determine who qualifies for complimentary passes or discounts. The College does not have clear policies and guidelines for issuing complimentary passes and giving discounts.

Poor segregation of duties to collect cash at sporting events

Our discussion with Sports and Wellness staff also determined the following:

- Poor segregation of duties for collecting cash at sporting events—the ticket seller at sporting events also tracks attendance on a tally sheet. Since the tickets issued are not pre-numbered and ticket stubs are not kept, an independent person cannot reconcile tickets sold to the tally sheet to ensure the College deposits all cash collected in its bank accounts.
- Poor safeguarding of cash collected at sporting events—staff keeps the cash in unlocked boxes. In addition, cash collected at hockey games remains with the event supervisor over the weekend as games are usually off campus.

Poor safeguarding of cash at sporting events

Forensic investigations occurred

Management informed us of two separate forensic investigations in January 2008 and March 2009 related to the Sport and Wellness Centre.

Implications and risks if recommendation not implemented

Inadequate processes and lack of sufficient reviews increase the risk of fraud and error going undetected, and loss of revenue.

2.1.3 Prompt completion of sub-ledger reconciliations

Recommendation

We recommend that Grant MacEwan College promptly reconcile sub-ledgers to the general ledger to ensure it records all transactions accurately.

Background

Three sub-ledgers used in various business processes

The College uses the Datatel information system to process accounts payable and accounts receivable transactions. These transactions are automatically transferred from the accounts payable and accounts receivable sub-ledgers to the general ledger overnight. The College uses the Ratex Bookstore system to track bookstore inventory and records this inventory in the general ledger. The College records convenience store inventory based on the results of monthly physical counts.

Automatic transfers to general ledger

Criteria: the standards we used for our audit

The College should reconcile the accounts payable, accounts receivable, and inventories sub-ledgers to the general ledger to ensure all transactions are recorded in the general ledger. An independent person should review and approve each reconciliation.

Our audit findings

Reconciliations not completed, not timely, not reviewed

The College did not promptly complete and review reconciliations for the accounts payable sub-ledger to the general ledger, accounts receivable sub-ledger to the general ledger, and inventory tracking system and the general ledger.

Reconciliations help detect fraud and errors

In a well-controlled organization, timely reconciliations are important controls to ensure all transactions are accurately reflected in the financial records, and to detect possible fraud and errors. Reconciliations help ensure the accuracy and completeness of financial information presented to management and the Audit Committee. For example, in our *April 2008 Public Report* (page 186), we noted that the College was unable to account for its stock of transit passes and bus tickets of about \$32,000. These passes and tickets related to inventory held before July 1, 2007. The College was only able to quantify the full extent of the write off this year, after completing a detailed inventory count and reconciliation of the inventory tracking system to the general ledger as at March 31, 2008. The write off was about \$138,000.

\$138,000 written off after delayed reconciliation

Implications and risks if recommendation not implemented

Lack of regular reconciliations of sub-ledgers to the general ledger may result in misstatement of financial statements and undetected fraud and error.

2.1.4 Capital assets**Recommendation**

We recommend that Grant MacEwan College improve its capital asset processes by:

- **documenting its assessment on the appropriate accounting treatment for costs related to construction and renovation projects.**
- **coding and recording transactions accurately the first time.**

Construction and renovation projects underway	<p>Background</p> <p>The College has a number of construction and renovation projects underway, including space enhancements in the Robbins Health Learning Centre, expansions to facilities for new degree programs, and construction of new laboratories. Its <i>Capital Asset Recognition and Valuation Guideline</i> has information on when to capitalize or expense certain costs for four different types of expenditures.</p>
	<p>Criteria: the standards we used for our audit</p> <p>The College should have processes that facilitate complete and accurate recording for capital assets.</p>
Correct recoding of costs affect accuracy of financial information	<p>Our audit findings</p> <p>The accuracy of financial information presented to management and the Audit Committee is dependent on recording costs correctly. This allows management and the Audit Committee to monitor if the College is meeting its budget, and to determine the value of its assets used in delivering programs to students.</p>
Transactions incorrectly recorded and then recoded much later	<p>The Facilities Department codes all construction-related costs—capital or not—to capital asset work-in-progress in the general ledger. After the initial entry, the Facilities Department recoded transactions between various projects and accounts. At year-end, Financial Services reviewed all the codes to determine those costs that are repairs and maintenance in nature, and transferred the costs to expense accounts in the general ledger.</p>
Financial information inaccurate throughout year by \$3.5 million	<p>The College concluded that it incorrectly coded expenses of \$1.8 million for the Robbins Health Learning Centre parkade, resulting in adjustments to the financial statements. We noted more errors totaling about \$1.7 million—the College had expensed them as repairs and maintenance, but should have capitalized them. Of this amount, the College adjusted the financial statements for \$856,000. Staff spent significant time investigating, compiling, and correcting financial reporting errors that they could have avoided with properly designed and implemented controls. It should determine the proper coding at the start of a project and enter transactions to the correct account the first time. The time spent correcting preventable errors reduces the sustainability of business processes as resources get diverted from regular duties to correct the errors. In addition, management and the Audit Committee did not have reliable financial information throughout the year because it only made the corrections at year-end.</p>
Time wasted to correct avoidable errors	

Implications and risks if recommendation not implemented

Inefficient and ineffective business processes are not cost-effective or sustainable and may cause significant misstatements in financial statements.

2.2 NorQuest College

2.2.1 Internal controls over cash

Recommendation

We recommend that NorQuest College improve its controls over cash received from tuition and student fees.

Background

Registrar’s office collects tuition payments and fees, and cashes bursary cheques

The Registrar’s Office receives tuition payments and other student fees for the College. The College lets students cash their bursary cheques at the Registrar’s Office and refunds the students in cash—from a cash float—for the amount by which the bursary cheques exceeds the amount students owe the College. The College maintains the cash float at its limit by removing cash from daily cash receipts. Staff are expected to record cash-float withdrawals and replenishments in a daily logbook.

Criteria: the standards we used for our audit

The College should promptly follow up and investigate cash shortages and differences between cash received, deposits in its bank accounts and amounts recorded in its general ledger.

Our audit findings

All employees can access cash float and daily receipts

\$4,000 cash taken without support

No evidence cash shortages or overages investigated

Net cash shortage reduced to \$1,400

The College does not have adequate controls over cash receipts. All seven employees in the Registrar’s Office can access the cash float and daily cash receipts. In four of 25 samples, cash of about \$4,000 was taken from the daily cash receipts without documentation explaining who replenished the cash float, and when. The Registrar’s Office staff assumed the cash was used to maintain the cash float at its limit. No evidence supported this assumption. Financial Services recorded these amounts as cash shortages in the general ledger.

There is no evidence that Financial Services staff review the deposit slips when they perform the bank reconciliation, or investigate cash shortages and overages. Nor is there evidence of a reconciliation of the cash float, or of any review of a reconciliation. The net cash shortage, expensed in the financial statements for the year ended June 30, 2008, was about \$1,400. We did not test the cash overages that reduced the net cash shortage to only \$1,400 for the year.

Management to assess and investigate if fraud occurred

We reported the internal control weaknesses from our financial statements audits to management, so they can assess and investigate if the weaknesses may have resulted in fraud occurring. We did not assess or investigate if fraud occurred. In our view, the weaknesses increase the risk of fraud.

Implications and risks if recommendation not implemented

Ineffective controls over cash receipts may result in misappropriated cash.

2.2.2 Procurement cards—discrepancy log

Recommendation

We recommend that NorQuest College improve controls to ensure that procurement cardholders comply with its procurement card policy.

Background

College uses procurement cards to buy goods and services

The College uses procurement cards to buy goods and services. The procurement card policy does not permit staff to split purchases into smaller units to circumvent card limits. Financial Services may terminate people’s card privileges if they abuse them.

Compliance with policy monitored and enforced

The College processes require the Procurement and Inventory Coordinator to maintain a discrepancy log to record non-compliance with the procurement card policy before processing the payment. The Procurement and Inventory Coordinator records violations in the log, issues a warning to a cardholder and notifies the Manager of Financial Services. After three warnings, the Manager of Financial Services will terminate the card.

Criteria: the standards we used for our audit

The College should maintain a record of non-compliance with the procurement card policy and follow up on it to ensure compliance.

Our audit findings

One transaction split—against policy—to appear to comply with policy

We examined two cardholder statements for October 2007 and June 2008. In one, the cardholder charged \$1,000—although they had signed an agreement limiting their purchases to \$500. The cardholder claimed a single purchase as two purchases of \$500 each. A supervisor approved it, and it was then paid and recorded in the general ledger. There was no evidence of any follow-up, and no documentation in the discrepancy log of the transaction splitting. The purchase was a valid College expenditure.

Discrepancy log not completed since March 2008

Due to staff changes, the current Coordinator was unaware of the discrepancy log. Subsequently, we received a copy of the discrepancy log from an accounting supervisor in Financial Services. It was completed only to the end of March 2008.

Implications and risks if recommendation not implemented

The College may record inappropriate or personal expenditures if the procurement card policy is not followed, or if expenses that do not comply with the policy are claimed and paid.

2.2.3 Procurement cards—compliance with procurement card policy

Recommendation

We recommend that NorQuest College ensure that its procurement card statements are supported by adequate documentation and are approved by an authorized individual before making payments.

Background

College uses procurement cards to buy goods and services

The College uses procurement cards to buy goods and services. The procurement card policy requires the cardholder and the budget manager to sign the procurement card statement before payments are processed. The Procurement and Inventory Coordinator verifies that cardholders provided supporting documentation for all transactions and ensures that authorized individuals approved the transactions before processing the payment.

Coordinator verifies compliance

Criteria: the standards we used for our audit

The College should ensure procurement card purchases are supported by appropriate documentation and approved by authorized individuals.

Our audit findings

Payments processed without supporting receipts, contrary to policy

In six of 50 cardholder statements tested, cardholders did not provide detailed receipts for amounts claimed and authorized individuals did not review and approve the transactions to ensure they are valid business expenses. The Procurement and Inventory Coordinator processed and paid these transactions.

Implications and risks if recommendation not implemented

Without an adequate process for reviewing and approving procurement card statements, the College may pay for unauthorized and personal expenditures.

2.3 Northern Alberta Institute of Technology—Review of procurement card transactions

Recommendation

We recommend that the Northern Alberta Institute of Technology improve its processes to review and approve staff’s procurement card transactions.

Background

College uses procurement cards to buy goods and services

The Institute provides employees with procurement cards as a method of purchasing and paying for low-value purchases. To obtain a card, employees must receive approval from their supervisor. During the application process, the employee acknowledges in writing they will comply with the Institute’s procurement card policy.

Policy sets card and transaction limits

This policy states that card limits are set at \$750 per transaction. The policy also states that cardholders should never split transactions. The Institute’s central procurement card administrator reviews procurement card statements.

Criteria: the standards we used for our audit

The Institute should ensure procurement card purchases are supported by appropriate documentation and approved by authorized individuals.

Our audit findings

Policy does not require supervisor review and approval

The procurement card policy and the Institute’s processes do not require cardholders’ supervisors to review and approve that procurement card transactions are for valid business purposes and comply with the Institute’s policy. Even though the policy does not require supervisors to approve procurement cards transactions, supervisors reviewed six of 15 samples that we reviewed. Due to the nature of procurement cards being open for abuse, we believe the Institute should ensure supervisors review transactions to ensure they are appropriate.

Two transactions split—against policy—to appear to comply with policy

We found two instances where cardholders split a transaction greater than \$750, with the same vendor into multiple purchases contrary to the Institute’s policy. Neither the supervisors, nor the procurement card administrator’s review identified the transactions splitting. The purchases were for valid Institute expenditures.

Implication and risks if recommendation not implemented

Without an adequate process for reviewing and approving procurement card statements, the Institute may pay for unauthorized and personal expenditures.

2.4 Lakeland College

2.4.1 Improve payroll controls

Recommendation

We recommend that Lakeland College:

- **adequately segregate staff access to the PeopleSoft payroll system to ensure only valid changes are made.**
- **review change reports generated from the payroll system for appropriateness.**
- **prepare monthly reconciliations of the payroll system to the general ledger and promptly review the reconciliations.**

Background

Salaries are largest expense

Salaries and benefits are the College's largest operating expense. Its Human Resource (HR) department is responsible for all HR functions and payroll processing.

Criteria: the standards we used for our audit

The College should have effective controls over payroll by:

- segregating the incompatible functions of changing payroll data and processing payroll information.
- generating reports of changes made to payroll standing data from the system and reviewing all changes for appropriateness.

Our audit findings

Data accurately transferred to new payroll system

The College implemented a PeopleSoft payroll system in January 2008. We reviewed the data conversion process and are satisfied that the College accurately transferred the payroll data from the Ceridian system to the PeopleSoft system.

Staff have excessive access to payroll system

However, all seven employees (including the HR Administrator) in the Human Resource and payroll department have full access to the PeopleSoft payroll system. Their roles are not adequately segregated to ensure that the College only pays valid employees for actual services provided. All seven employees in the payroll department can:

- add or remove employees from the payroll system.
- change key employee information such as rate of pay, benefits and banking information.
- delete transactions from the PeopleSoft system, including any evidence that a transaction occurred.

No reports generated and no evidence of independent review

No reports are generated from the payroll system to identify when changes have been made to employee information. There is no evidence that changes to employee information are reviewed by a person who is not involved in processing payroll.

Reconciliations since 2006 not complete

In addition, the College had not completely reconciled payroll expenses from the payroll system to the general ledger since September 2006 to ensure that all payments are accurately included in the financial results. The College should complete and promptly review monthly reconciliations to ensure all transactions are accurately accounted. This will ensure the accuracy of financial information reported to management and the Audit Committee.

No inappropriate activity found

Despite the weaknesses in controls, we did not identify any fraudulent or inappropriate activity based on our review of the data file with all transactions made in the payroll system from January 1, 2008 to June 30, 2008.

Implications and risks if recommendation not implemented

Inadequate segregation of duties increases the risk of fraud through payments to fictitious employees. The absence of system generated change reports increases the risk of inappropriate changes or errors going undetected. Lack of reconciliations may lead to unidentified errors.

2.4.2 Segregation of duties over journal entries

Recommendation

We recommend that Lakeland College properly segregate the incompatible functions of preparing and approving journal entries.

Background

Use of journal entries

The College uses journal entries to reclassify items, correct errors or record transactions not generated automatically by the accounting system. Journal entries can also be used to process invalid or inappropriate transactions because they may circumvent other control processes.

Criteria: the standards we used for our audit

The College should ensure that it has effective controls over journal entries by segregating the functions for preparing and approving the journal entry.

Inadequate approvals of journal entries

Our audit findings

Three individuals, including the Director of Finance, can both enter and approve an entry to the general ledger. The Director entered and posted over 200 journal entries without involving another person in the process. Despite the control weakness, our testing of journal entries found no inappropriate entries or entries lacking proper supporting documentation.

Implications and risks if recommendation not implemented

If the same person can initiate and approve transactions, inappropriate or incorrect entries may be entered, increasing the risk of fraud and inaccurate financial information.

2.5 Mount Royal College—Segregation of payroll duties

Recommendation

We recommend that Mount Royal College adequately segregate duties for processing payments to casual and contract employees.

Background

Payroll business process for casual and contract employees

Mount Royal College hires casual and contract employees for its normal operations. Departments of the College request approval from Human Resources to fill positions. Payroll staff receive employment information forms from departments to input the information into the payroll system.

Criteria: the standards we used for our audit

The College should have effective controls over payroll by:

- segregating the incompatible functions of changing payroll data and processing payroll information.
- generating reports of changes made to payroll standing data from the system and reviewing all changes for appropriateness.

Our audit findings

No segregation of duties for setting up and paying casual and contract employees

Payroll staff set up casual and contract employees into the payroll system, approve time sheets and authorize employees for payment. Another authorized individual does not review and approve all contract and casual employees who have been set up in the payroll system to ensure they are valid employees and information is accurately entered. We did not identify any fraudulent or inappropriate activity.

Implications and risks if recommendation not implemented

Without appropriate segregation of duties within the payroll system, payroll staff can set up fictitious employees, approve their time, and process payments to them.

2.6 Bow Valley College—Quarterly financial reporting

Recommendation

We recommend that Bow Valley College improve its financial reporting to the Board by:

- **including—at least quarterly—complete statements of financial position, changes in net assets and actual year-to-date operating results.**
- **improving its quarterly processes and controls to ensure accurate financial information.**

Background

Quarterly financial reports go to Board

Management provides the Board with quarterly reporting packages that include the statement of operations with budget and forecasted results, as well as variance information. An external project manager, who manages the construction of new buildings, also gives the Board a monthly project status report on the construction activities. The Board also receives quarterly investment reports.

Criteria: the standards we used for our audit

The College should:

- provide relevant, complete and accurate information for the Board to assess the College’s financial performance. Specifically, the College should give the Board a statement of financial position, operations, and changes in net assets.
- have effective processes to ensure accurate financial information.

Our audit findings

Statement of financial position and actual operating results missing

The College does not provide the Board with a complete statement of financial position and changes in net assets as part of the quarterly financial statement reporting process. As well, the statement of operations does not include year-to-date actual results. This information would give decision makers a more complete picture of the College’s performance, financial position, activities and resources.

Not all expenses and revenue recorded

The College does not include all material transactions in the quarterly reports to the Board. For example, it does not include expenditures for the campus expansion that it incurred but had not yet paid. In addition, it does not record all significant contract revenue.

Errors in contract revenue

The College double counted about \$92,000 of contract revenue at year-end, resulting in overstated contract revenue. As well, the College incorrectly recorded about \$322,000 as accounts receivable even though it had not yet provided any services. The College's review processes did not identify this error.

Implications and risks if recommendation not implemented

Without improved financial reporting processes, senior management and the Board may not have relevant and accurate information to assess stewardship of the College's resources.

2.7 Medicine Hat College—Periodic reporting to the Board

Recommendation

We recommend that Medicine Hat College improve its financial reporting to its Board by including—at least quarterly—complete statements of operations, financial position and changes in net assets.

Background

Financial report goes to Board yearly

The College reports financial information to its Board of Governors once a year through the “Mid-Year-Review” and presentation of the year-end financial statements for formal approval. The Mid-Year-Review includes a statement of operations showing prior-year actual revenues and expenses, current-year base budget, and the current-year amended budget. The document highlights amendments needed to the current-year base budget. It also summarizes capital requests and analyzes the effects on unrestricted and restricted funds. At year-end, financial statements are prepared in accordance with generally accepted accounting principles and approved by the Board.

Criteria: the standards we used for our audit

The College should:

- provide relevant, complete and accurate information for the Board to assess the College's financial performance. Specifically, the College should give the Board a statement of financial position, operations, and changes in net assets, prepared on an accrual basis.
- have effective processes to ensure accurate financial information.

Our audit findings

No quarterly reports, and actual results to Audit Committee

The College does not provide quarterly financial reports to the Audit Committee. Although a mid-year report is prepared for the Board, it does not contain a complete statement of financial position and changes in net assets that reports the actual results. As well, the statement of operations does not include year-to-date actual results. This information would give decision makers a more complete picture of the College’s performance, financial position, activities and resources.

Not all revenue and expenses recorded

The College does not include all material transactions in the quarterly reports to the Board. For example, it does not include expenditures for constructions costs that it incurred but had not yet paid, and tuition fees that related to future periods.

Implications and risks if recommendation not implemented

Without improved financial reporting processes, senior management and the Board may not have relevant and accurate information to assess stewardship of the College’s resources.

2.8 Alberta College of Art and Design—Payroll controls—implemented

Payroll controls needed to improve

In our *April 2008 Public Report* (page 182), we recommended that the College improve its payroll controls by properly segregating payroll processing duties and implementing controls for processing manual cheques.

College improved payroll controls

The College has taken significant steps to improve the payroll control environment. In October 2007, management further outsourced the payroll function, including the input of payroll data, to Ceridian. The College improved processes and controls, including reviewing and approving payroll changes, payroll-change documentation, and following its documentation-retention processes. We concluded that the payroll controls are adequately designed and implemented, and operated effectively from October 2007 to June 2008.

Referred case to police for criminal investigation

Because of the weaknesses that previously existed in the payroll control environment, an employee was able to make potentially fraudulent payments. Management identified this and investigated the matter. It referred the case to the police for a criminal investigation.

2.9 Grande Prairie Regional College—Financial reporting and year-end processes—implemented

College improved processes and reporting

In our *2006–2007 Annual Report* (No. 20—page 20), we recommended that the College improve its financial reporting and year-end processes. We repeated this recommendation in our *April 2008 Public Report* (page 183). The College implemented the recommendation by providing financial statements to the Executive Committee and Board quarterly.

2.10 Portage College—Fuel purchases on fuel cards—implemented

Controls needed for fuel purchases

In our *April 2008 Public Report* (page 189), we recommended that Portage College develop guidelines and procedures for review and approval of fuel purchases on fuel-purchase cards.

College switched to procurement cards and improved process

The College stopped using fuel-purchase cards and started using another form of procurement cards. We reviewed the guidelines and procedures for reviewing and approving fuel purchase transactions on these procurement cards. We tested a sample of purchases and found no exceptions to the process.

3. Recommendations to Universities

University of Alberta—Campus security services—implemented

In our *2005–2006 Annual Report* (vol. 2, page 29), we recommended that the University of Alberta Campus Security Section (CSS) hire a third party to conduct an independent program assessment of CSS, including a review of the protocol agreement with the Edmonton Police Service, to ensure that CSS complies with the law and employs good enforcement practices.

The University of Alberta implemented our recommendation by:

- having the Department of the Solicitor General and Public Security conduct a review of the Campus Security Section. The Department found Campus Security Section to be in compliance with the various statutes and regulations.
- entering into a memorandum of understanding with the Edmonton Police Service in the fall of 2008. This agreement addresses the working relationship and responsibilities between the two parties.

Performance reporting

Financial statements

We audited the financial statements for the year ended June 30, 2008 of the following entities:

- Alberta College of Art and Design
- Bow Valley College
- Grande Prairie Regional College and its related entity Grande Prairie Regional College Foundation
- Grant MacEwan College and its related entity Grant MacEwan College Foundation
- Keyano College
- Lakeland College
- Lethbridge College and its related entity Lethbridge Community College Fund
- Medicine Hat College and its related entity Medicine Hat College Foundation
- Mount Royal College and its subsidiary/related entities Mount Royal College Day Care Society and Mount Royal College Foundation
- NorQuest College and its related entity NorQuest College Foundation
- Northern Alberta Institute of Technology and its related entities the Northern Alberta Institute of Technology Foundation and Fairview College Foundation
- Northern Lakes College
- Olds College
- Portage College
- Red Deer College
- Southern Alberta Institute of Technology

Unqualified
auditor's opinion

Our auditor's opinions on the financial statements for the above entities were unqualified.

To be reported in
October 2009

Our *October 2009 Report* will include the results of the financial statement audits of the following entities that have a March 31, 2009 year end:

- Ministry of Advanced Education and Technology
- Department of Advanced Education and Technology
- Access to the Future Fund
- Alberta's four Universities
- Alberta Research Council
- iCORE Inc.
- Alberta Enterprise Corporation
- Alberta Heritage Foundation for Medical Research
- Alberta Heritage Foundation for Science and Engineering Research

Education—Review of school jurisdiction audit results

Our audit findings and recommendations

Pursuant to section 19(4) of the *Auditor General Act* we report on our review of school jurisdiction audited financial statements and management letters.

Background

We audit one of the school jurisdictions (Northland). For those jurisdictions we don't audit, we review the management letters sent to the jurisdictions by their auditors. Those audits were not designed to assess all key systems of control and accountability. However, the auditors do report to management about weaknesses that come to their attention when auditing the financial statements. We also review the auditors' report on the financial statements.

There are 74 school jurisdictions comprising 62 school boards and 12 charter schools.

Our audit findings

Under Section 151 of the *School Act*, school jurisdiction auditors shall send management letters, auditor's reports and audited financial statements to the Minister by November 30, 2008. At the time of preparing this Report, all were sent except three (Fort McMurray Roman Catholic Board, Fort McMurray School District and Northland School Division). Consequently, our audit findings are based on results for 71 of the 74 school jurisdictions.

One qualified
audit opinion

Auditors' Reports—of the 71 school jurisdictions, one (Wolf Creek School Division) (not the one reported in 2007) received a qualified auditor's report for the year ended August 31, 2008. The report was qualified because the school jurisdiction did not write down a significant account receivable to the estimated recoverable amount.

All other school jurisdiction auditors reported that the 2008 financial statements were prepared in accordance with Canadian generally accepted accounting principles (GAAP).

One accumulated
operating deficit

Financial information—of the 71 school jurisdictions, 5 (6 in 2007) school boards and 3 (2 in 2007) charter schools incurred annual operating deficits. Annual operating deficits are acceptable to the Department as long as sufficient

accumulated operating surplus funds are available to cover the shortfall. Each of these jurisdictions had sufficient accumulated surpluses to cover the annual operating deficits.

Accumulated operating deficits are not acceptable to the Department. School jurisdictions with accumulated operating deficits are expected to work with the Department to eliminate the accumulated operating deficit in accordance with a Minister approved deficit elimination plan. Of the 71 school jurisdictions, one (Rocky View School Division) reported an accumulated operating deficit at August 31, 2008 amounting to \$300,000. The Department is reviewing the nature of the accumulated operating deficit and is working with the jurisdiction to eliminate the deficit. The one jurisdiction that reported an accumulated operating deficit at August 31, 2007 has eliminated its deficit.

The total annual operating surplus of these 71 school jurisdictions combined was \$138 million for the year ended August 31, 2008, compared to \$144 million for same school jurisdictions for the year ended August 31, 2007.

Areas for
improvement

Management letters—the following is a summary of the audit findings and recommendations reported to 71 school jurisdictions by their auditors for the year ended August 31, 2008. We have grouped our summary into the following categories:

- Financial reporting and governance
- Internal control weaknesses, and
- Information technology management

Users of this summary should keep in mind that the audits from which these findings came were not designed to assess all key systems of control and accountability.

Financial reporting and governance

- a) **Accounting Issues**—11 jurisdictions (including 1 of the 9 reported in 2007) need to resolve accounting issues relating to non-monetary transactions, proper recording, reviewing and reconciling of journal entries, recording revenue at a gross amount and recording of capital grants due but not received.
- b) **Board training**—1 jurisdiction (none reported in 2007) should continue to enroll members of the Board of Trustees in seminars and courses to allow them to further their knowledge in their roles as board members and to improve financial literacy.

- c) **Board approval**—5 jurisdictions (including 2 of the 4 reported in 2007) need to ensure that board approvals are obtained for matters such as the amount of net assets to restrict, plans to spend excess school generated funds, board minutes and superintendent expenses.
- d) **Budgetary process**—3 jurisdictions (including 1 of the 2 reported in 2007) need to improve their budgetary processes.
- e) **Internal audit**—1 jurisdiction (none reported in 2007) needs to consider establishing an internal audit function.
- f) **Review of financial information**—14 jurisdictions (including 6 of the 16 reported in 2007) need to improve their review of financial information such as bank reconciliations, journal entries, monthly financial statements and variances between budget and actual expenditures.
- g) **Timeliness of financial recording**—2 jurisdictions (including 1 of the 8 reported in 2007) need to ensure accounting transactions, accruals, receivable statements or financial statements are prepared or recorded on a regular and timely basis.

Internal control weaknesses

- a) **Cash management**—11 jurisdictions (including 6 of the 16 reported in 2007) need to improve cash management processes and controls.
- b) **Capital assets**—7 jurisdictions (including 2 of the 7 reported in 2007) need to improve the recording and tracking of capital assets.
- c) **Goods and Services Tax**—5 jurisdictions (none of the 3 reported in 2007) need to review their processes for recording GST and remitting GST returns.
- d) **Payroll**—15 jurisdictions (including 10 of the 18 reported in 2007) need to improve controls over the accuracy of and access to payroll information.
- e) **Policies and Procedures**—21 jurisdictions (including 7 of the 18 reported in 2007) need to update or implement formal procedures and policies.
- f) **Purchases**—10 jurisdictions (including 2 of the 12 reported in 2007) need to improve controls over the purchase cycle such as the review and authorization processes over purchases and payments, employee sign off for goods received and retention of supporting documentation.
- g) **Segregation of duties**—9 jurisdictions (including 1 of the 7 reported in 2007) need to have segregation of duties over the authorization and recording of transactions or the custody of and accounting for certain assets.
- h) **School generated funds**—8 school jurisdictions (including 2 of the 9 reported in 2007) need to improve the processes used to collect, record, spend and report school generated funds.

Information technology management

Computer security—13 jurisdictions (including 7 of the 10 reported in 2007) need to improve computer security processes by having unique individual usernames and passwords, implementing a mandatory password change policy, backing up data at an offsite location and developing a business continuity plan and a disaster recovery plan.

Management letters without recommendations

For the year ended August 31, 2008, 27 management letters issued to school jurisdictions did not contain recommendations. This compares to 20 for the year ended August 31, 2007.

Department's actions

The Department contacts all jurisdictions and encourages them to deal with the issues raised in the management letters, particularly noting recommendations repeated from prior years.

Alberta Capital Finance Authority

Summary of our recommendation

Additional skilled resources required

Recommendation

We recommend that management of Alberta Capital Finance Authority secure additional skilled resources to help implement new required financial accounting standards and to ensure the cost-effective preparation and management review of its annual financial statements.

Background

Authority finances capital projects for local entities at lower rates

The Alberta Capital Finance Authority is an agent of the Alberta government. It provides financing for capital projects to local entities. The Authority can borrow in capital markets at lower rates, not available to local authorities acting independently. It makes loans to Alberta municipalities, school boards and other local entities at interest rates based on the cost of its borrowing. The Authority provides fixed-rate loans to its borrowers, but may borrow at fixed or floating rates. It uses interest rate swaps (derivatives) to convert debt to fixed rates to reduce interest-rate risk.

Authority uses derivatives to reduce interest-rate risk

Complex new accounting standards require more time to implement and maintain

As a government business-type organization, the Authority follows the accounting standards of the *Canadian Institute of Chartered Accountants Handbook*. The extent of disclosure required in the annual financial statements has increased substantially since 2007 when financial instruments standards were implemented. The standards require loans and debt to be recorded at fair value and extensive disclosures for derivative financial instruments. Additional disclosures were required in 2008, and further changes are expected in 2009. The new standards are complex and require significant time and effort to implement and maintain. The information for some of the new requirements may not be readily available from existing systems. The Authority may need to develop and test processes to ensure that the financial statements are accurate and include all disclosures required by Canadian generally accepted accounting principles (GAAP).

Authority may need to develop and test new processes

Criteria: the standards we used for our audit

The Authority should:

- have sufficient skilled resources to prepare its annual financial statements in accordance with Canadian GAAP. This includes ensuring that the amounts reported in the financial statements are accurate, that all required disclosures are included, and that a management review of the financial statements is performed.

- make its draft financial statements and notes available to the auditors at the start of the audit and ensure they contain few, if any, omissions of required disclosures.

Our audit findings

Authority needs more resources to meet new standards

The financial close-and-reporting process for the Authority has become increasingly complex due to the use of derivatives and the adoption of new complex accounting standards; however, the resources available to support the research and interpretation of new standards and prepare the financial statements has not increased accordingly.

Auditor had to help management meet standards

In the absence of sufficient resources with knowledge of the complex financial accounting standards, the auditors have had to assist management with financial reporting, a responsibility which, over time, could possibly compromise the auditors' objectivity. Further, the true cost of the audit is not properly reflected.

Implications and risks if recommendation not implemented

The risk of misstatement due to error in applying accounting standards, in calculations, or in omitting required material disclosures increases if management does not have sufficient and appropriately skilled resources to prepare and review financial statements. Misstated financial statements could cause the users of the financial statements to make incorrect decisions.



Past recommendations

Report of the Auditor General of Alberta—April 2009

Outstanding recommendations

This is a complete list of numbered and unnumbered recommendations that are not yet implemented. Although management may consider some of these recommendations implemented, we do not remove recommendations from the list until we have been able to complete follow-up audit work to confirm implementation. The number of outstanding recommendations older than three years is on page 123.

Auditee	Original Recommendation	Repeated	Recommendation subject
Cross-Ministry			
Executive Council	2004–05 #1 & #2, p. 28		Recruiting, evaluating and training boards of directors
Executive Council	October 2008 #1, p. 27		CEO selection, evaluation and compensation: Guidance
Executive Council (Agency Governance Secretariat)	October 2008 #2, p. 29		CEO selection, evaluation and compensation: Accountability
Service Alberta	2005–06 #22, vol. 1, p. 174		IT Project Management
Treasury Board	2006–07 #17, vol. 1, p. 174		Government credit cards
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	April 2008 #2, p. 23		Post-Secondary Institutions—non-credit programs: Monitor Institutions' non-credit programs
	April 2008 #8, p. 195		College and technical institute computer controls: Well-designed and effective IT control policies and processes
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Alberta College of Art and Design	2006–07 vol. 2, p. 21		IT internal controls
Alberta College of Art and Design	April 2008, p. 180		ACAD—Financial reporting and year-end processes
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University of Alberta	2003–04, p. 252		Strategic planning for Research
University of Alberta	2006–07 vol. 2, p. 24		Security configuration settings
University of Alberta	October 2008 #20, p. 211		Improve investment controls
University of Calgary	2003–04 #26, p. 255		Planning for research capacity
University of Calgary	2003–04, p. 254		Research measures and targets
University of Calgary	2003–04, p. 257	2006–07 vol. 2, p. 15	Controls over sponsored research and trust accounts
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University of Calgary	2005–06 vol. 2, p. 20		General computer controls
University of Calgary	2005–06 vol. 2, p. 24	<ul style="list-style-type: none"> • 2006–07 vol. 2, p. 13 • October 2008 #22, p. 219 	PeopleSoft security
University of Calgary	2006–07 #18, vol. 2, p. 10		Information technology (IT) governance and control framework
University of Calgary	2006–07 vol. 2, p. 12	October 2008 p. 216	Controls over payroll
University of Calgary	October 2008 #21, p. 213		Improving the University's decentralized control environment
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University of Calgary	October 2008 p. 221		Improving controls over investments
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University of Lethbridge	October 2008 p. 223		Improving the University's financial processes
University of Lethbridge	October 2008 p. 225		Clearly defined financial research roles and responsibilities
University of Lethbridge	October 2008 p. 227		Clear and complete research policies

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	2000–01, #3, p. 50	2004–05 #20, p. 113	Evaluating program success: grant management
	2002–03, #3, p. 49		Performance measurement
	2003–04, #3, p. 80		BSE Report July 2004: Risk assessment for the agriculture and agri-food industry in Alberta
	2005–06 vol. 2, p. 39		Verifying eligibility for the Canada-Alberta Fed Cattle Set Aside program
	2005–06 vol. 2, p. 40		Developing and monitoring compliance with an information technology security policy
	2005–06 #24, vol. 2, p. 37		Verifying eligibility for Farm Fuel Benefit program
	November 2006 #12, p. 46		Expense Accounts: Processes for reporting and dealing with allegations of employee misconduct
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Child and Family Services Authorities	2006–07 vol. 1, p. 86		Child intervention services: Authorities compliance monitoring processes
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	2006–07 vol. 2, p. 56		Compliance audit function—Income support program
	2006–07 vol. 2, p. 57		Debit cards
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	2004–05 #28, p. 165	2005–06 #27, vol. 2, p. 76	Assurance on well and production data
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	2002–03 #12, p. 103	2005–06 #29, vol. 2, p. 87	Contaminated sites information systems
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Alberta Securities Commission	October 2008 p. 294		Purchase policy

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ATB	2001–02 #16, p. 101	2002–03 #16, p. 121	Risk management
ATB	2002–03 #15, p. 119	<ul style="list-style-type: none"> • 2003–04 #17, p. 159 • 2004–05 #32, p. 193 	Lending policy compliance
ATB	2006–07 #26, vol. 2, p. 94		Processes to confirm compliance with Alberta Finance Guideline
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	1998–99 #19, p. 93	1999–00 #39, p. 238	Academic Health: Governance and accountability
	2000–01 #17, p. 121	2005–06 #33, vol. 2, p. 120	Analysis of physician billing information
	2001–02 #24, p. 135	<ul style="list-style-type: none"> • 2003–04 #22, p. 195 • 2005–06 #34, vol. 2, p. 123 	Information technology control environment
	2001–02, p. 134	2002–03 #22, p. 152	Control of, and accountability for, restricted funding
	2002–03, #23, and p. 156 and 157		Province Wide Services
	2003–04 #23, p. 197		Accountability of the Health Regions to the Minister of Health and Wellness
	2005–06 #17, vol. 1, p. 146		RHA Global Funding: Defining goals and performance measures
	2005–06 vol. 1, p. 147		RHA Global Funding: Periodic analysis
	2005–06 #18, vol. 1, p. 149		RHA Global Funding: Non-formula funding adjustments
	2005–06 #20, vol. 1, p. 155		RHA Global Funding: Funding communications
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	2005–06 #32, vol. 2, p. 118		2005 Ministry annual report—performance measures
	2006–07 vol. 2, p. 105		Unauthorized network connections
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	April 2008 #4, p. 77		Implementing the Provincial Mental Health Plan: The accountability framework
	October 2008 #35, p. 300		Compliance monitoring activities
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Health and Wellness and Alberta Health Services	October 2008 p. 186		Alberta’s mental health delivery system: Funding, planning, and reporting
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Department and Alberta Mental Health Board	April 2008 #3, p. 72		Implementing the Provincial Mental Health Plan: Implementation systems
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Alberta Health Services	October 2008 #19, p. 171		Alberta’s mental health delivery system: Opportunities to reduce gaps in service
Alberta Health Services	October 2008 p. 176		Alberta’s mental health delivery system: Provincial coordination
Alberta Health Services	October 2008 p. 181		Alberta’s mental health delivery system: Improving community-based service delivery
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AHS—Alberta Alcohol and Drug Abuse Commission	November 2006 #3, p. 17		Contracting Practices: Board governance
AHS—Alberta Alcohol and Drug Abuse Commission	2006–07 vol. 2, p. 116		General computer controls
AHS—Alberta Cancer Board	2006–07 vol. 2, p. 115		Controls over access to computer applications

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AHS—Calgary Health Region	2006–07 #28, vol. 2, p. 112		Change-management process
AHS—Calgary Health Region	2006–07 #29, vol. 2, p. 113		Inappropriate user access
AHS—Calgary Health Region	October 2008 p. 306		Information technology change management controls
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AHS—Capital Health Authority and Calgary Health Region	2000–01 p. 135		Performance measures for surgical services
AHS—Capital Health	October 2008 p. 308		Information technology security controls
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AHS—Peace Country Health	October 2008 p. 311		Expense claims and corporate credit cards controls
AHS—Peace Country Health	October 2008 p. 312		Contract documentation
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International and Intergovernmental Relations			
	October 2008 p. 324		Evaluating international offices' performance
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	2006–07 vol. 2, p. 131		Judicial Information Technology Security
Office of the Public Trustee, Estates and Trusts	October 2008 p. 331		Administrative Policy Changes
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Municipal Affairs			
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Seniors and Community Supports			
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Department and PDD community boards	2003–04 #8, p. 107		Service provider risk assessment
Department and PDD community boards	2003–04 #9, p. 111		Contract monitoring and evaluation
Department and PDD community boards	2003–04, p. 109		Contracting framework and policies
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	2001–02 #22, p. 120	<ul style="list-style-type: none"> • 2002–03 #20, p. 143 • 2004–05 #37, p. 284 	Performance measures
	2003–04 #20, p. 177		Contracting policies and procedures
	2004–05 #34, p. 212		IT project management of Registry Renewal Initiative
	2005–06 #37, vol. 2, p. 168		Physical security
	2005–06 vol. 2, p. 165	2006–07 vol. 2, p. 148	Security administration for shared services at distributed sites

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	2006–07 vol. 2, p. 149		Risk assessment for central data centre assets
	April 2008 #7, p. 170		Guidance to implement IT control frameworks
	October 2008 #38, p. 345		Service Alberta's role as a central processor of transactions
	October 2008 p. 346		Access- and security-monitoring of application systems
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	2006–07 vol. 2, p. 154		Change Management
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AGLC	October 2008 p. 351		IT change management
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	2005–06 #13, vol. 1, p. 118	April 2009 #4, p. 52	Reforestation: Performance information.
	2005–06 #15, vol. 1, p. 122		Reforestation: Monitoring and enforcement
	2005–06 vol. 1, p. 129		Reforestation: Seed inventory
	2006–07 vol. 2, p. 161		Leases and sales
	2006–07 vol. 2, p. 162		Land sale agreements clearly outline the terms and conditions of sales and conditions in land sale and lease agreements are met
	2006–07 #33, vol. 2, p. 163		Requests for proposals to ensure the province gets the best possible value that can be obtained given government objectives
	2006–07 vol. 2, p. 165		Project management
	October 2008 #39, p. 355		Controls over revenue
	October 2008 #40, p. 360		Enforcement of reclamation obligations
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	October 2008 p. 366		Information management
Natural Resources Conservation Board	2003–04 #28, p. 294	2006–07 #34, vol. 2, p. 167	Natural Resources Conservation Board— Rank compliance and enforcement activities based on risk (Confined feeding operations)
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Tourism, Parks and Recreation			
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Transportation			
	2003–04 #29, p. 301		Monitoring processes for commercial vehicle and motor vehicle inspection programs
	2003–04 #30, p. 303		Licensing of commercial vehicle and motor vehicle inspection facilities and technicians
	November 2006 #5, p. 24		Capital grants to Métis Settlements
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Treasury Board			
	1996–97 #25, p. 199	<ul style="list-style-type: none"> • 1997–98 #41, p. 202 • 1998–99 #47, p. 261 • 1999–00 #42, p. 263 • 2000–01 #45, p. 245 • 2001–02 #15, p. 94 • 2002–03 #2, p. 40 	Corporate government accounting policies
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	2006–07 #2, vol. 1, p. 49		Assessing and prioritizing Alberta’s infrastructure needs: Capital Plan needs to reduce deferred maintenance and consider life-cycle costs
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	2006–07 #5, vol. 1, p. 59		Assessing and prioritizing Alberta’s infrastructure needs: Process to prioritize individual infrastructure projects needs improving
	2006–07 vol. 2, p. 178		Inconsistent budgeting and accounting for grants
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	October 2008 p. 371		Salary benefits disclosure
	October 2008 p. 375		Report on select payments to MLA—Content of Report
	October 2008 p. 376		Report on select payments to MLAs—Efficiency
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Food Safety			
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Alberta Health Services and Department of Health and Wellness	2005–06 vol. 1, p. 83		Food Safety: Tools to promote and enforce food safety
Alberta Health Services (supported by Department of Health and Wellness)	2005–06 #7, vol. 1, p. 84		Food Safety: RHA food safety information systems
Alberta Health Services	2005–06 #8, vol. 1, p. 87		Food Safety: Compliance with permitting legislation
Agriculture and Food	2005–06 #9, vol. 1, p. 88		Food Safety: Alberta Agriculture’s surveillance program
Agriculture and Food	2005–06 #10, vol. 1, p. 91		Food Safety: Alberta Agriculture’s inspection and investigation programs
Agriculture and Food	2005–06 vol. 1, p. 94		Food Safety: Alberta Agriculture’s food safety information systems
Health and Wellness and Agriculture and Food (in cooperation with Alberta Health Services)	2005–06 #11, vol. 1, p. 97		Food Safety: Integrated food safety planning and activities

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Department of Health and Wellness, and Agriculture and Food	2005–06 #12, vol. 1, p. 105		Food Safety: Accountability
Seniors Care and Programs			
Department of Health and Wellness and Alberta Health Services (working with Seniors and Community Supports)	2004–05, #6, p. 58		Seniors Care and Programs, No. 2—page 31: Compliance with Basic Service Standards
Department of Health and Wellness and Alberta Health Services (working with Seniors and Community Supports)	2004–05, #7, p. 59		Seniors Care and Programs, No. 3—page 34: Effectiveness of services in long-term care facilities
Department of Health and Wellness and Alberta Health Services (working with Seniors and Community Supports)	2004–05, #8, p. 59		Seniors Care and Programs, No. 4—page 35: Effectiveness of services in long-term care facilities
Department of Health and Wellness and Alberta Health Services (working with Seniors and Community Supports)	2004–05, p. 61		Seniors Care and Programs—page 37: Information to monitor compliance with legislation
Department of Health and Wellness and Alberta Health Services (working with Seniors and Community Supports)	2004–05, #9, p. 62		Seniors Care and Programs, No. 5—page 39: Determining future needs for services in long-term care facilities
Department of Health and Wellness	2004–05, p. 62		Seniors Care and Programs—page 39: Report on progress implementing Continuing Care Strategic Service Plans
Seniors and Community Supports	2004–05 #12, p. 66		Seniors Care and Programs, No. 8: Effectiveness of Seniors Lodge Program
Seniors and Community Supports	2004–05, p. 67		Seniors Care and Programs—page 50: Determining future needs
Seniors and Community Supports	2004–05, p. 68		Seniors Care and Programs—page 55: Effectiveness of the Alberta Seniors Benefit Program
Seniors and Community Supports	2004–05 #13, p. 69		Seniors Care and Programs, No. 9—page 56: Information to determine program benefits

Auditee	Original Recommendation	Repeated	Recommendation subject
Protecting information assets			
Executive Council	October 2008 #4, p. 53		Protecting information assets: Central Security Office
Service Alberta with all ministries	October 2008 p. 64		Protecting information assets: Develop and maintain detailed standards and policies to build and operate secure web applications
Service Alberta with all ministries	October 2008 #5, p. 66		Protecting information assets: Develop standards and policies to ensure web applications are built to required standards
Service Alberta with all ministries	October 2008 #6, p. 68		Protecting information assets: Review and improve the GoA's shared computing infrastructure policies, procedures, and standards
Service Alberta with all ministries	October 2008 p. 75		Protecting information assets: Wireless policies and standards
Service Alberta with all ministries	October 2008 p. 76		Protecting information assets: Device configurations
Service Alberta with all ministries	October 2008 # 7, p. 77		Protecting information assets: Ongoing monitoring and surveillance
Service Alberta and the Ministry of Infrastructure	October 2008 p. 84		Protecting information assets: Increasing collaboration by ministries
Service Alberta with all ministries	October 2008 p. 85		Protecting information assets: Backup power supplies
Service Alberta with the Ministry of Infrastructure	October 2008 #8, p. 87		Protecting information assets: Physical security
Service Alberta with all ministries	October 2008 p. 89		Protecting information assets: Environmental security
Sustainable Resource and Environmental Management (SREM)			
Energy, Environment and Sustainable Resource Development	2004-05 #14, p. 72		Sustainable Resource and Environmental Management (SREM) Implementation Plan

Numbered recommendations more than three years old

We currently have 300 outstanding recommendations—150 are numbered and 150 are unnumbered. We use three years as a performance measure for when we expect management to implement our numbered recommendations. The following table shows the status of numbered recommendations more than three years old. Currently, there are 41 numbered recommendations that are not yet implemented, or have not yet been confirmed by our Office as implemented.

	Total numbered recommendations ¹	Fully Implemented	Not yet implemented
1996–1997	26	25	1
1997–1998	47	46	1
1998–1999	28	26	2
1999–2000	33	32	1
2000–2001	26	24	2
2001–2002	26	21	5
2002–2003	26	22	4
2003–2004	24	14	10
2004–2005 ²	46	31	15
			41

¹ Excludes repeated recommendations

² Three public reports released in October 2005: *2004–2005 Annual Report*, *Alberta Securities Commission's Enforcement System*, and *Alberta Social Housing Corporation—Land Sales Systems*.



Reference

Report of the Auditor General of Alberta—April 2009

Glossary

This glossary explains key accounting terms and concepts in this report.

Accountability	Responsibility for the consequences of actions. In this report, <i>accountability</i> requires ministries, departments and other entities to: <ul style="list-style-type: none"> • report their results (what they spent and what they achieved) and compare them to their goals • explain any differences between their goals and results Government accountability allows Albertans to decide whether the government is doing a good job. They can compare the costs and benefits of government action: what it spends, what it tries to do (goals), and what it actually does (results).
Accrual basis of accounting	A way of recording financial transactions that puts revenues and expenses in the period when they are earned and incurred.
Adverse auditor's opinion	An auditor's opinion that financial statements are not presented fairly and are not reliable.
Assurance	An auditor's written conclusion about something audited. Absolute assurance is impossible because of several factors, including the nature of judgment and testing, the inherent limitations of control, and the fact that much of the evidence available to an auditor is only persuasive, not conclusive.
Attest work, attest audit	Work an auditor does to express an opinion on the reliability of financial statements.
Audit	An auditor's examination and verification of evidence to determine the reliability of financial information, to evaluate compliance with laws, or to report on the adequacy of management systems, controls and practices.
Auditor	A person who examines systems and financial information.
Auditor's opinion	An auditor's written opinion on whether things audited meet the criteria that apply to them.
Auditor's report	An auditor's written communication on the results of an audit.
Business case	An assessment of a project's financial, social and economic impacts. A business case is a proposal that analyses the costs, benefits and risks associated with the proposed investment, including reasonable alternatives. The province has issued business case usage guidelines and a business case template that the Department can refer to in establishing its business case policy.
Capital asset	A long-term asset.
Criteria	Reasonable and attainable standards of performance that auditors use to assess systems.
Cross-ministry	The section of this report covering systems and problems that affect several ministries or the whole government.
Crown	The Government of Alberta.
Deferred maintenance	Any maintenance work not performed when it should be. Maintenance work should be performed when necessary to ensure capital assets provide acceptable service over their expected lives.
Exception	Something that does not meet the criteria it should meet—see "Auditor's opinion".

Expense	The cost of a thing over a specific time.
GAAP	Abbreviation for “generally accepted accounting principles”, which are established by the Canadian Institute of Chartered Accountants.
Governance	A process and structure that brings together capable people and relevant information to achieve goals. Governance defines an organization’s accountability systems and ensures the effective use of public resources.
Internal audit	A group of auditors within a ministry (or an organization) that assesses and reports on the adequacy of the ministry’s internal controls. The group reports its findings directly to the deputy minister. Internal auditors need an unrestricted scope to examine business strategies; internal control systems; compliance with policies, procedures, and legislation; economical and efficient use of resources; and the effectiveness of operations.
Internal control	<p>A system designed to provide reasonable assurance that an organization will achieve its goals. Management is responsible for an effective internal control system in an organization, and the organization’s governing body should ensure that the control system operates as intended. A control system is effective when the governing body and management have reasonable assurance that:</p> <ul style="list-style-type: none"> • they understand the effectiveness and efficiency of operations • internal and external reporting is reliable • the organization is complying with laws, regulations, and internal policies
Management letter	<p>Our letter to the management of an entity that we have audited. In the letter, we explain:</p> <ol style="list-style-type: none"> 1. our work 2. our findings 3. our recommendation of what the entity should improve and how it should do so 4. the risks if the entity does not implement the recommendation <p>We also ask the entity to explain specifically how and when it will implement the recommendation.</p>
Material, materiality	Something important to decision-makers.
Misstatement	A misrepresentation of financial information due to mistake, fraud, or other irregularities.
Outcomes	The results an organization tries to achieve based on its goals.
Performance measure	Indicator of progress in achieving a goal.
Performance reporting	Reporting on financial and non-financial performance compared to plans.
Performance target	The expected result for a performance measure.
Qualified auditor’s opinion	An auditor’s opinion that things audited meet the criteria that apply to them, except for one or more specific areas—which cause the qualification.
Recommendation	A solution we—the Office of the Auditor General of Alberta—propose to improve the use of public resources or to improve performance reporting to Albertans.
Risk	Anything that impairs an organization’s ability to achieve its goals.
Risk management	Identifying and then minimizing or eliminating risk and its effects.
Securitization	Is a financial transaction, which involves the pooling and repackaging of cash-flow producing financial assets into securities that are then sold to investors.

Specified auditing procedures	Actions an auditor performs to check certain qualities, such as reliability, of reported information that management asks the auditor to check. Specified auditing procedures are not extensive enough to allow the auditor to express an opinion on the information.
Systems (management)	A set of interrelated management control processes designed to achieve goals economically and efficiently.
Systems (accounting)	A set of interrelated accounting control processes for revenue, spending, the preservation or use of assets, and the determination of liabilities.
Systems audit	<p>To help improve the use of public resources, we audit and recommend improvements to systems designed to ensure value for money.</p> <p>Paragraphs (d) and (e) of subsection 19(2) of the <i>Auditor General Act</i> require us to report every case in which we observe that:</p> <ul style="list-style-type: none"> • an accounting system or management control system, including those designed to ensure economy and efficiency, was not in existence, or was inadequate or not complied with, or • appropriate and reasonable procedures to measure and report on the effectiveness of programs were not established or complied with. <p>To meet this requirement, we do <i>systems audits</i>. Systems audits are conducted in accordance with the assurance and value-for-money auditing standards established by the Canadian Institute of Chartered Accountants.</p> <p>First, we develop criteria that a system or procedure should meet. We always discuss our proposed criteria with management and try to gain their agreement to them. Then we do our work to gather audit evidence.</p> <p>Next, we match our evidence to the criteria. If the audit evidence matches all the criteria, we conclude the system or procedure is operating properly. But if the evidence doesn't match all the criteria, we have an audit finding that leads us to recommend what the ministry must do to ensure that the system or procedure will meet all the criteria.</p> <p>For example, if we have 5 criteria and a system meets 3 of them, the 2 unmet criteria lead to the recommendation.</p> <p>A <i>systems audit</i> should not be confused with assessing systems with a view to relying on them in an audit of financial statements.</p>
Unqualified auditor's opinion	An auditor's opinion that things audited meet the criteria that apply to them.
Value for money	The concept underlying a systems audit is <i>value for money</i> . It is the "bottom line" for the public sector, analogous to profit in the private sector. The greater the value added by a government program, the more effective it is. The fewer resources that are used to create that value, the more economical or efficient the program is. "Value" in this context means the impact that the program is intended to achieve or promote on conditions such as public health, highway safety, crime, or farm incomes. To help improve the use of public resources, we audit and recommend improvements to systems designed to ensure value for money.

Other resources

The Canadian Institute of Chartered Accountants (CICA) produces a useful book called, *Terminology for Accountants*. They can be contacted at CICA, 277 Wellington Street West, Toronto, Ontario, Canada M5V 3H2 or www.cica.ca.

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