Report of the Auditor General of Alberta

October 2010

Vivek Dharap
Assistant Auditor General

This report is dedicated to our colleague
Vivek Dharap, CA·IT/CISA.

Vivek was an Assistant Auditor General and Information Systems Audit Team Leader. He died on August 29, 2010.

Vivek's dedication, integrity, influence and accomplishments at the Office of the Auditor General of Alberta over the past 30 years will not be forgotten.

We miss and will remember our friend.

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

I am honoured to send my *Report of the Auditor General of Alberta—October 2010* to the members of the Legislative Assembly, as required by section 19(5) of the *Auditor General Act.*

This report together with my *April 2010 Report* provides reporting to the Legislative Assembly on the results of the annual work of the Office of the Auditor General.

[Original signed by Merwan N. Saher]
Merwan N. Saher
Auditor General

Edmonton, Alberta
October 15, 2010

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Breadth of our work

This second of our public reports in 2010, the first being in April, describes the work of the Office by including the recommendations we make to government departments and agencies.

However, making recommendations designed to help organizations improve their management of public resources is only a part of what we do. The chapter of this report called "Government of Alberta and Ministry Annual Reports" (page 103) states that we issued unqualified auditor's opinions on Alberta's consolidated financial statements, 24 ministry financial statements, including their agencies, and selected performance measures in *Measuring Up*. We also state we were able to issue 23 unqualified reports from engagements to review selected performance measures in ministry annual reports.

Providing assurance on government and agency performance reports is a vital part of our work for Albertans. It takes many hours and dollars to do but often goes unrecognized when competing for space in reports filled with recommendations.

Focus of our work

In the past few years, our public reports have contained a considerable volume of new recommendations for improvements or changes to government systems. As well, a large number of recommendations relating to financial or management control systems are made annually from the work we perform during our financial statement audits.

The inevitable consequence of this volume of past recommendations is that we are re-balancing our work plans to do an increasing number of follow-up audits. The follow-up audit confirms that sustainable change has taken place. It is the payback on the investment of audit dollars in producing a recommendation. And it is worth noting that the audit effort needed to confirm that a recommendation has been sustainably implemented is not superficial. We approach follow-up audits with the rigor Albertans expect from this Office, and will repeat our recommendations when managers have not satisfactorily implemented them.

Generally, we try to complete follow-up audits within three years. Depending on the nature of the risks, though, swifter implementation and follow-up may be required. Currently, management has advised us that about 25% of our 278 outstanding recommendations have been implemented, but we have not yet performed the follow-up work necessary to confirm this.

Report Highlights

Ideally, our follow-up audits should be good news stories—recommendations have been successfully implemented. And that is the case with most of the follow-up work included in this report. For example, ATB's new project governance and management processes have improved control over its new banking system implementation (page 61). Also, we found that systems are in place for management to determine that the terms and conditions of the *Infrastructure Stimulus Fund Agreement* between the governments of Canada and Alberta are being followed (page 15).

On the other hand, our follow-up work at the University of Calgary on research management resulted in us having to repeat four recommendations even though in the past two years the University has made positive changes in its decentralized control environment (page 43). We have also repeated a recommendation to Service Alberta, since it cannot yet demonstrate there are effective controls to ensure all government web applications consistently meet all security standards (page 189). And, we repeated two recommendations to the Department of Treasury Board on Alberta's infrastructure. The Department still needs to determine how best to maintain existing infrastructure over its life, and it needs to develop a plan, with timelines and targets, to reduce the deferred maintenance.

There are two new recommendations that we view as key to the success of Alberta Health Services. Firstly, we recommend (no. 19—page 164) AHS prepare and implement a formal transition plan for its finance operations. We found material errors in the financial reporting system, unachieved processing efficiencies and significant strain on its finance staff. Secondly, we recommend AHS ensure proper funding agreements for its capital projects (no. 20—page 166). Without proper contractual arrangements, the AHS capital plan is jeopardized, unfilled expectations may lead to difficult and costly resolution, and there is greater risk of cost escalation that would be borne by taxpayers.

Acknowledgement and thanks

In closing, I thank Members of the Legislative Assembly, in particular members of the Standing Committee on Public Accounts, who help us to identify issues that are important to them as legislators. I also thank Members of the Provincial Audit Committee, comprised of senior business executives with financial, business and governance skills, who serve as wise counsel to our Office.

I express our appreciation to management and staff of the organizations that we audit. Without their assistance and cooperation, we would not be able to effectively fulfill our role.

Finally, I acknowledge and thank my staff. This report evidences their thoughtful and diligent work in new and follow-up audits, and in providing assurance to Albertans on the government's performance reporting.

[Original signed by Merwan N. Saher]
Merwan N. Saher, CA
Auditor General

October 15, 2010

Recommendation Highlights

This report contains 41 recommendations, all listed, starting at page 7. Of the 41 recommendations, 30 are new. The other 11 repeat recommendations on which implementation progress was too slow. We have numbered 24 recommendations that need a formal response from the government.

Prioritizing our recommendations

As part of the audit process, we provide recommendations to government in documents called management letters. We use 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 departments 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.
- **Numbered recommendations**—These recommendations require a formal response from the government. 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.
- **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 that report to the government. 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. We repeat a recommendation if we find that the implementation progress has been too slow.

We report the status of our recommendations as:

- Implemented—We briefly explain how the government or provincial agency implemented the recommendation.
- Repeated—We explain why we are repeating the recommendation and what the government must still do to implement it.
- Progress report—Although not fully implemented, 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 circumstances—If the recommendation is no longer valid, we briefly explain why and remove the recommendation from our outstanding recommendation list.

Outstanding recommendations

We have a chapter called Past Recommendations—see page 203. 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.

October 2010 Recommendations

—Key and numbered recommendation
Green print—Numbered recommendation
Black print—Unnumbered recommendation

Systems Audits—New

Advanced Education and Technology—IT Governance, Strategic Planning and Project Management

Page 21 **Athabasca University—Improve governance and oversight of information technology—Recommendation No. 1**

We recommend that Athabasca University continue to improve its IT governance by:
- developing an integrated IT delivery plan that aligns with the University's IT strategic plan
- requiring business cases for IT projects that include key project information such as objectives, costs-benefit assessments, risks and resource requirements to support the steering committees' and executive committee's decisions and ongoing project oversight
- improving the coordination and communication between the IT steering committees in reviewing, approving and overseeing projects

Page 24 **Athabasca University—Improve portfolio and project management processes—Recommendation No. 2**

We recommend that Athabasca University continue to improve its portfolio management and project management processes for IT projects by:
- clarifying and communicating the mandate and authority of the project management office
- setting project management and architectural standards, processes and methodologies, and training project managers on these
- monitoring and enforcing project managers' adherence to these standards, processes and methodologies
- tracking and managing project dependencies on scope, risks, budgets and resource requirements

Page 25 **Athabasca University—Formalize IT project performance monitoring and reporting—Recommendation**

We recommend that Athabasca University formalize and improve its monitoring and oversight of information technology projects by:
- improving its systems to quantify and record internal project costs
- providing relevant and sufficient project status information to the IT steering and executive committees, and summarized project information to the Athabasca University Governing Council Audit Committee
- completing post-implementation reviews on projects to verify that expected objectives and benefits were met and identify possible improvements to IT governance, strategic planning and project management processes

Page 27 **Athabasca University—Resolve inefficiencies in financial, human resources and payroll systems—Recommendation**

We recommend that Athabasca University complete its plans to resolve the inefficiencies in its financial, human resources and payroll systems.

Children and Youth Services—Daycare and Day Home Regulatory Compliance Monitoring

Page 37 **Department—Documentation and training—Recommendation**

We recommend that the Department of Children and Youth Services, working with the Child and Family Services Authorities, review documentation and training requirements for monitoring licensed and approved programs to ensure requirements are being met.

October 2010 Recommendations

Page 38 **Child and Family Services Authorities—Improve consistency of monitoring—Recommendation**
We recommend that Child and Family Services Authorities improve systems to ensure their consistent compliance with monitoring and enforcement policies and processes.

Page 39 **Child and Family Services Authorities—Improve follow-up processes—Recommendation No. 3**
We recommend that Child and Family Services Authorities improve systems for monitoring and enforcing child care program compliance with statutory requirements and standards by ensuring that all verbal warnings are adequately documented and resolved.

Systems Audits—Follow-up

Advanced Education and Technology—University of Calgary—Research Management

Page 46 **University of Calgary—Improve human resource plans and system for cost planning quantify and budget for indirect costs—Recommendation No. 4—Repeated**
We again recommend that the University of Calgary improve its human resource plans and develop a system to quantify and budget for the indirect costs of research.

Page 48 **University of Calgary—Define research management roles and responsibilities—Recommendation No. 5—Repeated**
We again recommend that the University of Calgary define research management roles and responsibilities.

Page 50 **University of Calgary—Maintain current and comprehensive research policies—Recommendation No. 6—Repeated**
We again recommend that the University of Calgary ensure all research policies are current and comprehensive. Specifically, the policies should identify who is responsible for monitoring compliance.

Page 52 **University of Calgary—Use project management tools for large, complex projects—Recommendation—Repeated**
We again recommend that the University of Calgary and its faculties use project management tools for large, complex projects to ensure research is cost effective.

Service Alberta—Protecting Information Assets

Page 78 **Web application controls—Recommendation No. 7—Repeated**
We again recommend that Service Alberta, in conjunction with all ministries and through the Chief Information Officer Council, develop and implement well designed and effective controls to ensure all Government of Alberta web applications consistently meet all security standards and requirements.

Treasury Board—Assessing and Prioritizing Alberta's Infrastructure Needs

Page 89 **Department—Deferred maintenance—Recommendation No. 8—Repeated**
We again recommend that the Department of Treasury Board, in consultation with departments, develop objectives, timelines and targets for reducing deferred maintenance, and include information on deferred maintenance in the province's Capital Plan.

Page 92 **Department—Maintaining assets over their life—Recommendation No. 9—Repeated**
We again recommend that the Department of Treasury Board establish a process that enables public infrastructure assets to be properly maintained over their life.

Financial Statement Audits and Other Assurance Work

Advanced Education and Technology

Page 108 **Department—Improve controls over student finance program—Recommendation**
We recommend that the Department of Advanced Education and Technology improve its controls over the student finance program by:
- properly approving changes to student loan programs and communicating the changes to staff
- reviewing and approving changes to assumptions and methodologies used in calculating the allowance for loan relief completion payments and loan subsidies

Page 111 **Athabasca University—Establish IT resumption capabilities—Recommendation No. 10**
We recommend that Athabasca University:
- assess the risks and take the necessary steps to establish appropriate off-site disaster recovery facilities that include required computer infrastructure to provide continuity of critical IT systems
- complete and test its existing disaster recovery plan to ensure continuous services are provided in the event of a disaster

Page 112 **University of Calgary—Improve access to data and systems—Recommendation No. 11—Repeated**
We again recommend that the University of Calgary improve controls in the PeopleSoft system by:
- finalizing and implementing the security policy and the security design document
- ensuring that user access privileges are consistent with both the user's business requirements and the security policy

Page 118 **University of Lethbridge—Improve endowment policies—Recommendation**
We recommend that the University of Lethbridge improve its endowment policies and procedures by:
- clarifying its goals for preserving the real value of endowments, and how it plans to achieve this
- tracking investment income between amounts for preserving the real value of investments and amounts available for spending

Agriculture and Rural Development

Page 122 **Agriculture Financial Services Corporation—Verify accuracy of specific loan loss allowance—Recommendation**
We recommend that Agriculture Financial Services Corporation improve the effectiveness of processes to determine the specific loan loss allowance on impaired loans.

Page 124 **Agriculture Financial Services Corporation—Improve processes for conducting compliance audits—Recommendation No. 12**
We recommend Agriculture Financial Services Corporation improve its processes for conducting compliance audits and investigations by:
- clearly defining the roles and responsibilities of the Program Cross Compliance and Investigations group
- improving the coordination between PCCI and program areas

Education

Page 133 **Northland School Division No. 61—Obtaining interest in land—Recommendation No. 13**
We recommend that Northland School Division No. 61 develop processes to ensure it obtains a valid legal interest in land before beginning construction of schools.

Page 134 **Northland School Division No. 61—Improving financial reporting—Recommendation No. 14**
We recommend that the Northland School Division No. 61 improve its financial reporting by:
- preparing and presenting quarterly financial information to the Official Trustee
- regularly reviewing and reconciling general ledger accounts
- preparing year-end financial statements promptly

Employment and Immigration

Page 136 **Workers' Compensation Board—Computer access—Recommendation**
We recommend that the Workers' Compensation Board ensure that access to computer systems is restricted to appropriate staff.

Environment

Page 143 **Department—Improve and document grant monitoring activities—Recommendation No. 15**
We recommend that the Department of Environment improve its monitoring of compliance with conditions in grant agreements and retain evidence of the review.

Page 144 **Department—Clarify what are valid regulatory expenses—Recommendation**
We recommend that the Department of Environment clarify the kind and extent of regulatory expenses that can be paid out of the Climate Change and Emissions Management Fund.

Finance and Enterprise

Page 150 **Department—Improve financial reporting processes—Recommendation No. 16**
We recommend that the Department of Finance and Enterprise improve its year-end financial reporting processes.

Page 153 **Alberta Treasury Branches—Improve credit monitoring—Recommendation—Repeated**
We again recommend that Alberta Treasury Branches promptly update the derivative credit limits disclosed in the *Daily Derivative Credit Exposure Report.*

Page 154 **Alberta Treasury Branches—Improve internal controls over fair value calculations—Recommendation—Repeated**
We again recommend that Alberta Treasury Branches improve controls over the calculation of the fair value for its derivatives and securities by:

- implementing a peer review and approval process for inputs and assumptions used in the valuation models. Alternatively, for derivatives, management could use a benchmarking process to assess reasonability of its calculated fair values
- documenting the results of this work consistently

Page 156 **Alberta Investment Management Corporation—Help clients meet financial reporting requirements—Recommendation No. 17**
We recommend that the Alberta Investment Management Corporation identify financial reporting requirements in its investment management agreements with clients. The Alberta Investment Management Corporation should meet with the clients to understand their financial reporting frameworks, their financial accounting requirements and the investment-related information they need to prepare financial statements.

Page 157 **Alberta Investment Management Corporation—Improve controls over investment general ledger—Recommendation No. 18**
We recommend that the Alberta Investment Management Corporation implement additional control procedures so that the Corporation itself can ensure the completeness and accuracy of its Genvest investment general ledger.

Page 158 **Alberta Investment Management Corporation—Strengthen IT change management controls—Recommendation**
We recommend that the Alberta Investment Management Corporation strengthen its IT change management controls to ensure that it adequately assesses the risks of changes, and does not make changes outside of the change management process.

Health and Wellness

Page 164 **Alberta Health Services—Financial operations transition plan—Recommendation No. 19**
We recommend that Alberta Health Services prepare and implement a formal transition plan for the organization's finance operations. The plan should include and integrate the following:
- assessing the resources, timelines and critical path needed to consolidate the general ledger and sub-ledger systems
- ensuring rigorous change management controls are applied before implementing application system changes
- harmonizing financial reporting policies and processes across the organization
- determining the adequate amount of human resources and skill levels required to implement the plan and then keep the processes operational

Page 166 **Alberta Health Services—Funding agreements for capital projects—Recommendation No. 20**
We recommend that Alberta Health Services ensure that funding agreements are signed prior to commencement of construction of capital projects, and are formally amended when there are significant changes in the scope of a capital project.

Page 167 **Alberta Health Services—Effectiveness of insurance reciprocal—Recommendation No. 21**
We recommend that Alberta Health Services assess the effectiveness of its arrangement with the Liability and Property Insurance Plan as a risk management tool, and assess the resulting accounting implications.

Page 168 **Alberta Health Services—Accounting for restricted contributions—Recommendation No. 22**
We recommend that Alberta Health Services implement consistent and efficient accounting processes for externally restricted contributions to assure the AHS Board that it is complying with the restrictions attached to those contributions.

Page 169 **Alberta Health Services—Year-end financial reporting processes—Recommendation No. 23—Repeated**
We again recommend that Alberta Health Services improve its year-end financial reporting processes by improving processes to identify and resolve key accounting risks and reporting issues on a timely basis.

Justice and Attorney General

Page 180 **Office of the Public Trustee—New vendor set-up—Recommendation No. 24**
We recommend that the Office of the Public Trustee improve controls for inputting new vendors in its Public Trustee Information System.

Page 180 **Office of the Public Trustee—Recurring payments—Recommendation**
We recommend that the Office of the Public Trustee improve its controls for issuing and stopping recurring payments.

Municipal Affairs

Page 183 **Department—User access to information systems—Recommendation**
We recommend that the Department of Municipal Affairs improve its procedures for granting and removing user access to its business applications, and ensure those procedures are followed.

Service Alberta

Page189 **Access to motor vehicle registration data—Recommendation**
We recommend that the Ministry of Service Alberta strengthen its control over granting user access to its motor vehicles system.

Transportation

Page197 **Department—Improve processes to value donated assets in the Department financial statements—Recommendation**

We recommend that the Department of Transportation:

- enter into agreements with donors that:
    - provide the Department of Transportation with assurance on the fair value of the donated assets
    - specify whether donation receipts will be issued
- document its support for the valuation reported in its financial statements, including the procedures performed, assumptions made and source documents reviewed

Systems Audits—New

Report of the Auditor General of Alberta—October 2010

Infrastructure Stimulus Fund

Summary

The 2009 federal government budget introduced the Economic Action Plan in response to the economic downturn and to deal with concerns about the potential impact of the global recession on the Canadian economy. "Building infrastructure to create jobs" was a component of this plan and the Infrastructure Stimulus Fund was a program within this component.

What we examined

We examined the Alberta government's systems that allow management to determine if Alberta follows the terms and conditions of the *Infrastructure Stimulus Fund Agreement* (*ISF Agreement*) between the governments of Canada and Alberta.

Why this is important to Albertans

The federal government's Infrastructure Stimulus Fund (ISF) will provide approximately $424 million to Alberta to assist in the economic recovery. Albertans need to be confident that these public funds are properly administered.

What we found

The Government of Alberta used existing programs and processes to administer the ISF program in Alberta, and where necessary, made changes to accommodate ISF requirements. We found that systems are in place for management to determine that the terms and conditions of the *ISF Agreement* are being followed.

The risk to the government

Were Alberta not to comply with all of the *ISF Agreement's* terms and conditions, some or all of the project costs may no longer qualify for ISF and the federal government may seek to recover these funds from Alberta.

What needs to be done

We found a system that was performing as intended and therefore, make no recommendations for improvement.

Audit objectives and scope

Our objective was to determine if there were systems in place that allow management to determine if the Alberta government adheres to the terms and conditions of the *ISF Agreement*. We excluded projects where recipients negotiated separate agreements directly with the federal government for ISF funding, such as the City of Edmonton and the City of Calgary transit projects.

Background

The "building infrastructure to create jobs" component includes programs funded by the federal government as well as programs cost-shared between the federal, provincial and municipal levels of government. Some of the cost-shared programs are short-term, requiring project completion by March 2011. These short-term programs provide targeted temporary stimulus to the economy to reduce job loss or create new jobs. The federal contribution to Alberta Infrastructure was for short-term projects:

Program	Total Federal Commitment	Federal Contribution to Alberta
	(millions of dollars)	
Infrastructure Stimulus Fund (ISF)	$4,000	$424
Knowledge Infrastructure Program	2,000	195
Affordable Housing Initiative	1,475	119
Communities Component Top-up	500	52
Recreational Infrastructure Program	500	54
TOTAL for short-term, cost-shared programs	**$8,475**	**$844**

Table 1: Federal Contributions to Alberta Infrastructure (short-term programs)

Our audit focused on ISF, which is the largest program within the infrastructure component. ISF is a new federal program, with a significant provincial funding requirement. The purpose of the $4 billion ISF is to provide funding towards the rehabilitation or construction of provincial, territorial, municipal and community infrastructure projects. The federal contribution to Alberta will be up to approximately $424 million and Alberta's contribution will be up to approximately $355 million. Funding is for two years for projects that can begin construction and be completed by March 31, 2011. This program provides federal funding of up to 50 percent for provincial projects and up to 33 percent[1] for municipal, community and not-for-profit projects.

The federal government's $424 million was allocated to the following types of projects:[2]

Type of Project	Number of Projects	Federal Funding	Total Eligible Costs for Projects
		(millions of dollars)	
Provincial	127	$220	$454
Community	86	89	280
Municipal	10	7	26
Not-for-profit	3	32	73
Sub-total	**226**	**$348**	**$833**
Projects Under Separate Agreements	5	73	–
Program Delivery Costs	–	3	–
Total	**231**	**$424**	–

Table 2: ISF Allocation to Alberta Projects

The Ministry of Treasury Board provided coordination and oversight of the ISF program in Alberta. The following departments are responsible for the delivery of projects within the program:

- Department of Transportation is responsible for the provincial, community and municipal projects. The following units within the Department of Transportation are directly involved:
  - The Programming Unit is responsible for the 127 provincial projects, most of which are highway infrastructure projects.
  - The Program Secretariat is responsible for 86 community projects. For each project, there is a signed contribution agreement between the province of Alberta and the recipient community outlining the contractual responsibilities of each party.
  - The Municipal Programs Unit is responsible for ten municipal projects that were previously approved for provincial funding under existing provincial programs. These projects were subsequently approved for federal funding under ISF. A *Memorandum of Agreement* was signed for each project.
- Department of Culture and Community Spirit is responsible for three not-for-profit projects—the GO Community Centre, the Canada Sports Hall of Fame and the Citadel Theatre renovation. These projects were initially approved for provincial funding under the Major Community Facilities Program. The original *Grant Funding Agreements* were amended to include the terms and conditions of the ISF for the federal funding component.

The ISF program is intended to immediately stimulate activity in the economy. In order to speed up the introduction and delivery of the program, processes were streamlined. The federal government announced its intention to speed up payments for projects that were ready to go. At the provincial level, there was a need to ensure that adequate management systems and controls were in place to monitor progress of the projects. Introducing a significant infrastructure program within a short timeframe naturally raises concerns about whether adequate controls will be maintained to ensure that value for money is received. Some considerations for our audit were:

- **Need**—Is there a demonstrated need for the projects funded through the program?

  Projects receiving federal funding in Alberta were part of a provincial planning process or had been approved for provincial funding prior to the ISF program. Alberta's priority in identifying projects for ISF funding was to select projects that were planned sufficiently to be "shovel ready" and that could be completed within a two-year timeframe.

- **Quality**—Are approved projects subject to the same construction and development standards as capital projects with a longer timeframe?

  Alberta has established processes and standards for infrastructure projects.

1 In exceptional circumstances, Canada may contribute up to 50 percent.
2 There were several projects the federal government negotiated directly with the recipients, therefore, were not part of our audit. These projects ($73 million) and the program delivery cost of approximately $3 million account for the difference between $348 million and $424 million.

ISF funded projects are subject to the same standards:

- Provincial highway projects are subject to the same public tendering and procurement processes as non-ISF projects.
- Communities agree to use an open and transparent procurement process as a term of the contribution agreement they sign with the province.
- Municipal and not-for-profit projects were approved for provincial funding prior to the ISF application for federal funding. Provincial standards are part of the funding agreements for these programs.

- **Cost**—Is there a risk that tight timelines will inflate construction costs or that the targeted sectors will have capacity issues?

  The economic downturn that drove the need for the ISF program has also resulted in an overall reduction in construction costs for infrastructure projects. Examples are:
  - Provincial highway project costs are significantly lower than originally projected. The reduced costs allowed the province to add 29 additional projects[3] worth approximately $134 million in January 2010.
  - Cost savings for community projects have also been identified. In some cases, communities have applied to expand the scope of projects to use remaining funds.

- **Shovel ready (timing)—**Were projects ready to go such that they could be completed by March 31, 2011?

  In order for capital infrastructure projects to begin construction immediately upon approval, the planning phase would have had to be completed before receiving program funding. If project planning has not been adequately completed for approved projects, there is a risk that projects may not be completed on time and within budget. ISF projects were identified based on their ability to be completed by March 31, 2011. Project completion within the agreed upon timeframe is a key risk to the successful implementation of the ISF program. As a result, this was part of the scope of our audit. We established criteria to assess the province's processes to monitor the progress of projects.

3 These are included in the 127 provincial projects in Table 2 on page 16.

Conclusions

We concluded that there are adequate systems in place for management to determine that the terms and conditions of the *ISF Agreement* are being followed. We make no recommendations to government in this report.

To provide a structure for our work, we developed and agreed with management on the criteria to use as standards for our audit. During the audit, we used these same criteria to assess the departments' systems. The departments met all criteria, except for Criterion 7. We were unable to conclude on the criterion dealing with completed projects. There are ongoing discussions between the Governments of Canada and Alberta to decide which completed projects will be required to submit an audit report.

Criteria: the standards for our audit

We assessed the departments' performance against these criteria:

1. Agreements with recipients for community, municipal and not-for-profit projects are consistent with and incorporate the terms and conditions of the *ISF Agreement.*
2. Projects are monitored to determine when the projects begin, how they are progressing, and if completion dates are on schedule.
3. Claims are processed in a timely manner, while respecting appropriate control and review procedures.
4. Funding is used for its intended purpose; only eligible costs incurred by recipients for approved projects are paid.
5. Cost sharing provisions are monitored and adhered to.
6. Quarterly progress reports and other required financial reporting is complete, accurate, and timely.

7. Completed projects are supported by a declaration of substantial completion and an audit report.
8. Recipients of funding adhere to the requirements of all applicable environmental laws, regulations, orders and orders in council.
9. Recipients of funding use an effective, open and transparent process for selecting contractors that is consistent with the *Agreement on Internal Trade* and the *Trade Investment and Labour Movement Agreement (TILMA).*

Our audit findings

Criterion 1—Agreement terms and conditions

We examined the agreements between Alberta and the recipients for the community, municipal and not-for-profit projects. We found there were proper agreements in place for the community and not-for-profit projects, including the *ISF Agreement's* terms and conditions. The agreements used for municipal projects did not contain all of the terms and conditions of the *ISF Agreement*. Two conditions not contained are reporting requirements that take place at project completion and do not impact the delivery of the program.

Criterion 2—Projects schedule monitoring

Although some project start dates were delayed until the spring of 2010, the projects are scheduled to be completed before March 31, 2011.

Criterion 3—Timeliness

We examined how long it took for the costs to be processed by the provincial government from the time the costs were:

- submitted by the recipient for payment
- reviewed by the province
- submitted to the federal government

We found the time it took to process these costs was reasonable.

Criterion 4—Funding used for intended purposes

We found the Department of Transportation's Programming Unit and Program Secretariat, and the Department of Culture and Community Spirit have good processes in place to ensure the costs for projects met the eligibility requirements of the *ISF Agreement*. The Department of Transportation's Municipal Programs Unit relied on progress reports to approve expenses. Going forward, this unit will receive more detailed information to assess whether expenses meet the program requirements.

Criterion 5—Cost sharing

We found the Department of Transportation's Programming Unit and Program Secretariat, and the Department of Culture and Community Spirit have good processes in place to monitor the cost sharing amounts in provincial, community and the not-for-profit projects. The municipal project's information in SIMSI[4] did not always reflect the current forecast costs and the funding amounts by each party. Management has agreed to update the information in SIMSI.

Criterion 6—Reporting

The province was meeting its requirements for reporting to the federal government.

Criterion 7—Declaration and audit report

There are ongoing discussions between the Governments of Canada and Alberta to decide which completed projects will be required to submit an audit report. There were some projects that were complete; however, audit reports had not been submitted as it has not yet been decided whether they need to submit one. We have therefore, not concluded on this criterion.

Criterion 8—Environmental regulations

We found the government received assurance that the funding recipients were adhering to the applicable federal government environmental regulations.

Criterion 9—TILMA

For the provincial projects we reviewed, the Department of Transportation's Programming Unit followed an effective, open and transparent process for selecting contractors consistent with the *Trade, Investment and Labour Movement Agreement.*

4 Shared Information Management System for Infrastructure

Athabasca University—IT Governance, Strategic Planning and Project Management

Summary

What we examined

We examined Athabasca University's IT governance[1] and project management[2] systems to see if they are well-designed and operating effectively to support the University's information technology that supports business and technology objectives. We also examined the University's plan to improve its financial, human resources and payroll systems, which are not integrated.

Why this is important to Albertans

The University plans to invest approximately $90 million over the next ten years to update and maintain its information and communications technologies. These technologies are critical for the University to deliver online courses to students and provide the financial and administrative systems that support the academic environment and student services. The University currently has 30 IT projects underway.

These diverse, costly and often complex IT projects require that the University's governance and project management processes provide clear oversight and accountability. Without clear governance and project management processes, these IT projects can overwhelm the University's resources and may not meet the University's needs or be delivered cost-effectively and on time.

What we found

In response to a recommendation in our *October 2005 Report*, the University established an IT governance framework to implement its IT strategic plans. It established three IT steering committees for administration, learning and research, and computing services. These committees recommend projects to the University's executive committee for approval and funding. However, University still does not have well-designed and effective IT policies, processes, standards and project management systems.

IT Governance, Strategic Planning and Project Management Deficiencies

Management was unable to demonstrate that it is implementing its IT strategic plans cost-effectively, and that it achieved the expected results and benefits. The University had not:

1. **developed an integrated IT delivery plan**[3] to link the University's individual IT projects to its *IT Strategic Plan*, in order to highlight project priorities, critical sequence, inter-dependencies, and high-level risks
2. **consistently prepared business cases** to provide key project planning information to the steering committees and executive committee, including details on project objectives, development costs and projected maintenance costs, benefits and risks
3. **consistently measured and reported sufficient and relevant project status information** to the steering committees and executive committee to allow them to effectively govern projects and provide oversight to the IT strategic planning process
4. **formalized project management standards** to provide clear and consistent procedures on how to manage IT projects
5. **defined a clear mandate and authority for its project management office** to establish and enforce standards and processes for successful portfolio management, project governance, reporting and effective risk management for all IT projects

1 Governance includes the processes and responsibilities for management and oversight of all projects. These processes include strategic planning, prioritization and approval for IT projects and systems development.

2 Project management is the application of knowledge, skills and techniques to meet a project's objectives and requirements. It includes project initiation, planning, execution and termination.

3 See page 21 for more on an integrated IT delivery plan.

6. **defined a formal systems development methodology and architectural standards** to ensure that systems are developed and implemented using an efficient, consistent and cost-effective approach

We noted some improvement for projects funded under the federal government's Knowledge Infrastructure Program (KIP) and the Community Adjustment Fund (CAF). The University recently allocated additional resources to improve the monitoring and reporting of these projects—although sustaining this improvement is at risk because KIP and CAF funding is temporary.

Lack of Integrated Finance, Human Resources and Payroll Systems

While the University upgraded its student information system, it has not progressed with its 2005 plan to improve the integration and efficiencies in its financial, human resources and payroll systems. IT strategic planning documents do not clearly reflect this system integration initiative as a priority project. The University's business processes remain inefficient, as significant manual processes are required.

What needs to be done

To ensure accountability, the University must have a common understanding of strategic priorities and allocation of resources, and the tools and information to ensure that management is developing and implementing the right systems for the University. These systems should support the University's goals and objectives (and not one person's or one group's) and management must demonstrate that projects are implemented on time and budget, and deliver the expected and required results. To achieve these improvements, the University should resolve the six deficiencies identified above.

Athabasca University should use improved governance, strategic planning and project management processes to complete its plans to resolve the inefficiencies in its financial, human resources and payroll systems.

Audit objectives and scope

Our objective was to determine if the University's IT governance, strategic planning and project management processes are designed well and operate effectively to achieve its business and technology objectives. For this audit, we considered whether:

- the policies and processes are clearly documented and communicated to relevant staff
- roles and responsibilities are clearly defined
- information technology systems are efficient and effective

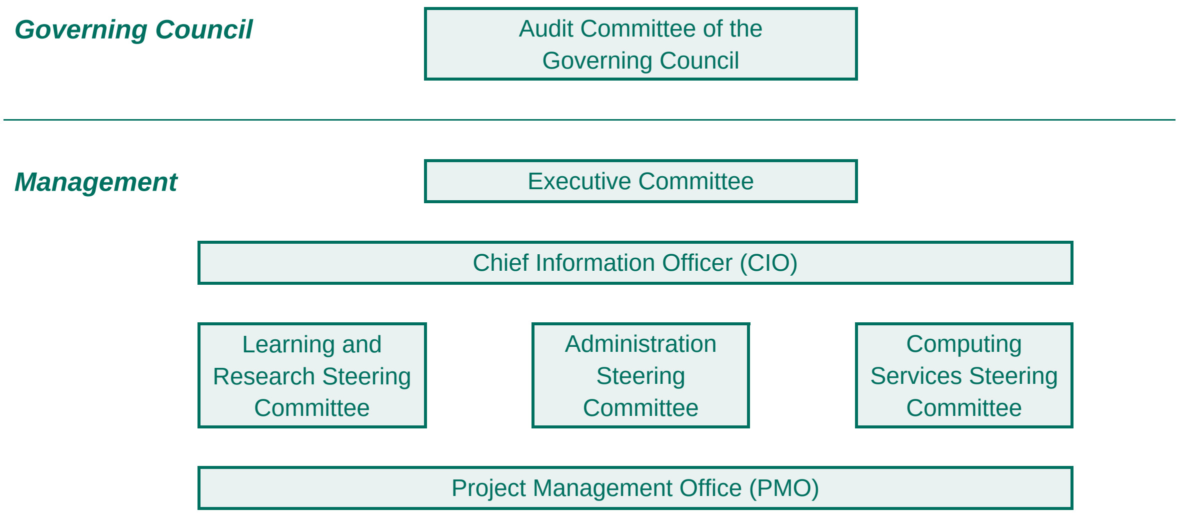
We also assessed the University's plan to integrate financial, human resources and payroll systems.

Background

The University offers approximately 700 courses in approximately 90 undergraduate and graduate programs in arts, science and professional disciplines. It serves over 38,000 students from across Canada and the globe. The University relies on a large number of IT applications and systems to provide programs and services to students and employees. It also has several key administration systems (finance, materials inventory and HR/ payroll) for the operation of the University. Its heavy reliance on IT to deliver programs and services to students underscores how critical effective IT governance is for the University.

In our *October 2005 Report* (no. 19—page 97), we recommended that the University improve its IT planning and governance by establishing an IT governance framework and developing an IT strategic plan to integrate its critical administrative systems and to address risks with manual interventions and operational inefficiencies. In our *October 2007 Report*, we reported that the University had begun the planning process to replace its administration systems. The IT steering committees approved an IT strategic plan to resolve these issues. We reported that the University planned to develop an implementation plan for a new integrated finance, payroll and human resources system.

Athabasca University's IT Governance Framework



Note: Three steering committees provide strategic direction and recommend projects to the Executive Committee for approval and funding. The CIO chairs the steering committees and is a member of the Executive Committee. The PMO reports directly to the CIO.

The University's total budget for 2010–2011 is approximately $125 million, of which approximately $7.75 million relates to IT. The University's *2009–2013 Business Plan* anticipates that information and communications technologies require a major capital investment of approximately $90 million over the next ten years, of which approximately $80 million should be externally funded. The federal government granted $7.6 million, of which the University had received $5.7 million.

Findings and recommendations

Governance and oversight of information technologies

Background

In 2005, the University established an IT governance framework for implementing its *Information Technology Systems Operating Plan 2005–2007 Part 1* followed by *Part 2* in 2006. The University has three steering committees—the Administration Steering Committee, Learning and Research Steering Committee and Computing Services Steering Committee. These committees review project proposals and make recommendations on which projects to submit for executive committee's final approval and funding.

Recommendation: improve governance and oversight of information technology

RECOMMENDATION NO. 1

We recommend that Athabasca University continue to improve its IT governance by:
- developing an integrated IT delivery plan that aligns with the University's IT strategic plan
- requiring business cases for IT projects that include key project information such as objectives, costs-benefit assessments, risks and resource requirements to support the steering committees' and executive committee's decisions and ongoing project oversight
- improving the coordination and communication between the IT steering committees in reviewing, approving and overseeing projects

Criteria: the standards for our audit

Athabasca University should have effective processes to govern IT strategic planning and project implementation. This includes providing key planning information to the executive and steering committees on all projects. This information should include the project's scope, objectives, risks, resource requirements and budget.

Our audit findings

Key Points

- An integrated delivery plan is not prepared
- The *IT Strategic Plan* is out-dated
- Key planning information lacking or not considered—the University does not consistently require or prepare business cases for IT projects
- Coordinating IT governance could be improved

We found that the University does not have an integrated IT delivery plan. An integrated plan would set out how the planned IT initiatives and projects in administration, academic and computing services align with the University's *IT Strategic Plan*. Such a plan would also set out the available budgets and resources, the critical sequence in which to undertake projects, and the interdependencies of projects to ensure projects are adequately resourced and that the right skills are available.

An IT delivery plan would help the University determine how changes, delays and cost overruns on individual projects might affect other projects as well as its overall strategic plan, budgets and resources. Although the University has created an integrated plan for the KIP and CAF program after the start of this audit, these improvements are at risk after this funding ends. These improvements should apply to all IT projects in the University's *IT Strategic Plan* and *AU IT Roadmap.*

We also found that the University's *IT Strategic Plan* is not current. It has not been revised to include the KIP and CAF programs. The University has implemented new learning management and content management systems, and other smaller IT projects. However, we were unable to determine how many other projects were completed because of conflicting plans and missing information in the project libraries and IT governance files.

The IT steering committees and executive committee lack key and relevant planning information they need to make informed decisions. We found that the University does not:

- consistently require or prepare business cases for IT projects—The information that the Chief Information Officer presents to IT steering committees is not consistently documented. The Project Management Office should provide the committees with key and relevant planning information that would normally be in formal project business cases, such as a budget, description of project benefits, dependencies, risks and mitigating strategies and expected operating costs.
- effectively assess, at the planning phase, the ongoing costs and impacts on Computing Services to maintain the new information technologies—Ongoing IT costs for the support and maintenance of new systems are generally absorbed into the existing resource pool and budget. This strains their computing services' capability and capacity to deliver IT services to the University.
- sufficiently consider, during the IT governance and strategic planning processes, whether the University's IT organization has the capacity and the expertise to deliver projects on time and on budget, and to support newly implemented systems—For example, some IT staff were assigned project management responsibilities without additional resources or support to complete their normal duties, which causes priority conflicts within the computing services team.
- prioritize, communicate and account for short-term projects (less than 20 days) when determining the overall IT resource plan—The University decided to exclude this information from its planning and governance processes because these projects individually are too small. However, collectively they may require significant resources to complete. Therefore, the committees should receive this information in summary format so the committees are fully aware of all IT commitments. Not knowing the full extent of all IT projects and available resources may result in over-committing IT and business staff and operational funding. This could impede the progress and success of committed and approved IT projects and services.

Steering committees meet separately each month to make decisions that affect their respective business areas. They make their decisions in isolation from the other committees. While the University's executive committee reviews all projects for final approval and funding, the University does not have an integrated delivery plan for all IT projects to provide sufficient and relevant information to the steering committees and executive committee when making their decisions. For example, the *IT Strategic Plan* and the *AU IT Road Map* documents do not contain details on project dependencies, risks and resource needs.

Athabasca University should consider the following key IT governance practices to improve its governance process:[4]

1. ***Establish** the basis for project governance, approval and measurement—including defining roles and accountabilities, policies and standards and associated processes.*
2. ***Evaluate** project proposals and business cases to select those that are the best investment of funds and scarce resources and are within the organization's capability and capacity to deliver.*
3. ***Enable** through resourcing of projects with staff and consultants, harnessing and managing of business support and the provision of the governance resources.*
4. ***Define** the "desired business outcomes" (end states), benefits and value—the business measures of success and overall value proposition.*
5. ***Control** the scope, contingency funds, overall project value and priorities.*
6. ***Monitor** the project's progress, stakeholder's commitment, results achieved and the leading indicators of failure.*
7. ***Measure** the outputs, outcomes, benefits and value—against both the plan and measurable expectations.*
8. ***Act** to "steer" the project into the organization, remove obstacles, manage the critical success factors and remediate project or benefit-realization shortfalls.*
9. ***Develop** the organization's project delivery capability—continually building and enhancing its ability to deliver more complex and challenging projects in less time and for less cost while generating the maximum value.*

The University's IT planning documents are incomplete and do not provide the necessary information to assist the committees to make informed decisions on what projects to proceed with, delay or cancel.

Implications and risks if recommendation not implemented

The University may adopt a piecemeal approach to IT projects without sufficient and relevant information. This may result in outdated academic and administration systems, overlapping of systems that provide the same functionality and unnecessary spending of IT budgets, all of which could impede the University's ability to achieve its strategic business objectives.

Portfolio and project management processes

Background

Effective project management ensures individual projects are delivered on time, on budget and that they meet users' needs. Portfolio project management[5] helps ensure the right projects are done at the right time and in the right order within available budget and resources, and managing conflicts or issues between projects.

In 2008, the University established a project management office (PMO) to provide guidance on project management and assigned a manager part-time to oversee the PMO. The manager reports to the Chief Information Officer. The PMO developed some project management

4 http://www.itgi.org—IT Governance Institute (ITGI) http://www/isaca.org—Information Systems Audit and Control Association (ISACA)

5 Portfolio management is a process of grouping like projects that benefit a particular business area or corporate service, for the purpose of collectively managing assigned resources, business transformation and readiness, funding, and collectively assessing expected benefits.

processes, tools and templates to assist project managers. The University used federal government funding to provide additional resources to the PMO to help improve project management for projects covered under the Knowledge Infrastructure Program funding.

Recommendation: improve portfolio and project management processes

RECOMMENDATION NO. 2

We recommend that Athabasca University continue to improve its portfolio management and project management processes for IT projects by:

- clarifying and communicating the mandate and authority of the project management office
- setting project management and architectural standards, processes and methodologies, and training project managers on these
- monitoring and enforcing project managers' adherence to these standards, processes and methodologies
- tracking and managing project dependencies on scope, risks, budgets and resource requirements

Criteria: the standards for our audit

The University should have effective project and portfolio management systems to manage individual projects and dependencies on other projects. This includes a project management office with appropriate authority and sufficient skilled resources to set, monitor and enforce project management standards and software development life-cycle methodology.

Our audit findings

Key Points

- Project management processes, tools and templates are incomplete and are not consistently implemented or followed for all IT projects
- The PMO lacks the mandate and authority to set, monitor and enforce common project management standards for all projects
- The University does not have a formal software development methodology
- The University does not have a formal IT architecture standard

The PMO developed initial project management processes, tools and templates. While the University implemented some improvements for the federally funded projects, these processes are not complete, nor are they consistently implemented and followed for all IT projects. The PMO has not matured to the level of having complete and formalized standards for project management. The University needs to improve its processes to plan and manage the large number of initiatives and dependencies of all ongoing IT projects, not just federally funded projects.

We identified the following issues:

- The PMO lacks the mandate and authority to set, monitor and enforce common project management standards for all projects, and to resolve conflicts or issues on projects' scope, budget, timing and resources. Many aspects of project management are left to the discretion of individual project managers, which includes differing project progress reporting, financial reporting, stakeholder engagement, risk management and overall project planning activities.
- The University improved certain processes over the federally funded projects by assigning four additional staff to the PMO, using federal funding. However, sustaining the additional staff is at risk after 2011 when the federal funding ends.
- The PMO does not provide sufficient training on its processes and tools to project managers, who are mostly contracted staff.
- Projects are not consistently managed, resulting in delays or additional costs. For example, the Banner system upgrade and the new Transfer Credit Articulation system were both implemented one year late, without any documented rationale for the delay.
- The University does not have a formal software development methodology to ensure that IT staff and contractors follow a consistent systems development practice. In addition, the University does not have formalized

IT architecture standards to guide the University to develop common IT infrastructure that would reduce the University's long-term IT operating costs. The lack of an integrated administration system, as evidenced through the use of multiple stand-alone sub-systems that differ in technology, is an example of the need for IT architecture standards.

- The University needs to improve its portfolio management processes beyond the federally funded projects, to track and manage all projects and their dependencies, and resolve constraints and issues on budgets, resources and risks. While risk management occurs on individual projects, a risk management approach for all IT projects needs to be better coordinated and integrated.

Implications and risks if recommendation not implemented

Without an adequately staffed PMO with the mandate to set, monitor and enforce IT project processes, the University may not be able to:

- deliver the necessary IT solutions
- ensure new IT systems integrate with existing systems
- promptly inform steering committees if IT projects are experiencing implementation delays and cost overruns

IT project performance monitoring and reporting

Background

The IT steering committees' primary role is to recommend projects to the executive committee for funding and approval. The University also established the KIP Steering Committee to oversee the projects that the federal government funds. Mature IT governance models include relevant, sufficient and timely project progress and performance reporting from the project management office to the steering committees and executive committee, to enable them to govern and assess the projects as part of the ongoing governance framework.

Recommendation: formalize IT project performance monitoring and reporting

RECOMMENDATION

We recommend that Athabasca University formalize and improve its monitoring and oversight of information technology projects by:

- improving its systems to quantify and record internal project costs
- providing relevant and sufficient project status information to the IT steering and executive committees, and summarized project information to the Athabasca University Governing Council Audit Committee
- completing post-implementation reviews on projects to verify that expected objectives and benefits were met and identify possible improvements to IT governance, strategic planning and project management processes

Criteria: the standards for our audit

Athabasca University should have effective processes and IT systems to provide accountability on project accomplishments, issues and risks of failure to the IT steering committees, Executive Committee and the Audit Committee of the Athabasca University Governance Council. This includes having effective processes to quantify project costs, track project progress, risks and issues, and report key project information to the relevant committees.

Our audit findings

Key Points

- The University does not have a way to quantify and record time and costs for IT, administration and academic sta   assigned to IT projects
- The IT steering, executive and audit committees do not have the information they need to assess if the IT strategic plans are actually achieving business objectives e   ciently and cost-e   ectively
- The University does not review completed projects to determine if the stated objectives and benefits were achieved

Project costing—The University tracks external project costs for contractors, purchased software, computing equipment and consulting services. However, the University does not have the processes, standards or time tracking systems to estimate or quantify and record time and costs for IT, administration and academic staff assigned to IT projects. Presently, the University only accounts for certain staff time. Therefore, the University cannot accurately determine and report the true cost of project development and implementation.

The University could not provide us with detailed project financial information, including the actual costs for many IT projects. For example, there were no project reports (budgets vs actual, internal and external resources, or work breakdown structure "WBS"[6] details) available for the completed Contract Tracking Project and the Video Conferencing Project.

Project reporting—The University recently began reporting some project budget and schedule information to the KIP Steering Committee for projects that the federal government funds. However, the University has not historically and still does not provide the same level of project information to the IT steering and executive committees for other IT projects. The information should include project budgets (internal and external forecasted costs), actual costs, stages of completion of significant projects deliverables (percent complete and percent budget consumed), explanations for variances, risks (and actions taken to deal with the causes) and dependencies between projects.

This enhanced level of detail is crucial for the IT steering and executive committees to effectively oversee the achievement of all IT projects in the University's business and strategic plans. In addition, this information would enable management to demonstrate to the Audit Committee of the Governance Council that they are implementing the IT strategic plans cost-effectively, that objectives are being met, risks are managed and benefits have been achieved. The Audit Committee told us that the information they recently received for the KIP has improved and is detailed; however, this improvement had occurred after the start of our audit.

Post-implementation reviews—Since the University does not prepare business cases with measurable objectives for IT projects (costs savings, operational efficiencies, impacts of new services, etc.), it cannot effectively measure if a project has been successful. Our review of a sample of projects indicated that the University measured their success against high-level objectives (general statements on project purpose and expectations) only. These high-level objectives are subjective. In addition, the University does not conduct formal post-implementation reviews of completed projects to determine if the stated objectives and benefits were achieved, and to identify improvements to the University's IT governance, strategic planning and project management processes.

Implications and risks if recommendation not implemented

Without sufficient and relevant reporting on project progress, costs, issues and risks to achieving objectives and benefits, the IT steering committees, Executive Committee and Audit Committee do not have the feedback information they need to assess whether the approved IT strategic plans are actually achieving business objectives efficiently and cost-effectively.

Financial, human resources and payroll systems

Background

In 2005, the University recognized problems with its administration systems that required manual work-arounds to ensure that financial information flows accurately between the systems. These systems are aging, system integration is difficult because of the differing technologies and IT maintenance and support costs are growing. In some cases, duplicate information is stored, which has caused data errors and operational inefficiencies. Most importantly, the finance, payroll

6 A work breakdown structure (WBS) in IT project management defines and groups a project's work elements (or tasks) in a way that helps organize and define the total work scope of the project.

and human resource systems may not meet the growing business needs of the University. Our 2010 financial statements audit also highlighted inefficiencies in the University's processing of capital asset transactions due to limitations in its financial systems.

The University has 11 different financial, human resources and payroll systems:

- CODA financial management software for the general ledger and accounts payable
- Banner student information system and accounts receivable module that transfers information to CODA using an in-house built interface
- EmPath system for payroll
- customized software for material management
- a stand-alone "in-house" developed system for purchasing
- course materials information system for warehousing inventory (information is interfaced via real-time uploads to the Banner system)
- expense claims and credit card processing systems
- contract management system
- copyright management system
- leave tracking system
- staff hiring system

Recommendation: resolve inefficiencies in financial, human resources and payroll systems

RECOMMENDATION

We recommend that Athabasca University complete its plans to resolve the inefficiencies in its financial, human resources and payroll systems.

Criteria: the standards for our audit

Athabasca University should have efficient and cost-effective financial, human resources and payroll systems. To achieve this, the University should have effective IT strategic planning processes to ensure that approved plans are implemented, and to approve and document the rationale and impact of changes to approved plans.

Our audit findings

Key Points

- Plans to integrate financial, human resources and payroll systems are incomplete
- Systems that share data are not integrated and require inefficient and costly manual work-arounds

Plans to integrate financial, human resources and payroll systems are incomplete—The University's plan from 2005, to resolve the inefficiencies in its administration systems, is incomplete. The University upgraded its Banner student information system in 2008 and scheduled a new human resource information system project to start in 2010. The original plans for an integrated enterprise resource planning system were removed from the strategic plan without any documented rationale for the change or a formal assessment on how the inefficiencies would be resolved. Management and the Audit Committee told us they had ongoing discussions on the issues and included this project and budget in the Academetrics project in the University's capital plan. However, this decision is not clearly documented and is not in the current IT strategic plan.

If this project is a key priority for the University, then it should remain prominent in the University's strategic plans. Any changes to its name or scope should be clearly defined and communicated within the IT governance process.

In 2009, the University contracted a consultant to prepare a business case for an enterprise resource planning system. Alternative IT solutions were proposed, with costs and benefits identified. As well, a high-level risk assessment was performed that identified risks of not proceeding with the project, such as:

- increasing ongoing costs to maintain the fragmented systems
- increasing duplication of administrative processes

- low morale of staff using the existing administration systems

The University has recently started considering a shared service arrangement with another post-secondary institution, but is still only in the planning phase. The University must also consider the issues with the financial, human resources and payroll systems when preparing the integrated delivery plan referred to in our recommendation on page 27, to ensure these systems and business operations can effectively support the University's student services.

Implications and risks if recommendation not implemented

Systems that share data and are not integrated require manual work-around processes. These processes are inefficient, resulting in increases to the ongoing operating costs of the University's administration.

Grant MacEwan University—Enterprise Resource Planning System

Summary

Grant MacEwan University is implementing a new enterprise resource planning ERP system in five phases. This ERP system includes PeopleSoft's finance, human resources and payroll and student information modules.

What we examined

We determined if the University has established an effective governance structure and project management processes to implement the first phase of the project, the finance module.

We also followed-up if the University has implemented our previous recommendation to develop and implement a quality assurance program for its enterprise resource planning renewal project.

Why this it important to Albertans

The new ERP system will have a considerable effect on the operations of the University. The University has established a budget of $22 million for the project. It is important that the University establish an effective governance structure and project management system to cost-effectively implement the new system and change its business processes and controls.

What we found

We do not have any recommendations. The University, with the support of the Board of Governors, adopted the approach to implement the PeopleSoft system, with minimal changes. To achieve this, the University established a well-designed governance structure and project management standards, policies and processes to oversee and implement the overall system. The University adhered to these policies and processes for the first phase of the project. The Project Management Office reports relevant, accurate and timely project status reports to the Steering Committee, executive management and the Finance and Audit Committee.

The University uses many processes and controls within the new system. Management indicated they have already experienced immediate improvements in certain business processes. The University is reviewing the organizational structure of the finance department, and implementing manual processes and controls to maintain the system. It trained staff on the new system and planned to provide more training in September after academic staff return.

We believe the governance structure and project management standards, policies and procedures provides a good foundation for the University to implement the other project phases. Management indicated that the Campus Solutions phase will have a significant impact on the University's operations. The University should ensure that it develops the manual processes and controls for the remaining phases before implementing the system.

Quality assurance program

The University implemented our previous recommendation by developing and implementing a quality assurance program[1] to provide assurance to the Steering Committee, Audit and Finance Committee and executive management that effective IT governance and project management controls are in place and complied with.

Audit objectives and scope

We:

- evaluated if the University has effective systems to govern and manage the implementation of the PeopleSoft ERP system, accurately convert data from the old to the new

1 See page 31 for further details on our follow-up audit of a quality assurance program.

financial system, and implement well-designed and effective business processes and controls for the new system
- followed-up if the University has implemented the recommendation to develop and implement a quality assurance program for its enterprise resource planning renewal project

Our audit scope was restricted to the Finance Wave 1 implementation.[2]

Background

In our *April 2010 Report* (page 152), we reported that the University started several initiatives to improve its control environment, resolve staffing and information systems issues, and fix internal control weaknesses. In July 2009, the University began implementing a new enterprise resource planning system to improve its information systems and business processes. The system uses Oracle's PeopleSoft suite of financial, human capital management and campus solutions. The University contracted with a consortium of IBM, Oracle and UDigit to assist with the project management, systems development and implementation of the new system. The University established a budget of $22 million, and plans to implement it in the following phases:

Finance Wave 1 (accounting[3])	July 2010–implemented
Campus Solutions Wave 1 (student records)	October 2010
Finance Wave 2 (budget, asset management)	January 2011
Human Resources (payroll & HR)	January 2011
Campus Solutions Wave 2 (student financial)	July 2011

Table 1: Project phases

In addition to the PeopleSoft tools being implemented, the University also plans to standardize business processes and enhance self service offerings for students and employees.

2 Finance Wave 1 included general ledger, payables, receivables, procurement and expense claims.

3 management is an approach used to define and group a project's work elements (or tasks) in a way that helps to organize and define the total work scope of the project.

Findings and recommendations

Governance and project management for the ERP system

Our audit findings

The University has implemented effective IT governance and project management standards, policies and processes for the project. The University:

- established a project steering committee consisting of senior and executive management—The committee is providing effective project oversight and decisions for all project plans and implementation strategies, ensuring that the University is prepared and ready for the implementation of each project phase.
- implemented effective project management standards, policies and processes—The project management office established and enforces standards and processes for the project. This includes project financial controls to analyze project work-breakdown structure[3] tasks and accomplishments against budget. These help ensure that project plans are kept current and accurate, and if adjustments in timeline, scope or funding are required, that the necessary steps are taken to avoid the risk of project failure (over budget, late or does not meet users needs).
- implemented effective project change request controls—The University properly documents required changes to schedule, scope or funding, assesses its impacts and risks and the project steering committee approves any changes.
- provided accurate and timely project status reporting "governance feedback" to the Project Steering Committee and the Finance and Audit Committee on project status, financials, and risks and issues to achieving stated project objectives

Systems to convert financial data and information to the new system

Our audit findings

The University has developed an effective data conversion strategy to migrate financial data from the old Colleague financial system (and other smaller financial systems or databases) to the new PeopleSoft system. This strategy included developing data migration, data cleansing and reconciliation procedures to verify the accuracy of the data conversion activities for the Finance Wave 1 phase. The Steering Committee worked with the University's Finance department to oversee and approve the data conversion and implementation of the Finance Wave 1 phase. It followed these processes when converting certain financial information and investigated and resolved any issues. The University plans to transfer the closing balances to the new system after we complete the audit of the University's June 30, 2010 financial statements. We will assess the completeness and accuracy of this transfer in the fall.

The University is developing data conversion plans and strategies for the human resources, campus solutions and second finance phases. We will review these in future to ensure they are effective to accurately convert data to the new system.

Systems to implement well-designed business processes

Our audit findings

The University, with the support of the Board of Governors, has adopted the strategy of implementing the new PeopleSoft ERP system "out of the box,"[4] with minimal to no software changes where possible. This approach will help the University to take advantage of system features and related business processes and controls and to lower ongoing IT maintenance efforts and costs to support the new PeopleSoft system after its implementation. Management indicated they have experienced immediate improvements from the implementation of Finance Wave 1. For example, transactions from other systems, such as the bookstore and residence systems are electronically transferred to the PeopleSoft system, thereby eliminating the need for duplicate entries.

4 Implement the acquired/purchased system as is, without making considerable software changes or extensions

While the University uses many processes and controls within the system, it is still reviewing the organizational structure of the finance department and finalizing the implementation of manual processes and controls required to maintain the system. We will review the implementation of the new business processes and controls throughout the University in future after the University has implemented the manual processes and controls, and academic departments have implemented the business processes and controls.

The University held numerous training sessions for staff on the new system features for Finance Wave 1 and related business processes. A self-study module is also available in PeopleSoft to assist with training. In July, there were over 100 calls to the University's IT help-desk related to questions on using the new system features; however, the majority of these calls were minor inquiries related to system navigation and security privileges. The project team is taking steps to improve its training sessions based on the help-desk activity and will offer more sessions to train staff returning in September.

The University implemented system security using a role-based approach to ensure that staff can only perform system functions that are required for their job function. The system security roles will be automatically linked to the human resource system, once implemented. For example, the system will automatically remove an employee's access when they are no longer employed. Until then, the finance department will control and monitor changes to system security

Quality assurance program for the ERP project—implemented

Background

This project will have a considerable effect on the operations of the University; it will also require significant monetary investment. Therefore, the University needs to ensure that all project parties, including contracted vendors, are delivering high-quality solutions to meet the University's needs.

In our *April 2010 Report* (no. 19—page 178), we recommended that Grant MacEwan University develop and implement a quality assurance program for its enterprise resource planning project. A quality assurance program gives the oversight committee assurance that an entity's standards and controls, which ensure systems are implemented on time, on budget, and meets users' needs, are well designed and adhered to throughout the project's life.

Our audit findings

The University has established a quality assurance program for the project. In February 2010, the University hired an external contractor to assess the effectiveness of project management and governance controls. The review identified minor issues with project team resource constraints, team structure, risk management, change management controls and the need for a sustainment strategy. The University reported the results to the Steering Committee, Audit and Finance Committee (summarized with project status) and executive management, with action plans identified. The project team has resolved these issues.

The second review, in June 2010, assessed the University's readiness to go live with Finance Wave 1. It also identified project issues with the schedule and scope related to the development efforts for the Campus Solutions Wave 1 and Finance Wave 2 project phases. The University is currently resolving these issues.

The University expects to complete at least five reviews, but more reviews may be needed depending on the results.

Reviewer independence

For a quality assurance process to be effective, it should be independent. An independent reviewer can provide an objective review and minimize the risk of misleading results. When the quality assurance review process began in February 2010, the University did not yet have an internal auditor[5] to provide independent oversight of the quality assurance review. To resolve this, the University's Chief Information Officer:

- hired an independent consultant, who defined the scope and performed the quality assurance reviews without interference from University management
- assigned an IT manager who was not directly involved in the project, to coordinate and oversee the review activities, assisting the quality assurance reviewer with access to project materials and staff to interview
- provided the complete review results to project team leadership, who in turn reported the results to the steering committee, executive management and the Audit and Finance Committee, without changes or omissions

We confirm that the University did make best efforts to ensure that the quality assurance process was performed as an independent review, without influence or interference from management to direct the scope or modify the results of the reviews completed so far. The University resolved this independence matter by hiring an internal auditor and transferring the oversight and management of the quality assurance review from the CIO to the internal audit team.

Although the focus for the quality assurance reviews have been on project governance and management controls, it is expected that, with the transfer of ownership to internal audit, future quality assurance review scope will focus more on the risk management of business readiness and business transformation activities.

5 Internal audit performs its audit duties independent of management's responsibility, without interference or pressure from management on the audit approach or results.

Daycare and Day Home Regulatory Compliance Monitoring

Summary

Young Albertans receive child care services from various programs across the province. The Department of Children and Youth Services—through the Statutory Director for Child Care and ten regional Child and Family Services Authorities (Authorities) monitors child care programs for compliance with legislation, regulations, and standards on behalf of the Minister. The goal is to provide "continuous improvement of child care programs through standards and monitoring to promote the safety and well-being of children aged zero to 12."[1]

In May 2008, the Minister of Children and Youth Services announced the *Creating Child Care Choices* (the *Plan*).[2] One target of the *Plan* was to create 14,000 new child care spaces over three years, an approximate 25% increase. Other *Plan* elements included increased accreditation funding, grants and scholarships for staff and providers, and subsidies for low income parents. The Department and Authorities continue to monitor existing child care programs,[3] and enforce compliance with applicable statutory requirements and standards, during implementation of the *Plan*.

What we examined

To assess if the increase in child care spaces compromised existing program delivery, we audited the design and operation of systems to monitor and enforce compliance with applicable requirements for child care programs. Our audit procedures included reviewing relevant legislation, standards, policies and procedures, interviewing senior staff at the Department and five Authorities, shadowing licensing officers as they inspected programs, reviewing inspection reports, and examining the Department's Child Care Information System (CCIS).[4] We did not audit processes to license child care programs or approve family day homes.

Why this is important to Albertans

Children who have good quality care in their early years are more likely to be engaged learners and more likely, as adults, to be independent, stable and productive citizens in their communities.[5] To ensure that Albertans receive high quality child care, the Department must have systems to provide safe, accessible, quality child care programs.

The *Child Care Licensing Act*, the *Child Care Licensing Regulation* (Statutory Requirements), and standards govern licensed or approved child care programs. With compliance, it is reasonable to expect children will be safe and well cared for. However, no system can absolutely guarantee the safety of all children at all times, whether under government inspected care or not. The unpredictable nature of human behaviour has caused tragedies in the best designed and operating systems. But risks can be mitigated by ensuring that monitoring and enforcement activities are understood, well-documented, and consistently applied. Otherwise, the Department, Authorities and parents cannot be sure child care is being delivered as intended.

What we found

The Department and Authorities have systems in place for monitoring and enforcing compliance with Statutory Requirements and standards, notwithstanding the increased spaces established under the *Plan*. However, improvements are needed in documenting Authorities' monitoring results, including enforcement action taken to remedy non-compliance. Without improving documentation processes, the system will not operate as intended.

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1 Ministry *Strategic Framework for Creating Child Care Choices in Alberta*—Goal 1
2 http://www.child.alberta.ca/home/1102.cfm
3 Licensed programs under the *Child Care Licensing Act*, and approved family day home programs
4 CCIS is an automated information system maintained by the Department.
5 Ministry *Strategic Framework for Creating Child Care Choices in Alberta*

What needs to be done

Enforcement action can vary depending on the severity of non-compliance. A verbal warning may be appropriate for low-risk non-compliance. However, higher risk non-compliance may result in an "Order to Remedy", or even suspension of the child care provider's license. Although follow-up action on higher risk non-compliance was well documented and carried out promptly, we found verbal warnings were not well documented, making it difficult to determine if the appropriate action was taken. We therefore recommend that:

- The Department and Authorities review documentation and training requirements for monitoring processes—see page 36
- Authorities adhere to established policies and processes, including using the risk assessment framework—see page 38
- Authorities better document verbal warnings and their prompt resolution—see page 39

Audit objective and scope

Our audit objectives

We assessed if:

- Department and Authority systems to monitor and enforce Statutory Requirements effectively accommodated an increase in child care spaces without compromising existing program delivery.
- The Department communicated Statutory Requirements, and relevant policies and procedures, to Authorities.
- The Authorities have effective and well-designed systems, operating as intended, to:
    - Communicate operating and monitoring Statutory Requirements to licensed programs, family day home agencies,[6] and approved day home providers.
    - Monitor, assess and resolve non-compliance with Statutory Requirements.

6 Family day home agencies are contracted service providers responsible for monitoring approved family day homes, and enforcing compliance with operating requirements and standards under agreement with an Authority.

Our audit scope

We examined the:

- Roles and responsibilities of the Department, Authorities, and contracted family day home agencies (Agencies), licensed child care programs, and approved day home service providers.
- Systems that the Department and Authorities use to monitor compliance with Statutory Requirements.
- Systems that Authorities use to resolve non-compliance

We did not audit financial transactions between any involved parties, nor did we examine the accreditation process, which is not a statutory requirement. We did not audit processes to license child care programs or approve family day homes.

We performed our audit fieldwork between May and July 2010, examining practices and results between May 2008 and July 2010. We visited five of the 10 Authorities and the Department's corporate office in Edmonton—interviewing senior management, shadowing licensing officers on program inspections, reviewing documentation from inspections and corresponding computer records, and analyzing a computer record of all inspections during the 2009–2010 fiscal year.

Background

Definitions

Child care[7]

The temporary care and supervision of a child[8] by an individual other than the child's parent or guardian, but does not include residential care.

Licensed child care programs[9]

A program with the primary purpose of providing child care to seven or more children, but does not include the following:

- An education program provided under the *School Act*;

7 *Child Care Licensing Act,* Section 1
8 Ibid. –a child under the age of 13 years, or a child of 13 or 14 years of age who because of a special need requires child care.
9 *Child Care Licensing Act,* Section 1

- a day camp, vacation camp or other recreational program that operates for less than 12 consecutive weeks;
- supervision of children at a recreational facility, retail centre or other commercial establishment where the parents of the children remain on the premises and are readily available.

Approved family day homes[10]

Family day home services provide child care to six or fewer children in accordance with the *Family Day Home Standards Manual,*[11] which contains minimum Ministry standards for operating an approved family day home service for the purpose of providing child care to children. Authorities contract with agencies to administer a family day home service, which includes:

- provider recruitment, approval, training and monitoring
- assistance to parents with choosing a home
- enrolment and placement of children in homes
- collection of parent's fees and payment of providers

Accreditation[12]

The Alberta Child Care Accreditation Program is a voluntary process that allows licensed day care programs and contracted family day home agencies to demonstrate that they exceed Statutory Requirements. The emphasis is on staff practice, outcomes for children and families and continuous improvement. At March 31, 2010, approximately 80% of day care and family day home agencies were accredited.

To become accredited, a program must:

- evaluate itself against the accreditation standards,
- determine areas for improvement and put in place a work plan to implement the identified improvements,
- request a site visit from the accreditation agency when the work plan is complete, and
- submit an annual report once accredited.

Accreditation must be renewed every three years.

The Ministry provides funding for toys and equipment, wage top-ups for child care staff and training grants for programs who participate in accreditation. The rates differ depending on the accreditation status of the program.

Monitoring and enforcement

Licensed programs

Licensed program operators are governed by Statutory Requirements. Authority staff monitor licensed programs and enforce compliance with applicable operating requirements. The Department has also developed policies and procedures to guide Authorities in carrying out their monitoring and enforcement activities for licensed programs.

Authorities' licensing officers inspect these programs at least twice a year and inspect in response to complaints and program reported critical incidences such as child injury. If a program is not complying with regulatory requirements, through delegation from the Statutory Director for Child Care, a licensing officer may:[13]

- issue a verbal warning to correct non-compliance
- issue an order to remedy non-compliance
- impose conditions on a license
- vary a provision of a license
- suspend a license and issue a probationary license
- cancel a license

Enforcement action will vary depending on the severity of the non-compliance. Low risk non-compliance may warrant more serious enforcement action if frequently repeated or identified as part of a pattern of ignoring requirements.

10 Subject to monitoring and enforcement by agencies who carry out oversight of approved family day home programs on behalf of Authorities pursuant to contract.
11 See http://www.child.alberta.ca/home/documents/childcare/Final_Client_Copy-FDH_Standards_Manual.pdf
12 See http://www.aelcs.ca/ for further information on the Alberta Association for the Accreditation of Early Learning and Care Services.

13 *Child Care Licensing Act*, Sections 11–15

Licensing officers will investigate if they learn that a child care program is operating without a license. They may enter the premises and order an illegal, unlicensed child care program to stop operating. If the provider does not stop, an Authority can seek a court order to force them to stop.

Approved family day homes

Approved family day home services are subject to oversight by Agencies contracted by Authorities to carry out monitoring and enforcement activities on their behalf. Agencies monitor these programs and enforce compliance with standards.[14] Agencies must visit each of their day homes six times a year to ensure they meet standards. Agencies are subject to oversight by the Authority, and standards require Authorities to visit each Agency at least annually to ensure the Agency is fulfilling its contracted obligations with the Authority. Monitoring of Agencies by Authorities includes reviewing Agency records, and visiting 10% of the homes overseen by the Agency.

Standards for Agencies govern staffing, caseloads and monitoring, criminal record checks, recruitment of family day home providers, support for family day home providers, Agency policy, services for parents, and critical incident reporting.

Standards for approved family day homes govern insurance coverage, children's information records, portable emergency information records, provider accommodations, transportation and outings, number and ages of children, child care program, child supervision, child guidance, health and safety, smoking, meals and snacks.

The *Creating Child Care Choices* plan
Alberta announced *Creating Child Care Choices* (the *Plan*) in May 2008. A goal was to increase the availability of child care by creating 14,000 new child care spaces (an approximate 25% increase) in licensed and day home programs over three years. It also aimed to assist operators by providing enhanced funds for staffing, and to assist low income parents with the cost of child care. New spaces may be created with existing providers, or may involve licensing or approving new child care providers. In all cases, existing processes for monitoring and enforcing compliance will apply to new spaces or providers as the *Plan* is implemented.

Conclusion

Implementation of the *Plan* did not compromise monitoring and enforcement requirements governing child care programs. Authorities carry out monitoring and enforcement activities in accordance with Statutory Requirements, as well as policies and procedures developed by the Department.

However, the systems to monitor and assess results, and resolve non-compliance should be improved. Under the current monitoring system, there is a risk that non-compliance with Statutory Requirements or standards that result in verbal warnings to service providers may remain unresolved. Although verbal warnings typify low-risk non-compliance, failure to follow-up promptly increases the probability of cumulative negative impacts on the health, safety and well-being of children. We also found monitoring results were documented inconsistently. There was often insufficient evidence of follow-up and enforcement steps taken.

Findings and recommendations

Documentation and training

Background

Legislation, regulations, and standards govern Department and Authority systems, but child care programs are ultimately carried out by people. No system can guarantee the safety of all children at all times; but good systems, supported by consistent, well-documented practices, can improve the safety of children in care and the quality of care they receive. Good systems can also minimize risks that children in child care may face.

14 Standards for family day home agencies and standards for approved day homes should not be confused with accreditation standards. The approved family day home program is governed by the *Family Day Home Standards Manual*, previously cited.

Statutory requirements govern such things as space per child, range of equipment, food service, numbers and ages of children, staff-to-child ratios, staff training, discipline and record keeping. The five Authorities we visited had unique situations affecting caseloads, distances and community dynamics. They all use the same checklists, monitor their programs at the same frequency, enter inspection data in CCIS, and publicly post inspection results at child care programs.

Licensed child care programs

Authority licensing officers must visit each licensed program twice a year and investigate all complaints. One of these visits is scheduled with the operator, while the other is unannounced. Inspections include:

- a walk-around of the program facility to observe staff interaction with children and the condition of equipment such as toys and cribs
- calculation of staff-to-child ratios and physical space requirements
- review of program documentation including:
  - posting of license, menus, and last inspection report
  - child emergency contact information
  - medication instructions and consent
  - staff training levels and criminal record checks

All licensing officers follow the same checklist for their inspections of licensed programs. The checklist covers operational functions of the *Child Care Licensing Regulation*, such as administering medicine or conducting emergency evacuations. Licensing officers may not be able to directly observe some functions during their visit. In these cases, the officer can mark “not observed” on the applicable checklist.

Approved family day homes

Authority staff schedule reviews of each Agency, and 10% of the homes the Agency oversees at least annually, to ensure they are monitoring providers, and enforcing compliance in accordance with their agreement with the Authority. Authority staff must also investigate all Agency reported critical incidents that are reported to it. Licensing officers all use the same checklists to inspect approved day homes. The checklists cover every item in the *Family Day Home Standards for Agencies and Homes.*

Checklists for an Agency’s inspection of approved day homes do not include a “not observed” option. Instead, Agency staff cross check on-site observations with documentation that may provide evidence of compliance, such as provider files.

Recommendation: documentation and training

RECOMMENDATION

We recommend that the Department of Children and Youth Services, working with the Child and Family Services Authorities, review documentation and training requirements for monitoring licensed and approved programs to ensure requirements are being met.

Criteria: the standards for our audit

Department systems should clearly communicate licensing and inspections standards and ensure regulatory requirements are met.

Our audit findings

Key Points

- Inconsistent documentation by licensing officers across Authorities
- Obtaining sufficient supporting or corroborative evidence would improve the quality and consistency of monitoring

Licensed programs

In the majority of cases we reviewed, when the “not observed” choice was available, it was used. We saw inconsistencies between Authorities’ licensing officers in documenting “not observed” items. Some officers simply checked off the “not observed”, while others noted that they had reviewed the operator’s plan for the action. For example, when documenting evidence of compliance with the “administering medicine” requirements, some officers wrote that they observed that the provider had identified which children needed it, saw the parental consent and instructions for administering it, and observed how it was stored. These observations gave assurance that the operator was managing the administration of medication properly, without the officer actually seeing the medicine administered. While the "not observed" choice may be appropriate and practical under some circumstances, guidance on obtaining sufficient supporting or corroborative evidence without direct observation would improve the quality and consistency of monitoring.

Authorities record enforcement actions in CCIS, link it to the corresponding regulation, and do some analysis of that data. However, more detailed trend analysis of this data may reveal the location, timing, and types of non-compliance, as well as help in planning future monitoring or training actions. For example, in our sample, we identified a pattern across Alberta of non-compliance with a requirement for maintaining portable emergency records. This could indicate a need for training or stricter enforcement action in this area.

Implications and risks if recommendation not implemented

Without adequately documenting the results of monitoring and enforcement activities, Authorities and the Department cannot demonstrate that child care programs meet Statutory Requirements or applicable standards.

Authority adherence to monitoring and enforcement policies and processes

Background

Licensing officers use professional judgement when assessing program compliance. To help them do so consistently, the Department has developed detailed policies and procedures that Authorities must follow. As well, the Department has developed a *Risk Assessment Framework* to assist decision-making by determining the degree of risk that a non-compliance poses to the safety and well-being of children in a program. Use of this *Framework* is a policy requirement.[15]

The *Framework* measures non-compliance against two criteria: the consequence of the non-compliance and the likelihood of that consequence taking place. A risk score is the product of the consequence and likelihood scores. Licensing officers can use the risk score to decide on enforcement actions, with higher scores calling for more severe enforcement. Officers can also use the Framework to assess the cumulative impact of several non-compliances within one program.

Inspection checklists have space for licensing officers to write comments and expand on evidence they gather in inspections. Inspectors can also add documentation to files.

Recommendation: improve consistency of monitoring

RECOMMENDATION

We recommend that Child and Family Services Authorities improve systems to ensure their consistent compliance with monitoring and enforcement policies and processes.

Criteria: the standards for our audit

Department systems should ensure consistent service delivery across the province. Authority systems should apply enforcement measures, including monitoring practices, consistently and effectively.

Our audit findings

Key Point

Our review showed inconsistencies in how Authority sta documented their decision-making process to apply an appropriate level of enforcement

Although use of the *Risk Assessment Framework* is a policy requirement, it is not being used consistently. In the sample we reviewed, we found evidence that its use was documented in only one case. We also found a broad range of compliance rates across Authorities. This range may have resulted from inconsistent use of the *Risk Assessment Framework*, differing application of professional judgement, inspection

15 Policy was implemented effective November 1, 2008.

techniques, record keeping practices, attitudes toward enforcement, regional dynamics or some combination thereof. But without adequate documentary support for enforcement actions taken, it's difficult to know the reason for these variances.

Our review of both licensed programs and approved family day home inspection files showed inconsistencies in how Authority staff documented their decision-making process to apply an appropriate level of enforcement. Some officers did not include comments, summaries or risk assessments in the file; others document evidence for all findings.

Implications and risks if recommendation not implemented

Without consistent processes, including adequate documentation of monitoring results and enforcement steps, the Department and Authorities cannot demonstrate that monitoring and enforcement activities are appropriately and consistently ensuring compliance with Statutory Requirements and the department's policies and procedures.

Verbal warnings

Background

Licensed programs

Authority licensing officers inspect programs twice a year. They indicate non-compliance cases on an inspection checklist, and post a copy of it at the program site. Inspection results are also entered into the CCIS information system, along with enforcement actions and follow-up dates.

Licensing officers use two primary enforcement tools, depending on the severity of non-compliance: a verbal warning or an "Order to Remedy". For both warnings and orders, the officer sets a time to follow up on results. More severe enforcement actions include placing conditions on the license, issuing a probationary license, or cancelling a license. These actions involve consulting with Authority supervisors and Department staff, as the case requires.

Approved family day homes

Authority staff visit each family day home Agency at least annually. The visit has two parts: a review of the day home Agency operations and a visit to 10% of the homes run by the Agency. Non-compliance cases are indicated on an inspection checklist and left with the Agency. The Agency is required under contract to correct any non-compliance found in approved family day homes. Authority staff discuss any non-compliance at agencies with the Agency operator and require the Agency to provide written notification that the areas of concern have been corrected.

Recommendation: improve follow-up processes

RECOMMENDATION NO. 3

We recommend that Child and Family Services Authorities improve systems for monitoring and enforcing child care program compliance with statutory requirements and standards by ensuring that all verbal warnings are adequately documented and resolved.

Criteria: the standards for our audit

Authorities should promptly resolve non-compliance with regulatory requirements and standards.

Our audit findings

Key Point

We could not determine if all the verbal warnings were followed-up and remedial actions taken, because the necessary documentation was lacking

Licensed programs

In the files we reviewed, licensing officers issued verbal warnings to correct most low-risk non-compliance problems they observed. A verbal warning is the first enforcement action available.

Although follow-up action on "Orders to Remedy", the next, more formal enforcement action after a verbal warning, were well documented and carried out promptly, we could not determine if all the verbal warnings were followed-up and remedial actions taken, because the necessary documentation was lacking. Without documentation outlining how and when compliance is to be achieved, and confirmation it has been resolved, supervisors, reviewers, and subsequent officers cannot conclude on program compliance.

Factors such as distance, caseload and seemingly low-risk non-compliance may lead an officer to wait several months to follow-up. For example, in a rural Authority, an officer may find that a child's file had incomplete contact information. Perhaps the officer had driven three hours to the program and three hours back and would have to do so again to confirm the information has been recorded. Instead, the officer may decide to wait for the next regular inspection. In these cases, the officer could require the operator to fax or email satisfactory evidence of compliance by a certain date and document the compliance in the file. We saw limited evidence of this approach to non-compliance resolution.

Approved family day homes

Agencies are responsible for enforcing family day home compliance with standards. Resolution of non-compliance cases was difficult to determine because documentation was often lacking.

Authority staff monitor to ensure Agencies are carrying out their responsibilities in accordance with their contractual arrangement. Non-compliance by an Agency is communicated to and resolved with Agency management. The Authority may also terminate the Agency contract in accordance with the terms of the contract, if circumstances warrant.

Implications and risks if recommendation not implemented

Without documentation outlining how and when non-compliance is to be resolved and confirming resolution, Authorities cannot ensure that Agencies are monitoring and enforcing approved family day home compliance.

Without prompt follow-up on non-compliance, service providers may not take the necessary corrective actions or change their behaviour. Consistent failure to correct areas of seemingly low-risk non-compliance increases the probability of negative impacts on the health, safety and well-being of children. For example, a child care provider's lack of contact information would be critical in an emergency.

Systems Audits—Follow-up

Report of the Auditor General of Alberta—October 2010

University of Calgary—Research Management—Follow-up

Summary

The University of Calgary received $272 million of research contributions for the year ended March 31, 2010. The University operates many complex systems to manage its research activities. This year, we followed up on our earlier audits of the University's research management systems.

What we examined

In 2004 and 2005, we audited the University's research management systems in two phases. In the first, our audit focused on research planning, systems for monitoring research results, and the processes for planning, building and maintaining research capacity. In our *October 2004 Report* (pages 254–255), we made two recommendations for the University to improve its research management systems.

For the second phase, we expanded our audit to concentrate on research roles and responsibilities, research policies, project proposals, project management, and accounting for research revenues and expenditures. This audit led to five recommendations in our *October 2005 Report* (pages 90–94).

We did this follow-up audit to assess if the University had implemented all seven recommendations.

Why this is important to Albertans

Research is an important function of the University; it also accounts for 25% of the University's revenues. Well-functioning management systems help the University achieve value for the money spent, manage risks and meet research sponsors' requirements. Such systems also help the University remain accountable for its use of public funds.

What we found

Given that five years have passed since our original audits, it is reasonable to expect the University to have implemented all of our recommendations. We found criteria for four of the seven public report recommendations remain unmet. Despite this, we also found that the University has made positive changes in the past two years to deal with significant business issues in its decentralized control environment, including issues underlying our audit recommendations.

The common theme that emerged from this follow-up audit was that the University did not have complete documentation to show how its overall research business processes operate. Its business processes were constantly changing and fragmented. Also, the roles, responsibilities and accountabilities of staff who administer and support research were not clearly defined.

The University is in the final phase of a multi-year business transformation project called Innovative Support Services (iS^2). The iS^2 project is intended to reshape the University's critical internal control systems, improve service and reduce administrative costs. In 2009, the University started a project known as Institutional Research Information Services Solution (IRISS). IRISS's goal is to streamline and automate business processes for managing the compliance and certification of research projects. Besides serving the University's business needs, management cited our audit recommendations and those of research agencies as primary factors in advancing the business cases for these projects. The two projects, if well executed, should help the University implement our repeated recommendations. For example, under iS^2 clear roles and responsibilities of researchers and support staff will be established for administering research funds, under the University's new *Financial Accountability and Authority Framework.*

What remains to be done

To improve the overall effectiveness of its research management systems, the University must:

- complete workforce planning at a research function level, finish building long-term human resource plans, and improve its process to understand, quantify and budget for indirect costs
- define research management roles and responsibilities at the faculty level to establish accountabilities for key contributors toward research
- maintain current and comprehensive research policies, including processes to review and periodically update policies, and enforce policy compliance
- refine its project management practices by developing tools, such as project status reports, to enable principal investigators and researchers to actively monitor and control projects, especially large, complex projects

Audit objective and scope

Our audit objective was to determine if the University had finished implementing the seven recommendations from our October 2004 and October 2005 reports. We assessed the adequacy of management's actions using the same criteria we used in our 2004 and 2005 audits.

To perform the audit, we:

- interviewed management and staff to assess the actions they took to remediate issues stemming from the original audits
- tested systems, new processes and policies for planning and monitoring research activities
- examined samples of project files, project proposals, business plans and other institutional documentation

We conducted our field work from February to May 2010, with a focus on the University's actions to remediate issues that led to recommendations from our previous audits. We focused on five of the University's 16 faculties. These five faculties (Medicine, Engineering, Veterinary Medicine, Education and Science) receive 90% of the University's research funding.

For the follow-up audit, we did not assess if the University had adequate systems for complying with unique requirements set by each research funding agency. Also, we did not evaluate the University's actions to deal with recommendations stemming from research agencies' compliance audits. Those audits are designed to make sure grant funds are used in accordance with agencies' requirements.

Background

The University is a research-intensive institution with a goal to grow its research enterprise. For the year ended March 31, 2010, the University received $272 million in research contributions, compared to $247 million in 2004. Research accounts for 25% of the total revenues of the University.

Research is a difficult organizational activity to manage, by its very nature. It is creative rather than structured, unpredictable rather than planned and unknown rather than familiar. Nevertheless, research management has to acquire and allocate resources, choose among potential projects, minimize risks and assess results. For our 2004 and 2005 audits, drawing from authoritative sources and our own experience, we developed criteria for assessing the University's research management systems. Our assessment found gaps that formed the basis of our recommendations to the University. Our follow-up in 2010 assessed if University management had closed those gaps.

We delayed our follow-up audit because the University is undertaking multi-year projects to re-engineer its business processes and improve its internal control systems. We wanted to allow enough time for the University to achieve stability in its systems and solve the issues found from our audits.

In June 2009, the University started a multi-year project called Innovative Support Services, or iS^2. This project is designed to improve the University's support services, reduce service costs and improve internal controls. Management expects to finish the iS² project in June 2011. In December 2009, the University's Board of Governors endorsed a *Financial Accountability and Authority Framework*. This framework is designed to provide clarity on who is authorized to decide how to spend money and who is accountable for delivering the results of those decisions. Management is now implementing this framework, which they expect will have wide-ranging impacts on University operations, including research administration. For example, the framework will clarify the financial accountabilities of researchers, and staff who support researchers will have their roles clearly defined when the new integrated service delivery model is designed and implemented.

Findings and recommendations

Improving research measures and targets—implemented

Background

In our *October 2004 Report* (page 254), we recommended that the University improve its measures and targets for assessing research performance and systems for monitoring research results. Our recommendation stemmed from an observation that the University and its faculties needed to develop consistent output and outcome-orientated performance measures and targets for assessing and monitoring performance. We saw that the University's *Strategic Research Plan* did not identify targets for the measures, and that some of the measures and targets in the University's *Business Plan* differed from its *Strategic Research Plan* and the *Annual Report*.

Criteria: the standards for our audit

The University and faculties should:

- prepare research plans that contain clear goals and priorities, consistent performance measures and targets, and related resource needs
- monitor research results and compare them to goals and targets

Our audit findings

Key Points

- University developed consistent research performance measures and targets
- Research results are monitored

The University implemented this recommendation by:

- defining university-level key performance indicators and targets for assessing research performance
- empowering faculties to define specific measures and targets for their research enterprises and disciplines, through the faculty's strategic research plan and business planning process
- monitoring research results

We reviewed the business plans of the University and five faculties (Medicine, Engineering, Veterinary Medicine, Education and Science), and a draft University *Strategic Research Plan*. We saw that many of the measures in the faculty business plans were consistent with the University's *Business Plan*. Also, the University and faculties have established targets for a five-year period.

The University's *2009–2013 Business Plan* identified two research performance measures and related longer term targets. One measure ranks the level of growth in research income; the other tracks success in technology commercialization, setting goals for the number of licences and disclosures. Further improvements in the 2010 operating cycle included expanded qualitative and quantitative measures. These were reflected in the faculty 2010–2014 business plans and in the University's *2010–2014 Business Plan*. At the time of the audit, the University had not finished its 2010 annual report. As a result, we were unable to assess if the University's research measures in the *Annual Report* are consistent with its business plans. However, the University's Office of Institutional Analysis has reported on the business plan measures.

The University expects faculty business plans to identify at least 10 research performance measures with a high degree of consistency with the University *Business Plan* and the *Strategic Research Plan*. These include the number of annual awards for excellence, peer-reviewed publications by faculty, and the number of research chairs. We saw evidence in the sampled plans that faculties were following the University's template and, in some cases, faculties expanded the measures to include factors that are most relevant for the success of their faculty.

The University's Board of Governors approved a *Strategic Research Plan* after the conclusion of our follow-up audit. The plan established a framework for developing and reporting on improved University-level key performance indicators (also called performance measures) under five broad categories of research excellence:

- innovation and advancement of knowledge
- impact on academic and broader communities
- success in dissemination of knowledge
- success in funding competitions
- success in training, mentorship and support

The University has designed and is operating systems to track and monitor these research performance measures. For example, the University's Office of Institutional Analysis maintains systems to report on business plan key performance indicators to the Board and the research community.

Planning for research capacity—recommendation repeated

Background

In our *October 2004 Report* (page 255)*,* we made a numbered recommendation to the University that contained three parts:

- improve human resource plans
- improve space plans
- develop a system to quantify and budget for indirect costs of research

We repeat the parts of this recommendation that were not implemented.

Recommendation: improve human resource plans and system for cost planning to quantify and budget for indirect costs

RECOMMENDATION NO. 4—REPEATED

We again recommend that the University of Calgary improve its human resource plans and develop a system to quantify and budget for the indirect costs of research.

Criteria: the standards for our audit

The University and faculties should plan for, build and maintain research capacity.

- Human resource plans should provide for attracting, motivating, rewarding and retaining the right number and calibre of researchers to accomplish research plans and should be an integral part of business plans.
- Facility plans should provide for the use, acquisition and development of adequate space to accomplish research plans.
- Funding of indirect costs should be adequate.

Our audit findings

Key Points

- Multi-year strategic university-level workforce plan not developed
- Analysis of space and space capacity plan completed
- University assessment of indirect research costs incomplete

The University implemented the space plans component of the recommendation. However, criteria for substantive parts of the recommendation remain unmet. Our samples showed that faculties included the workforce plan as an integral part of their research plans. The University is currently developing an integrated University-level workforce plan. We repeat the recommendation because the University does not have accurate information to adequately quantify and budget for indirect costs and faculty research workforce plans are not yet integrated with the broader University workforce plan.

Human resource plans are an integral part of business plans—This criterion was unmet. Given the University's goal to increase its research activity, our 2004 audit stressed that the University and faculties should develop a long-term human resource plan to ensure that they will have the staff to accomplish their goals. Currently, faculties are responsible for human resource planning. The University has decentralized the budget process, making human resource planning primarily the responsibility of deans. The Deans develop HR plans with faculty members and then review these with the provost. The University's business plan for 2009–2013 stated the development of a multi-year strategic HR plan is a "work in progress." Faculties have defined their workforce plans and the University monitors the plans quarterly.

While the five faculties we reviewed had prepared workforce plans, there is no consolidation of these plans into an overall University workforce plan. The aggregation of these plans would enable senior management to determine whether the University can meet overall demands for staff. In addition, strategies to manage and eliminate the gap between the expected demand and supply of academic staff have not been formulated. Finally, we did not see any documentation that explains the University's long-term strategy for succession planning to maintain its academic staff capacity.

To finish implementing this part of the recommendation, the University needs to complete its multi-year *Strategic Workforce Plan*, including succession planning strategies, and integrate the workforce plan with the faculty and University business plans.

Space capacity—This criterion was met. Our previous audit found that the *Campus Community Plan* did not identify faculty requirements for research and faculties did not analyze their space requirements in conjunction with their plans to expand research.

All five of the faculty plans reviewed contained an analysis and projection of space capacity planning as part of their business plans. The University *Business Plan* also had an overall University *Capital Plan,* which is an aggregation of the various approved faculties' space plans.

Management states that Campus Planning is currently working on processes, reviews and audits to ensure spatial data are accurate and are available for reporting to internal and external stakeholders. Also, decision makers can use this data to manage current assets and plan future requirements. Campus Planning has established processes for all departments and faculties to submit their space plans for review and approval. An Infrastructure Project Approval Process has been established by the Office of the Provost and Campus Planning. Only approved faculty space plans are aggregated to become part of the University *Capital Plan*. Institutional commitment is required for all approved plans.

Furthermore, the University sets the strategic direction for capacity planning, which provides a framework for assessing space capacity for all the departments and faculties. Currently there are two standard processes for planning of research space requirements. The first is through the offices of Research Services, specifically the Partnerships Program Office, and the second by use of the annual business planning process in which all academic units are required to participate.

Indirect costs—This criterion was not met. Our 2004 audit found that the University did not know the indirect costs associated with conducting research, whether at the University level, the faculty level or the project level. We concluded in 2004 that the University could not budget for indirect costs and ensure it had sufficient funding to cover them.

During our 2010 follow-up, we reviewed the *2009–2013 Business Plan*, which stated that the funding of indirect costs of research support from the federal government remains at $12 million per year. The University assumes these funds will be ongoing. The University relies on additional support from provincial and federal government sources to achieve its objective of growing research revenues. An outdated University study showed indirect costs of research totalled $39 million for the fiscal year ended March 31, 2000. Currently, the University uses information provided by the Canadian Association of University Business Officers and studies from other sources such as the Council of Ontario Universities to make its indirect costs estimations. However, the University does not have a way to accurately assess the impact of current indirect costs of research relative to its own operations. The third-party information it uses to make indirect cost estimations may not be reflective of true indirect research costs of the University. The University needs to periodically evaluate the appropriateness and validity of information it uses to estimate overhead costs, if it is going to use this information to estimate its indirect costs.

To fully implement this recommendation, the University must:

- integrate the faculty research workforce plans with a broader University workforce strategy
- implement a process to better understand its indirect costs of research

Implications and risks if recommendation not implemented

Without a long-term human resource plan, the University risks not having the human resources needed to accomplish its research goals. Without an appropriate system for determining the indirect costs of research, the University cannot reliably estimate the impact of indirect costs of research. If indirect costs are not appropriately measured, the University may have insufficient funds to cover these costs or it may have to use funds intended for other purposes.

Research roles and responsibilities—recommendation repeated

Background

We first made this numbered recommendation in our *October 2005 Report* (page 90). We repeat this recommendation because the University has not taken sufficient action to clarify roles, responsibilities and accountabilities of the various University contributors to research activities.

Recommendation: define research management roles and responsibilities

RECOMMENDATION NO. 5—REPEATED

We again recommend that the University of Calgary define research management roles and responsibilities.

Criteria: the standards for our audit

The University and faculties should have clearly defined roles, responsibilities and accountabilities for:

- formulating and monitoring compliance with research policy
- approving, managing and monitoring research programs
- providing support to researchers
- administering research funds

Our audit findings

Key Points

- Not all research policies define who is responsible for administering, monitoring and ensuring compliance
- Accountabilities are not well documented
- Assistant Dean Research profiles and Dean, and principal investigator roles not defined
- Roles of groups supporting research not defined and documented

We repeat the recommendation because the University's progress in resolving the issues is unsatisfactory. The University is currently implementing the *Financial Accountability and Authority Framework* as part of a business transformation project called iS². This framework's scope is to clearly define accountabilities and authorities related to effective management of the University's financial resources. Another aspect of the project is the implementation of an integrated services delivery model for support services. The business transformation project will help the University act on the issues highlighted in our audit findings.

Formulating and monitoring compliance with research policy—Our 2005 audit found that not all policies identified who is responsible for administering, monitoring and ensuring compliance with the policies. In this year's follow-up audit, we reviewed 15 policies to determine if they adequately defined the roles, responsibilities and accountabilities for formulating and monitoring compliance with research policy. Of the 15 policies, six did not define roles and responsibilities.

Currently, management in two areas, the Research Services Office and Research Accounting, monitor compliance with the policies as part of their responsibility for monitoring projects and their respective budgets. In addition, even though their role is not defined in the policies, faculties are responsible to ensure compliance with these policies.

Based on interviews with research management, we heard that policy compliance checks happen as part of research administration; however, in our opinion this criterion is not met. It is difficult to establish accountability for a policy or process in the absence of documented accountabilities. For example, currently the Research Services Office ensures compliance with the University's intellectual property and ethics policy for each project; however, this compliance monitoring is not defined and documented. The University and faculties should define, through policy, the roles, responsibilities and accountabilities for formulating, administering and monitoring compliance with the policy. The IRISS project is implementing tools to help researchers and research administrators monitor compliance, starting with research policies related to the certification of research projects using humans, animals and biohazardous materials.

Approving, managing and monitoring research programs—Our 2005 audit noted that the documentation relating to principal investigators' roles and responsibilities varied from project to project. Sponsors may also define roles and responsibilities in some cases. The role of Associate Deans Research in monitoring research activities varied among the faculties; one faculty did not have a role description for its ADR.

For the 2010 audit, we saw that the University had not finished defining and documenting the roles of the principal investigators. The ADRs exercise oversight over the activities of the principal investigators. We reviewed the ADR profile defined by the University. In draft form, it states: *"the Associate Dean (Research) is responsible for research strategic planning in the Faculty and for the creation and refinement of targeted research plans for alignment with other University initiatives."*

In addition, from our interview with the Senior Executive Director of the Research Services Office, we understood that:

- the Associate Deans Research Council has reviewed and accepted the ADR profile as a guideline document
- the content of the document is appropriate for all faculties

Faculties are expected to use the ADR guideline to prepare faculty-specific ADR profiles. At the time of the audit, we were not aware of an implementation plan for the ADR role at the faculty level; nor was there a definition of roles for principal investigators. Therefore, we repeat this recommendation for clarity of roles, responsibilities and accountabilities.

Supporting researchers—The 2005 audit recommended that the University define roles and responsibilities of groups that provide ancillary support to researchers. These groups include supply chain management, human resources, financial and legal services, facilities management, information technologies (IT support) and risk management, safety and security. During our 2010 follow-up audit, we observed that the daily and operational roles of some of these groups are noted in their business plans. However, their roles in supporting research are not defined or documented. For example, we found that the Research Accounting and Research Services

Office of the University carried out financial and legal reviews and that facilities management played a role in space planning for research. We concluded that the criterion was not met because support units had not clearly defined and documented their roles, responsibilities and accountabilities for research.

Administering research funds—The 2005 audit reported that the University had not defined the management oversight responsibilities of department heads, ADRs and Deans with respect to the administration of research funds.

In our follow-up audit, we reviewed the generic ADR profile and noted that the University had defined specific responsibility to ADRs for administration of research funds. The profile states that an ADR is "responsible for relationships with chairs/deans on research issues such as space, start-up funding, infrastructure grants and general research planning." It also specifies that the ADR oversees review of all research grants and contract applications for eligibility requirements, administration of funds, space and other resource availability, adherence to all University policies, such as *Patent Policy, Conflict of Interest, Ethics,* and *Indirect Costs*, and overall budget. The University expects faculties to use the ADR profile and develop faculty-specific ADR profiles. However, we consider this criterion as not met because the ADRs' and deans' roles are not defined at the faculty level.

To fully implement this recommendation, the University must define and document roles and responsibilities for ADRs, deans, principal investigators and groups supporting research, at the faculty and University level.

Implications and risks if recommendation not implemented

In the absence of defined and well-documented roles and responsibilities, project goals may not be achieved if the various contributors to research activities are not held accountable and do not fully understand their roles and responsibilities.

Research policies—recommendation repeated

Background

We first made this recommendation in our *October 2005 Report* (page 91). That recommendation contained two parts. This year, we have repeated that part of the recommendation where the criteria are not met.

Recommendation: maintain current and comprehensive research policies

RECOMMENDATION NO. 6—REPEATED

We again recommend that the University of Calgary ensure all research policies are current and comprehensive. Specifically, the policies should identify who is responsible for monitoring compliance.

Criteria: the standards for our audit

The University should:

- ensure research policies are current, clear and comprehensive
- prescribe signing authorities for research funding
- monitor, assess and enforce policy compliance

Our audit findings

Key Points

- Policy review process is deficient and some policy revisions date back to 1976
- Work remains to standardize compliance procedures

We repeat this recommendation because the University does not have a defined process in place to ensure that its research policies are current, appropriate and monitored to ensure compliance.

Mechanisms to ensure research policies are current and appropriate—We concluded that the criterion remains unmet. The 2005 audit found that some policies were not current and that the University did not review all policies regularly. Our follow-up audit found that policy revision dates ranged from 1976 to 2008. However, we found no information on the University's policy review process, timelines for the review of policies and the nature of revisions that occur. We also had difficulty establishing when the last review of policies occurred. Good practice is for the University to define and follow timelines for policy reviews and revisions. Also, the policy document should specify the date of last review and revision.

Our previous audit also found that there was no policy to define when agreements among institutions (inter-institutional agreements) are required. During the current audit, we reviewed a draft of *Research Grants or Awards Requiring Agreements Guidelines for Research Services & Research Accounting*. This policy document stated: "if the funding is provided in support of project with multiple participants, an agreement may be necessary." However, this statement may be interpreted widely and does not represent a clear policy of the University stating when agreements among institutions are mandated.

Signing authorities—This criterion was met. We reviewed the University's draft *Signing Authority* and the *Financial Authority Policy*. We observed that the Research Services Office website includes guidance for researchers in the form of Frequently Asked Questions about the contracts, agreements, legal support and signing authorities. We also saw RSO forms designed to obtain funding application approvals and the vice president research's signature for funding projects. RSO confirmed that all research agreements are to be processed by its Legal and Intellectual Property unit and that it is their responsibility to ensure agreements are signed by the appropriate authorized signing officers.

Policy compliance—In our opinion, the University partially met this criterion, since the University is still in the process of standardizing its compliance procedures. Our previous audit found mechanisms to monitor the implementation of some, but not all, policies. At the time of the original audit, there was no mechanism to ensure compliance with ethics certification or ethics and intellectual property policies. In the current audit, we observed that the University has launched the IRISS project. This project is designed to identify gaps in processes, streamline processes and implement an automated system for processing and tracking all institutional human ethics, animal care and bio-safety requirements. The University expects that completion of the IRISS project will harmonize compliance processes and make them more efficient.

Legal counsel reviews are an integral part of the Research Services Office's activities. The Legal and Intellectual Property unit is responsible for reviewing and assessing all new research agreements. Additionally, the unit collaborates with departments and faculties and obtains input for departmental and partnership research agreements.

In situations where researchers disclose inventions to the University's intellectual property management company, University Technologies International (UTI), to commercialize their research, the RSO collaborates with UTI to conduct due diligence. Through this process, UTI ensures that the researcher understands the commercialization rights.

Furthermore, UTI reminds researchers of their responsibility to make disclosures relating to intellectual property or commercialization of the research. This is reinforced in presentations to researchers done by UTI and the Legal and Intellectual Property unit. We reviewed the *Intellectual Property Guide*, which provides an overview of the University's *Intellectual Property Policy* and expert resources available for the benefit of researchers. Furthermore, the University's *IP Policy* requires researchers to disclose the commercialization of their inventions.

To fully implement this recommendation, the University must define and implement a process to ensure that research policies are current, appropriate and monitored to ensure compliance.

Implications and risks if recommendation not implemented

Unless policies are current and comprehensive, and roles and responsibilities for monitoring policy compliance are properly defined, project goals may not be achieved.

Project management—recommendation repeated

Background

We first made this recommendation in our *October 2005 Report* (page 93). The recommendation contained two parts: ensure researchers comply with sponsors' terms and conditions, and use project management tools for large, complex projects to ensure research is cost effective. Common project management tools include project charters, work plans, projects status reports, risk reports and issues escalation management reports.

The recommendation stemmed from the following weaknesses:

- There was non-compliance with sponsor terms and University policy.
- None of the principal investigators interviewed during the audit had developed more detailed plans.
- Except for financial reporting tools, the principal investigators did not use project management tools to monitor and control the progress of their larger projects.
- Over-expenditures were not tracked in some of the projects reviewed.
- The University had not defined its own reporting requirements.

We repeat the second part of the recommendation because insufficient steps were taken to resolve the weaknesses.

During our 2010 follow-up, we tested project documentation from five faculties (Medicine, Science, Education, Veterinary Medicine and Engineering) covering projects that were externally and internally funded, inter-institutional, and billable.

Recommendation: use project management tools for large, complex projects

RECOMMENDATION—REPEATED

We again recommend that the University of Calgary and its faculties use project management tools for large, complex projects to ensure research is cost effective.

Criteria: the standards for our audit

Researchers and research teams should:

- comply with sponsor terms and University policies
- prepare detailed project plans for complex projects
- use processes to manage research projects cost effectively
- control project expenditures against budgets and incur expenditures only for the purpose intended
- ensure project results are adequately reviewed

Our audit findings

Key Points

- Project files had checklists to show compliance with terms in sponsor agreements
- Sampled files had project plans
- Tools for principal investigators to manage projects were not fully developed
- University should assess the need for a central repository to maintain complete project information
- Controls for ensuring grant funds were used in accordance with agencies' requirements needs improvement

We repeat this recommendation because the University has not finished developing project management tools for researchers. Also, the University has not established a process for monitoring the status of all projects. Currently, only those that have reporting requirements tied to sponsor funding requests have robust monitoring processes. In addition, in recent years, federal agencies had reviewed the University's systems to administer grants funds in accordance with the agencies' requirements and found them to be deficient.

Compliance with sponsor terms and University policy—This criterion was met. The scope on reviewing this criterion is the compliance with terms defined in the agreements between sponsors and the University as well as the policies applicable to each project. We tested projects and saw evidence of compliance. We found that each project file had a checklist that tracked the required project documentation, compliance requirements and project approvals.

Project planning tools—The 2005 audit found that detail project plans were not developed during the planning of projects. For our follow-up, we obtained three project charters for complex projects and saw the following elements described in detail:

- scope
- approach
- key activities and milestones for each phase
- assumptions
- roles and responsibilities for the team members

Therefore, this criterion has been met.

Project management tools—The criterion has not been met. The University has still not developed project management tools for principal investigators to monitor and control progress of their projects. The projects we tested showed evidence only of budget monitoring. Also, we noted that E-PROJ and E-Fin systems were used to track the status of financial reporting for the project. The level of detail for financial reporting varied based on whether the reporting was required by the sponsor or done for internal purposes.

In cases of non-financial reporting, no information was available in the files maintained in the Research Services Office unless the reporting was tied to sponsor funding requests. In addition, we found no evidence on the specific timelines and tracking of deliverables to submit to the sponsor. Principal investigators, researchers and research administrators access a patchwork of systems and spreadsheets to obtain a complete understanding of the financial and non-financial aspects of the projects.

To further improve efficiencies in project management, the University should evaluate the merits of maintaining all financial, non-financial, pre- and post-award project information in a centralised repository, develop roles and responsibilities for monitoring project performance, and maintain evidence of such monitoring.

Controlling expenditures—The scope of our review did not include transactional work; for example, approval and allocation of expenditures to meet grant agency or internal requirements. However, the *Natural Sciences and Engineering Research Council of Canada* and the *Social Sciences and Humanities Research Council of Canada* performed a cyclical joint financial monitoring review at the University. They concluded in a February 2010 report that the management control framework for ensuring grant funds used in accordance with the agencies' requirements continues to be unsatisfactory. Based on this finding, we concluded that the criterion was not met.

Reviewing project results—Our previous audit found that sponsors specified the reporting requirements. However, the University had not defined its own reporting requirements, such as peer review of research reports. In our follow-up audit, we did not see any evidence of reporting and requirements for reporting on internal projects.

We understand that peer review/quality assurance of projects is determined by the nature of the project or by the faculty, and that researchers are responsible for quality assurance of their projects. For all the projects we tested, we did not find any information related to quality assurance in the project files. Quality assurance procedures include independent and peer reviews. Due to the confidentiality and the specialization of the research area, peer reviews may not always be possible or practical. The faculty should define and document, before the research project begins, its quality assurance requirements, including the scope of and necessity for peer reviews.

To fully implement this recommendation, the University must:

- assess the need for a central repository for maintaining all financial and non-financial project-related information to provide principal investigators, researchers and administrators a single source for obtaining key information to manage projects
- develop roles and responsibilities for monitoring project performance, and maintain evidence of such monitoring
- develop tools, such as project status reports, to help principal investigators and researchers to manage large, complex projects
- improve the process to control project expenditures, including designing and operating effective systems to comply with requirements set by project funders
- implement a consistent process for reporting on all research projects

Implications and risks if recommendation not implemented

In the absence of strong and clearly defined project management practices, projects may not be cost-effective. Without an effective control system for ensuring research expenditures comply with research sponsors' requirements, the University may lose research funding.

Business case for research project proposals—implemented

Background

In our *October 2005 Report* (page 92), we recommended that the University and its faculties complete a business case for all large, complex research proposals. Our original audit found that research proposals included some elements of a business case; however, key items were often missing.

Criteria: the standards for our audit

- Faculties should establish clear processes for reviewing proposals and should submit all applications, proposals and contracts through Research Services Office, which obtains all other appropriate reviews.
- Funding sought should be appropriate and sufficient.

Our audit findings

Key Points

- Project proposals contain key elements of business case
- Sampled projects had detailed budgets

The University fully met these criteria. We saw evidence of proposal reviews, improvements in the content of proposals, confirmation of funding requirements and an established process to evaluate proposals.

Clear process for preparing and reviewing proposals—In our 2005 audit, we found that research proposals lacked certain key elements found in business cases, such as how the project aligns with the faculty research plan and the University Academic Plan, a cost/benefit analysis, challenges and risks, facilities and equipment required, and how project progress will be monitored.

During 2010, we reviewed a sample of five proposals. We saw that three in the sample did not explain challenges and risks; one of the proposals did not consider the use of facilities and another did not identify how the proposal would be peer reviewed. We corroborated our findings with the RSO and obtained an explanation that not all of the elements of a business case are required to be documented for all project proposals. We evaluated the missing elements and concluded that they were not significant and valid business reasons supported their exclusion. In some instances, specific elements may be excluded if they are not needed to make the business case. RSO confirms this when reviewing proposals. Based on this confirmation, we concur that the current documentation on proposals requirements is appropriate.

Sufficiency of funding—All five project proposals we tested showed evidence of detailed budgets and sufficient funding.

Improve financial controls on research accounts—implemented

Background

In our *October 2005 Report* (page 94), we recommended that the University improve financial controls on research accounts. Our 2004 financial statement audit produced a similar recommendation, which broadly focused on improved controls needed for over-expended research accounts, reporting to research sponsors, monitoring research and trust aged-receivables, and updating the University's signing authority policy. Our 2005 research management audit identified weaknesses in the maintenance of research accounts and prompt billing of contract revenue.

The Research and Trust Accounting unit is responsible for administering the research accounts after the research sponsor awards funds.

Criteria: the standards for our audit

Research and Trust Accounting should maintain accounts and promptly bill contract revenue.

Our audit findings

Key Points

- Sound financial reporting to sponsors and good processes for maintenance of research accounts
- Sampled billable projects had timely billings

The University finished implementing the recommendation by improving its maintenance of research accounts and promptly billing contract revenue. In addition, we followed up controls deficiencies identified in our financial statement audits; in 2010, we concluded the University has eliminated these control deficiencies. See page 117.

Setting up and maintaining accounts—In our 2010 follow-up audit, we tested five inter-institutional projects and found that sponsor agreements and certifications were in place before the University issued any advances. Financial reporting is performed only when required by the sponsor or when the funding is dependent on reporting. We saw evidence of financial reporting in the sampled files that required sponsor reporting. There were no exceptions noted in our sample for the timeliness of external reporting. In all cases, we noted evidence of team member authorization forms for new project members and removal of authority for those who were no longer members of the project team.

Billing promptly—In our follow-up audit in 2010, we tested a sample of five billable projects for timeliness of billing by checking billing dates against agreement. We found no exceptions relating to the timeliness of billing.

Sustainable Resource Environmental Management—Follow-up

Summary

Sustainable Resource Environmental Management—changed circumstances

Chronology of sustainable development audit activity

Sustainable resource and environmental management (SREM) involves managing resources in an environmentally sustainable fashion. This means considering environmental, economic, and social objectives when developing and implementing public policies and programs, and considering the needs of the present as well as future generations. Sustainable development leads to a healthy economy and environment, and a better quality of life.

In 1999, the Government of Alberta released *Alberta's Commitment to Sustainable Resource Development.* The *Commitment* outlined the government's goal of attaining sustainable development in Alberta through clear government direction, integrated decision making and an up-to-date regulatory regime.

In our *October 2003 Report* (no. 13—page 105), we recommended that the Deputy Minister of Environment complete the legislative and regulatory review required by the *Commitment* and annually report the progress on the *Commitment*. We took the view that a logical way to test progress was to use the elements of an accountability model:

Those who use public resources should:

1. *set measurable goals*
2. *plan what needs to be done to achieve the goals, and indicate responsibilities*
3. *do the work and monitor progress*
4. *report on results*
5. *evaluate results and provide feedback*

In effect, we saw the SREM concept as one measurable initiative.

In 2005, the *Commitment's* strategies were turned into a medium-term strategy in the province's 20-year strategic business plan "to achieve outcome-based management systems, integrated policies, and streamlined regulatory processes". The responsibility for implementing the *Commitment's* strategies, previously assigned to the Ministry of Environment, were to be shared by the ministries of Environment, Energy, and Sustainable Resource Development. The three ministries established a SREM office with an initial two-year mandate to support and coordinate the implementation of the SREM strategies.

In our *October 2005 Report,* we reported that the ministries had goals but had not yet developed a mechanism for reporting results. We further recommended (no. 14—page 72) that the Deputy Ministers of Environment, Energy, and Sustainable Resource Development publish a SREM implementation plan.

In our *October 2006 Report* (page 195) we reported that the three ministries had made progress, but still had not fully implemented our recommendation. The following matters remained:

1. establish how cross-ministry projects will be planned for and coordinated once the SREM office no longer exists
2. develop a mechanism for tracking cross-ministry projects
3. have a mechanism to evaluate the overall progress of implementing the SREM strategies

By 2007, the SREM office designed a conceptual framework for implementing SREM strategies. It began to implement the strategies through a number of cross-ministry initiatives such as cumulative effects management.

In 2008, the SREM office transitioned its responsibilities to the three ministries and ceased to exist. Since then, the three deputy ministers assumed responsibility for continued advancement of the SREM strategies within government.

A number of significant changes have occurred since our 2004–2005 audit making our outstanding recommendation is no longer valid.

There is not one overall plan nor one overall reporting mechanism on the progress of implementing SREM. Rather, the way in which the government has operationalized SREM, to pursue the concepts of the *Commitment*, is evident in specific strategies such as development of the *Land-use Framework* and supporting Secretariat, the Regulatory Enhancement Project, and the Regulatory Alignment Project, all in which SREM concepts are embedded.

The three Deputy Ministers meet regularly to ensure that cross-ministry projects with significant environmental effects are approached in a collaborative fashion. Collaboration has now become the way of doing business. Instead of overall planning and reporting on SREM, the ministries use the existing business planning and annual reporting processes to demonstrate accountability for individual projects.

Conclusion

In the absence of the government measuring and reporting on the overall success of SREM strategies, which we had originally thought was intended, we cannot assess whether the strategies have been successfully implemented.

In the future, we plan to audit some key projects with significant environmental effects to assess whether they are managed with due regard for economy, efficiency and environmental effects, and whether there are measures in place to determine their effectiveness in relation to the original SREM goals.

Public Affairs Bureau—
Media Contracting Services—Follow-up

Conduct risk assessment of contracts—implemented

Background

In our *October 2009 Report* (page 53), we recommended that the Public Affairs Bureau conduct a risk assessment of its Agency of Record contracts and develop a plan to manage the risks it identifies.

Our audit findings

We examined PAB's risk assessment on their Agency of Record contracts.

A risk assessment was conducted by PAB on the following four contracts:
- *Agency of Record for Media Buying*
- *Legal and Tender Advertising*
- *Informational Advertising Agency of Record*
- *Recruitment Agency of Record*

The risk assessment template included five components:
- risk identification
- risk background
- risk evaluation
- risk management, and
- the position responsible for dealing with the risk

This risk assessment template was approved by senior management.

For the four contracts, the risk assessment identified the risk, provided background on the risk, evaluated the risk level, detailed management's response to the risk and identified the person(s) responsible for managing the risk. PAB performed proper risk assessments of the four contracts and developed a plan to deal with the identified risks. We therefore conclude that PAB implemented our recommendation.

ATB—New Banking System Implementation—Follow-up

Summary

ATB installed its current banking and accounting systems in the mid-1980s. ATB is replacing its current systems with SAP[1] banking and accounting systems. The project, known as Core, will transform ATB's banking system, financial reporting system, and internet and telephone banking applications. ATB is also re-engineering the majority of its business processes to take advantage of SAP's functionality.

ATB started the Core project because:

- ATB's aging technology platforms, complex computing environments, and cumbersome processes limit its ability to grow and continue providing financial services to Albertans.
- If it continued to operate in this manner, ATB faces major risk of frequent and extended service disruption and being unable to comply with an increasingly rigorous regulatory environment.

ATB's Core project is a significant capital investment by ATB. Originally budgeted at $160 million, Core is now expected to be completed at a cost of approximately $320 million and to go live in April 2011, one year after its original planned go live date of April 2010.

What we examined

In our *April 2010 Report*, we reported on inadequate project governance[2] and management[3] within ATB's Core project, which resulted in delays and escalating costs. This follow-up audit assessed ATB's progress in implementing the four recommendations from our *April 2010 Report* (beginning on page 81).

When we initially examined ATB's project governance and management processes for its new banking system implementation, we found that:

- the Core project was significantly over budget and behind schedule
- ATB's project governance and controls processes were inadequate; management did not identify or resolve the issues that caused delays and cost increases

We followed up our four recommendations because ATB informed us that it had implemented them. The Core project is still ongoing and ATB expects the new banking system to go live in April 2011.

Why it is important to Albertans

Through the successful implementation of this project, ATB expects to:

- reduce its reputational and operational risks of frequent and extended service disruptions to its banking systems
- provide better, more efficient and effective services and products to customers

It is also important that the new banking system have well-designed and effective internal controls that mitigate significant risks. In our *October 2009 Report*, we commented on the project's consideration of internal controls during the design process. We have completed a progress report on that audit in the Ministry of Finance and Enterprise chapter of this report—see page 152.

What we found

ATB has put in place project governance and management processes that resolve the issues we identified in our *April 2010 Report*. These new processes reduce the risks of delayed

1 SAP is a company that provides business software products and services. ATB selected SAP's banking platform and SAP's corporate accounting system as the information technology solution for ATB's core banking and corporate accounting transformations.

2 Governance includes the processes and responsibilities for ownership and oversight of the project, including initiating it, ensuring it meets the ongoing needs of the organization, accepting its results and ensuring its operational implementation within the organization.

3 Project management is the application of knowledge, skills and techniques to meet a project's objective and requirements. It includes project initiation, planning, execution, control and termination.

implementation and cost overrun, and provide those with oversight responsibility with better information to make critical decisions. The new project governance and management processes improve ATB's controls over the project's scope, time and cost. However, these new processes are not a guarantee the Core project will be completed as expected and deliver all of the originally anticipated benefits.

Audit objective and scope

Our objective was to determine if ATB has implemented the four recommendations in our *April 2010 Report* by:

- defining and finalizing the scope of its Core banking project
- creating a new realistic project plan with new deadlines and budgets
- improving its governance and oversight of the project
- improving the quality and level of detail of project reporting

In performing the follow-up audit, we reviewed ATB's processes to:

- resolve business decisions, and define and finalize the scope of the Core banking project
- create a new project plan, schedule and budget to go live in April 2011
- assess the new project plan's milestones and the criteria ATB used to declare them achieved
- report on the project's status to the oversight groups

Findings and recommendations

Project management—implemented

Background

In our *April 2010 Report* (page 84), we recommended that Alberta Treasury Branches:

1. improve the management of its Core project by:
    - resolving pending business decisions, dealing with remaining change requests, and locking down the project's scope so that the project's design phase can be completed
    - developing a new project plan with a realistic schedule and budget to complete the project
2. examine its project management controls and clearly identify, and put in place, the new controls necessary to minimize the risk that the project will not be completed within the revised timelines and budget or will not deliver the expected functionality

Our audit findings

Project management

ATB improved the management of its Core project by:

- creating an Executive Advisory Council, comprised of three senior ATB executives who:
    - reviewed the project and resolved pending business decisions based on business processes and needs
    - reviewed all outstanding change requests and determined which ones were necessary to provide functionality at go live
- having the project team:
    - implement a new process to review and approve or defer change requests made as a result of new information or needs, after the Council finished their initial scope definition
    - "recalibrate" the Core project by reassessing the initial Core project plan and developing a new project plan with new milestones, resource needs, budget and go live date
    - finalize or "freeze" the scope of the project and present the new project plan and budget to ATB's Audit Committee for approval

Project management controls

ATB improved its project management controls by:

- appointing a new project manager with significant experience implementing large and complex SAP systems. This individual is directly accountable to the Strategic Steering Committee.[4]

4 The Strategic Steering Committee, consisting of ATB senior executives and chaired by ATB's CEO, was established to oversee ATB projects.

- implementing a new regular reporting process to demonstrate whether the project is on time and on budget
- ensuring that the Strategic Steering Committee, Audit Committee, and the newly created Executive Implementation Team[5] have more oversight of and more accountability for the project

New project management and reporting controls were implemented to increase the probability of the project being completed on time and on budget. New reporting requirements included daily input of the amount of work completed and the resources used, and the amount of work and resources required to complete that piece of the project. Additional oversight was enabled through the project manager and other groups, using the information from the new reporting controls. Although additional reporting is in place that focuses on time and costs, this does not guarantee that the project will be able to be completed as expected.

The new project reporting methodology:

- breaks larger project tasks into smaller, more manageable pieces
- ensures that the resources and time used on these smaller pieces are accurately and regularly updated

Previously, project tasks could be months in length and could be considered 50% complete after nothing other than an initial organizational meeting. Because the project's managers now measure work in steps that are no longer than 20 days, there is more accountability for project team leads to have work done on time and for the reporting to be more accurate.

With the new reporting methodology, pieces of work are given the status of:

- 25% when started
- 50% when work is halfway done
- 75% when work is completed
- 100% when the work is confirmed as completed and adequate by others who are relying on this work

The work is divided into smaller parts and there is an independent review of the work. Therefore, there is less chance of work remaining incomplete for extended periods or being unacceptable to those who rely on it. This methodology helps increase the compliance with deadlines and the quality of the work.

We assessed ATB's methodology for preparing earned value reports to oversight committees, such as the Audit Committee and the Strategic Steering Committee. The main deliverables from these reports are cost and schedule performance indicators. These are derived from the daily entering of the work completed and resources used, and the outstanding work and the anticipated resources needed to finish each piece by the team leaders. ATB uses a Microsoft project application to store and process this information.

We confirmed that the methodology and procedures used to calculate the cost and schedule performance indicators were reasonable. The project management team uses these indicators to forecast the project's cost and date of completion. We reviewed a sample of the information used in the calculations and confirmed it was entered on time and complete.

The Executive Advisory Council reviewed pending scope and change requests to decide what was required. This helped freeze the project scope in February 2010. The Council's actions were essential to meeting the project's first "gate" or milestone which was to freeze the project's scope.

The Core project team continues to identify change requests despite the project team's work leading up to the Strategic Steering Committee's declaration that the first milestone or "gate" was met. To deal with new change requests, ATB implemented a process to review and approve only the changes necessary for the Core project

5 The Executive Implementation Team was created by the Strategic Steering Committee and is composed of ATB senior management. The Steering Committee expects the Team to review decisions necessary to operationalize the Core program and assess the implications to ATB. The Team can make decisions where costs are below specific dollar thresholds and where delivery dates of the program are not affected.

to go live in April 2011. New change requests are now assessed and approved by the project team and the Executive Implementation Team, and then approved by the Strategic Steering Committee. Changes approved are assessed for their impact on the scope, budget or timelines of the Core project. The project plan, budget and timelines are then updated accordingly. We observed the updated project timelines and budgets, and ATB told us that recently identified change requests will not affect the scheduled April 2011 go live date.

We reviewed ATB's new project management procedures and reporting methodology. We confirmed that they:
- are in place
- are designed to minimize the risk that the project will not be completed within the revised timelines and budget
- provide more detailed and more frequent reporting to the Audit Committee and other oversight committees

ATB has also entered into new contracts with its key vendors, SAP and Accenture.[6] The new contracts give ATB more control over project change requests and schedule and put more accountability on SAP and Accenture to ensure the project is completed on time and on budget.

Project governance—implemented

Background

In our *April 2010 Report* (no. 10—page 84), we recommended that Alberta Treasury Branches review the Core project at clearly identified checkpoints within the revised project plan to ensure the deliverables are accepted by the Strategic Steering Committee and there is clear agreement for the project to continue.

Our audit findings

The revised project plan presented to the Audit Committee by the project manager in February 2010 identified significant milestones to check and manage project progress. Four milestones (scope, process design, build and test) require specific criteria that must be met in order for the April 2011 go live date to be achieved. Also called "gates," they will be monitored and agreed to by the project manager, the Executive Implementation Team and the Strategic Steering Committee. This approach, with defined checkpoints throughout the project, will ensure that the project remains on its critical path and that there is clear agreement that the project should continue.

ATB identified the following four gates:
- Gate 1: Scope
- Gate 2: Process design
- Gate 3: Build
- Gate 4: Test

The new reporting methodology and the use of the gates as important checkpoints will put more emphasis on meeting each of the critical steps of the project instead of just the final deliverable. The new processes will also:
- provide advanced notice if the go live date is in danger of not being met
- allow for additional and timely monitoring and enforcing accountability

Gate 1: Scope

The Strategic Steering Committee declared the first gate met based on a presentation from the Executive Advisory Council and the project manager during a March 2010 meeting. The information presented to the Steering Committee concluded that all pending business decisions and change requests were assessed and approved or deferred by the Council. The Council and the project manager also declared that a new project scope was now defined and the scope could be frozen for an April 2011 go live date.

The criteria for Gate 1 were not well defined. However, the Steering Committee concluded that sufficient work was done by the Council and project manager to declare Gate 1 met and to proceed to Gate 2.

6 Accenture is a management consulting, technology and outsourcing company.

Gate 2: Process design

This gate was well defined and documented. Process design was targeted for completion in April 2010. The project team declared Gate 2 completed in May 2010. Process design was substantially completed on this date, but not all of the defined criteria were met. To complete this gate, ATB's Strategic Steering Committee declared the missed criteria as non-critical exceptions to the overall project. ATB considered the gate met and decided the project could concentrate on the next gate—build.

Gate 3: Build

This gate was well defined and documented. The project team clearly identified criteria for this gate to be completed. They also identified criteria that could be missed without affecting the overall project and how to document and resolve those missing items. This gate was not due for completion until July 2010, after our audit work was completed. Therefore, we cannot comment on ATB's success in meeting the criteria and deadline for Gate 3.

Overall conclusion on gates: For the three gates we examined, ATB's process for defining the three gates, developing the criteria to be met, and then making a declaration to close a gate and move on were adequate. However, the Strategic Steering Committee and Audit Committee should closely monitor any missed criteria from all gates and ensure they are eventually met. The project manager should also regularly report to all committees on missed criteria and the progress made to ensure they are completed.

Performance reporting—implemented

Background

In our *April 2010 Report* (no. 11—page 85), we recommended that ATB's management provide its Board of Directors with more information on the Core project's:

- performance in relation to the revised schedule and budget
- stage of completion of significant project deliverables (percent complete and percent of budget consumed)
- explanations for variances between actual results and the revised project plan, and the actions taken to deal with the causes

Our audit findings

ATB management and the project team are providing the Audit Committee of the Board of Directors with the information we recommended in our *April 2010 Report*.

Health Quality Council of Alberta—Investigations—Follow-up

Investigative role policy—implemented

Background

In our *October 2008 Report* (page 317), we recommended that the Health Quality Council of Alberta improve its *Investigative Role Policy* by defining or providing guidance on methodologies for different circumstances and on medical standards for planning and conducting investigations.

Our audit findings

HQCA has developed a new policy titled *Review Role of the Health Quality Council of Alberta Respecting Patient Safety and Health Service Quality*. This policy now includes:

- a statement on the use of appropriate review methodologies
- a list of investigative procedures with descriptions of their application in various aspects of reviews
- a statement on the need to assess and utilize relevant standards and guidelines to assess current practices and make recommendations for best practices
- a list of standards that may be useful in reviews

Guidance on using legal assistance—implemented

Background

In our *October 2008 Report* (page 319), we recommended that the Health Quality Council of Alberta provide guidance on the use of legal assistance when conducting investigations.

Our audit findings

HQCA has developed a new policy entitled *Review Role of the Health Quality Council of Alberta Respecting Patient Safety and Health Service Quality*. This policy provides guidance on the use of legal assistance for matters relating to potential misconduct or illegal activity.

Seniors Care and Programs—Alberta Seniors Benefit Program—Follow-up

Summary

What we examined

In 2005, we audited systems that the Departments of Seniors and Community Supports, and Health and Wellness used to deliver:

- services in long-term care facilities
- the Seniors Lodge Program
- the Alberta Seniors Benefit Program (ASB Program)

In this report, we follow up the two recommendations specific to the ASB Program. We recommended that the Department of Seniors and Community Supports:

- improve the measures it uses to assess whether the program is meeting the Department's objectives
- obtain further information to support income threshold, cash benefit and supplementary accommodation benefit decisions for the program

Two recommendations remain outstanding. See outstanding recommendations on pages 219 and 224.

Why this is important to Albertans

Albertans want to be assured that seniors in financial need have access to sufficient assistance to support their well-being.

What we found

The Department has fully implemented both recommendations by:

- using income-based measures to assess if Program objectives are being met
- obtaining additional, relevant information for determining needs and setting income thresholds and benefit levels

Audit objectives and scope

Our objective was to determine if the Department of Seniors and Community Supports has implemented the two ASB Program recommendations from our *May 2005 Report on Seniors Care and Programs* (pages 55–56).

We focused on the Department's actions since our 2005 report. We conducted our field work in May 2010.

Overview

The Department administers a provincially funded income-based program that provides cash benefits to lower-income seniors. The Alberta Seniors Benefit program supplements the income seniors receive from federal benefit plans such as Old Age Security (OAS) and the Guaranteed Income Supplement (GIS). Seniors are eligible to receive maximum ASB benefits if they are over 65 and receive the full amount of OAS benefit. Seniors who receive additional income, such as from the Canada Pension Plan, are eligible to receive ASB, but at a reduced rate.

ASB is one of several assistance programs the Department manages. It is intended to help seniors pay for the necessities of life. Eligible low-income seniors in financial distress may also receive assistance for allowable expenses, up to $5,000 per year,[1] from the Special Needs Assistance Program. Seniors may also be eligible to receive benefits under dental and optical assistance plans.

The Minister of Seniors and Community Supports formed the Demographic Planning Commission and

1 Special Needs Assistance provides benefits for seniors experiencing difficulty in paying one-time extraordinary expenses see http://www.seniors.gov.ab.ca/financial_assistance/special_needs/ for more information.

asked it to develop a policy framework for an aging population. The Commission provides information[2] about issues that seniors might face and the role of government, communities and individuals in supporting the future needs of seniors.

The amount of ASB seniors receive depends on a number of factors including income, marital status and residence. The lower a senior's income, the higher their ASB will be, up to an established maximum. The maximum benefits for 2010 for ASB,[3] OAS and GIS[4] are as follows:

	Single		
	Home Owner, Renter, Lodge Resident	Long-term Care Resident	Other (living with family)
OAS	$6,227	$6,227	$6,227
GIS	7,854	7,854	7,854
ASB	3,360	10,080	2,340
Total	**$17,441**	**$24,161**	**$16,421**

Table 1: Maximum Benefits—Single Seniors

	Married Couple		
	Home Owner, Renter, Lodge Resident	Long-term Care Resident	Other (living with family)
OAS	$12,454	$12,454	$12,454
GIS	10,372	10,372	10,372
ASB	5,040	13,440	4,680
Total	**$27,866**	**$36,266**	**$27,506**

Table 2: Maximum Benefits—Married Seniors

In 2008–2009, the Department reported that approximately 138,000 of Alberta's 382,000 seniors received monthly cash benefits from the ASB Program, averaging $147 per household.[5] The total ASB paid to seniors for the 2008–2009 fiscal year was $255,623,000.

2 See http://www.seniors.alberta.ca/seniors/tomorrow/FindingsReport.pdf for the full *Demographic Planning Commission Report*.
3 For current ASB benefits see http://www.seniors.alberta.ca/financial_assistance/forms/SFAInfoBooklet.pdf
4 For current OAS and GIS benefits see http://www.servicecanada.gc.ca/eng/isp/oas/tabrates/tabmain.shtml
5 *Alberta Seniors and Community Supports 2008–2009 Annual Report*, page 25.

Findings and recommendations

Improve measures—implemented

Background

In our *October 2005 Report* (page 68), we recommended that the Department improve the measures it uses to assess whether it is meeting the objective of the ASB Program.

The Department's objective for the ASB Program is to provide financial support to seniors in need so they can secure their basic living needs and maintain their independence. The Department views ASB as a supplement to federal benefits, not as a program designed to meet all seniors' financial needs.

The ASB Program assesses an individual senior's income when determining need. ASB income thresholds are at levels that the Department concludes seniors will have enough income to live in a secure and dignified way.

In 2005, we found the Department used two externally reported performance measures to evaluate whether it was achieving its goals for the ASB Program:

- percentage of eligible seniors provided with the opportunity to apply for the Alberta Seniors Benefit
- the satisfaction of seniors with information provided

Neither of these measures gave the Department information about whether the program was meeting its objective.

Our audit findings

The Department has implemented this recommendation. It uses income-based external and internal reporting measures, which are appropriate assessment tools given the Department's use of income level to determine need.

For its externally reported performance measure for the ASB Program, the Department now uses a comparison of the difference between Alberta seniors' average total income and the equivalent national seniors' average.[6] The Department reports that since 2001 Alberta seniors have had higher total incomes than Canadian seniors. The average income of Alberta seniors is above the ASB income threshold.

For internal purposes, the Department uses Low Income Cut Offs (LICO) as one measure to help identify individuals or households who may be more financially vulnerable compared to others. LICO is a measure developed by Statistics Canada to describe an income level below which a family spends significantly more of its income on the necessities of life than an average family. LICO is developed by analyzing family expenditure data and then determining the income level at which a family spends a significantly larger portion (20%) of its income on the necessities of life. LICO is a relative, rather than an absolute, measure of need.

The Department commissioned research by members of the Faculty of Social Work at the University of Calgary and the Department of Ecology at the University of Alberta to study the financial characteristics and economic needs of seniors in Alberta using the LICO concept and Statistics Canada data for Alberta. The study, completed in 2009, found that the majority of seniors in Alberta reported income above the LICO, and that the income cut-off thresholds for the ASB Program were higher than LICO. In other words, the ASB income thresholds have been set at levels that support seniors in need of financial support.

Improve data—implemented

Background

In our *October 2005 Report* (no. 13—page 69), we recommended that the Department obtain further information necessary to make income threshold, cash benefit and supplementary accommodation benefit decisions for the ASB Program.

The Department's Seniors Services Division regularly analyzes data from a variety of sources. Its policy and planning group obtains data from sources such as Statistics Canada's surveys of household expenditures and Canada Revenue Agency data of seniors' incomes, which is analyzed by income type and age group.[7] This group also monitors activity on seniors' issues in other parts of the country and the world and prepares monthly environmental scans. The project and information management area collects internal data, such as information from seniors' financial assistance program applications, and uses it to produce monthly summary reports.

Management uses these reports to assess whether ASB income thresholds and cash benefits provide an adequate level of assistance based on analysis of Alberta seniors' income levels and average expenditures. It then makes recommendations to the Minister of Seniors and Community Supports about changes to ASB Program benefit levels.

Our audit findings

The Department has implemented this recommendation. It now obtains and uses additional information to determine' financial need when making decisions on ASB Program benefits and income thresholds.

The Department's sources of information include:

- an inter-provincial comparison of seniors' benefit programs and tax incentives—Comparisons include maximum monthly income support, maximum income level cut-offs and a variety of other financial support programs. This information is updated annually by the Department's policy and planning group.
- a study using the LICO concept—In order for this study to remain relevant, the Department

6 *Alberta Seniors and Community Supports 2008–2009 Annual Report*, page 28

7 For additional information on seniors income and expense information see *A Profile of Alberta Seniors* at http://www.seniors.alberta.ca/policy_planning/factsheet_seniors/factsheet-seniors.pdf

must use updated source data as it becomes available to re-calculate the results.

We verified that the Department used this information to support its recommendations to the Minister for changes to ASB benefits and income thresholds.

The Department also monitors changes to federal benefit programs that may affect ASB payments. For example, a recent increase in Canada Pension Plan benefits would have resulted in a reduction of ASB for approximately 35,000 seniors whose incomes were at the existing maximum income cut-offs. The Department recommended that maximum income thresholds increase so that the CPP increase would not result in the "claw back" of ASB benefits. An amendment to the Seniors Benefit Act General Regulation, made through an Order in Council[8], in June 2010, increased the ASB Program thresholds effective July 2010.

8 O.P. 173/2010

Protecting Information Assets—Follow-up

Summary

The Government of Alberta uses a variety of information technology systems to provide programs and services, and host and process personal information. Service Alberta is responsible for the security of the government's IT systems.

We made 12 recommendations to Service Alberta in our April and October 2008 reports on developing and implementing an IT control framework and three areas of IT security:
- secure development, operation and use of web applications
- security of wireless access to systems
- physical security and environmental protection of data in data facilities

Service Alberta has implemented two of these recommendations and made satisfactory progress toward implementing a further nine. We have repeated one recommendation from our original report.

What we did

In this follow-up audit, we assessed Service Alberta's progress to:
- develop and implement an IT control framework and help others communicate and use it
- develop and implement IT security policies, procedures and standards for web application, physical, and wireless security
- ensure IT security policies, procedures and standards are followed throughout the government

Why this is important to Albertans

Albertans need to know that the IT systems the government uses are secure and are available when needed.

What we found

Service Alberta worked with other ministries, through the Chief Information Officer Council, to start the development of an IT governance and control framework in 2008. Although the project did not meet its original timeline, work is progressing and Service Alberta, along with the Chief Information Officer Council, is developing new timelines, taking into account the availability of resources.

Service Alberta developed, approved and communicated 10 IT security directives that include policies, procedures, and standards. Service Alberta also worked with the Ministry of Infrastructure to develop and implement security standards for shared data facilities that store the government's information systems and data.

However, Service Alberta cannot yet demonstrate that government departments have implemented and are consistently following these security policies, procedures and standards.

What needs to be done

To ensure that government IT systems are secure and available when needed, Service Alberta needs to:
- complete the development and implementation of a government wide IT governance and control framework
- ensure that the ten IT security directives are consistently followed by government departments

Background

The Government of Alberta creates, uses and manages large volumes of highly sensitive and confidential information. This includes corporate financial data, ministry-specific business information and personal data about Albertans (for example, health care records and driver's licence data). The government has a responsibility under privacy legislation to safeguard this information.

This information is created on thousands of devices and is processed and hosted in electronic form on servers within ministries or at shared data centres throughout the province. This data, and the devices on which it is created, processed and stored, is collectively known as “information assets.”

An effective IT control framework and well-designed IT security controls can help protect these information assets from loss, misuse or theft. Service Alberta has the authority to develop, communicate, implement, monitor and enforce a standardized IT control framework and government security policies and standards.

IT control framework

IT control frameworks help organizations use IT systems for the greatest benefit and with the least risk. An IT control framework, properly implemented, can align business requirements, resolve technical issues, and identify risks and controls to reduce risks.

In our *April 2008 Report* (page 170), we reported on our systems audit of the government's IT governance and control frameworks and standards. Our initial objective was to evaluate whether departments properly identify risks and use an IT control framework to develop well-designed controls to mitigate them. We recommended that Service Alberta work with all ministries through the Chief Information Officer Council, to develop and promote:

- a comprehensive IT control framework
- guidance to implement well-designed and cost-effective IT control processes and activities

Service Alberta and the CIO Council agreed that collaboration with each ministry was needed, to:

- develop a common IT control framework and IT control process standards
- manage changes to the IT control framework
- communicate changes in the IT control framework to ministries and other government entities
- educate staff on implementing and consistently following the framework

Service Alberta and the CIO Council planned to develop these systems and processes by March 2009, with full implementation of this recommendation in 2010–2011. Service Alberta started an IT governance task force's charter in October 2008, and prepared a draft information management technology control framework overview and plan in October 2009, but did not meet the original implementation timeline. Revised completion dates, taking into consideration the availability of resources, are currently being prepared.

IT security controls

In our *October 2008 Report* (pages 53–91), we reported on an audit of systems the government uses to protect information assets. Our objective was to investigate whether the government had effective standards and procedures to protect its information. We examined policies, procedures and IT controls used by ministries, and looked at Service Alberta's role in developing and promoting IT controls to ministries. We made one recommendation to Executive Council, eight to Service Alberta and two jointly to Service Alberta and the Ministry of Infrastructure.

The October 2008 audit consisted of three separate but related systems audits:

- a web application that retrieves data from a server in response to requests received from an internet-facing application (*Web Application and Network Security Audit*)
- a wireless connection that allows access to a network on which the server resides (*Wireless Access Point Security Audit*)
- direct physical access or connection with the server (*Protection of Data Facilities Audit*)

It is possible to use any of these methods to access government information assets. Each of these areas of security depends on the other two. Without adequate protection in all three areas, attackers can focus on the path of least resistance (i.e., the area with the weakest controls) to gain unauthorized entry to the system. We concluded that the government's policies, procedures and standards to protect information assets were weak.

In 2008, we reviewed three sets of access controls: one for each of three ways to access data. For each one, we found a lack of adequate monitoring and detection of risk or threats. The overall security risks are magnified when these risks combine. The most worrisome conclusion from our work was that no single government functional area had the authority and responsibility to:

- design security for the government as a whole
- evaluate the effects of weak security in one part of the government and its impact on the rest
- detect attempted intrusions and respond to potential security threats across the government
- continually monitor the government's systems for threats and vulnerabilities, and develop remediation plans
- enforce the solutions required to keep the government's information assets secure

During our *Protection of Information Assets Audit* in October 2008, it became clear that the IT control framework recommendation we made in April 2008 needs to be implemented for Service Alberta to also implement our new recommendations. We continued to identify areas where there were insufficient security standards or directives from Service Alberta for other ministries to follow. In the absence of government wide policies, procedures, and standards, ministries did what they could or thought was adequate—often to the detriment of secured information assets. This put the government's ability to securely offer programs and services when needed at risk.

Audit scope and objective

The scope of this audit was to assess and report on Service Alberta's progress with implementing twelve recommendations from two previous audits. These recommendations focused on:

- *IT Control Framework*—our *April 2008 Report*
- *Protection of information assets*—our *October 2008 Report*

Our objective was to assess if the progress made implementing the twelve recommendations was reasonable and satisfactory and what—if anything—is still needed to fully implement them.

Criteria and approach

In our follow-up audit, we concluded that the criteria from our 2008 audits are still valid.

We considered Service Alberta responsible for implementing all recommendations from both audits, because Executive Council stated that Service Alberta has the authority to develop, implement, and enforce security policies throughout the government.

We surveyed a selection of departments to assess Service Alberta's ability to develop, communicate, implement, monitor and enforce information security policies and standards. We also assessed Service Alberta's ability to promote and offer guidance to departments to implement the *Information Security Management* ten directives and other security policies and standards.

Findings and recommendations

Recommendation from our April 2008 Report

IT control framework—satisfactory progress

In our *April 2008 Report* (no. 7—page 170), we recommended that the Ministry of Service Alberta, in conjunction with all ministries and through CIO Council, develop and promote:

- a comprehensive IT control framework, and accompanying implementation guidance, and
- well-designed and cost-effective IT control processes and activities

Background

In his response to our recommendations the President of the Treasury Board wrote:

> *The Ministry of Service Alberta will customize the comprehensive IT control framework to meet common government of Alberta requirements and specific departmental needs.*
>
> *Through a collaborative process with each Ministry, the department expects the framework to be developed in 2008–2009; full implementation of this recommendation is expected in 2010–2011.*

Service Alberta's response to our recommendation and in a subsequent presentation to the CIO Council indicated that:

- *Service Alberta is supportive and committed to work in conjunction with all ministries and through CIO Council, to develop and promote a comprehensive IT control framework, and accompanying implementation guidance, and well-designed and cost-effective IT control processes and activities.*
- *The comprehensive IT control framework customized to meet common GoA and specific departmental needs will be developed in 2008–2009.*
- *In terms of implementation, it is anticipated to launch in the latter part 2008–2009 and continue over 2009–2010 and 2010–2011 as the departments will likely have individual implementation plans and associated timelines integrated into their respective business plans.*

Our audit findings

Service Alberta agreed with our initial recommendation and with other ministries and through the CIO Council agreed that additional governance and control was needed. Service Alberta initiated a project through the CIO Council to develop an IT governance and control framework. The project is underway and scheduled to be completed in 2011–2012.

We requested all documentation and work completed by Service Alberta and the CIO Council on this recommendation. We were given access to the Service Alberta IT governance and control protected website. From this website we obtained and reviewed the following documents:

- *IMT Governance Task Force Charter*—January 23, 2009.
- *GoA IMT Control Framework Presentation*—August 2009
- *IMT Control Framework Overview and Plan*—October 2009
- *IMT Strategic Planning Control practices*—October 2009
- *IMT Control Management Matrix*—June 15, 2010

Through review of the documentation obtained on the website we determined that:

- Service Alberta and the CIO Council initiated a task force to develop and implement an IT governance and control framework
- Service Alberta and the CIO Council adopted a control framework based on COBIT
- the work by Service Alberta and the CIO Council developed:
  - an initial *IMT Control Framework Plan* on October 19, 2009
  - IMT *Control Management Matrix* on June 15, 2010

Through further review of documentation obtained directly from Service Alberta and on the website, we were able to determine that progress on the *IT Governance and Control* framework continues.

Examples of progress on the *Framework* include:

- Two of the three initial project task forces completed their work on directives—Strategic Planning and Project Management—that are now approved and part of the *Framework*. The directive on governance remains outstanding.
- The CIO Council was presented with the latest version of the *Framework* for consultation and feedback on July 22, 2010.
- Minutes of the meeting demonstrate that CIO Council was asked to determine which directives should be started next, based on risk and available resources:
  - It is not currently known what parts of the *Framework* will need a directive or how many directives will eventually be required to support the *Framework*. The number of directives required will be worked out through the three phases of completing the *Framework*.

Although work continues on the *Framework*, Service Alberta and the CIO Council have not yet finished the development and implementation of:

- a comprehensive IT control framework, and accompanying implementation guidance
- well-designed and cost-effective IT control processes and activities

To fully implement this recommendation Service Alberta must demonstrate that it has completed:

- development and communication of a comprehensive IT governance and control framework to all government departments
- provision of adequate guidance to departments to implement an IT control framework
- development and communication of well-designed and cost effective controls for departments to use to mitigate risks and achieve goals and objectives

We asked Service Alberta to provide us with their update project plan and timelines to complete the implementation of this recommendation by August 31, 2010.

Recommendations from our October 2008 Report

Central security office—satisfactory progress

Background

In our *October 2008 Report* (no. 4—page 53), we recommended that Executive Council immediately establish a central security office to oversee (develop, communicate, implement, monitor and enforce) all aspects of information security for organizations using the government's shared information technology infrastructure.

Our audit findings

Service Alberta implemented a Corporate Information Security Office (CISO) and an Executive Director was appointed in June 2009. The Executive Director reports to the Corporate Chief Information Officer (CCIO) for the province of Alberta and is responsible for all aspects of information and information technology security pursuant to the Service Alberta Minister's April 3, 2009 mandate letter.

Executive Council also confirmed that Service Alberta has the authority and responsibility to develop, implement, communicate, and enforce security policies and standards throughout the government.

The CISO developed and communicated ten information security management directives. These ten directives were approved by the CCIO on February 5, 2010. Through review of these documents we confirmed that the CISO successfully developed and implemented adequate security policies, procedures, and standards that would reasonably protect government information assets if properly implemented and consistently followed.

We also obtained sufficient evidence demonstrating that Service Alberta communicated and explained the security directives through the CIO Council and other forums throughout the government.

However, we were unable to obtain sufficient evidence that:

- departments implemented the security directives
- Service Alberta monitors and ensures that the security directives are consistently followed
- Service Alberta can enforce compliance with the security directives

To fully implement this recommendation Service Alberta must demonstrate that it:

- communicates and provides guidance when required to departments to understand and implement the security directives
- monitors or assesses departments for compliance with the security directives
- monitors the government's shared infrastructure to ensure that devices meet the standards set in the security directives
- enforces the security standards in the security directives by ensuring devices in the shared computing environment meet the standards, subject to a documented and approved Exceptions Process where a Deputy Minister completes a risk assessment and accepts the risk that a device does not meet the security standard

Web application standards and policies—implemented

Background

In our *October 2008 Report* (page 64), we recommended that Service Alberta, in conjunction with all ministries and through the Chief Information Officer (CIO) Council, develop and maintain detailed policies, procedures, and standards to build and operate secure web applications.

Our audit findings

We obtained and reviewed Service Alberta's *Security Directive #7—Information Technology Acquisitions, Development and Maintenance*. This directive identifies the requirements for securely developing and deploying applications—including web applications—throughout the government.

Through our review of the directive we confirmed that Service Alberta developed policies, procedures and standards to build and operate secure web applications. We also confirmed through review of other documentation and through inquiry with departments during our annual general computer control reviews, that Service Alberta sufficiently promoted these policies, procedures and standards to departments through the CIO Council or other means.

Although we consider this recommendation implemented, we will assess in future audits that Service Alberta ensures their security directives, including *Directive #7*, are reviewed, regularly updated and that the changes are communicated when needed.

Develop standards and policies to ensure web applications are built to required standards—recommendation repeated

In our *October 2008 Report* (no. 5—page 66), we recommended that Service Alberta develop and implement controls to ensure government web applications are safe.

Recommendation: web application controls

RECOMMENDATION NO. 7—REPEATED

We again recommend that Service Alberta, in conjunction with all ministries and through the Chief Information Officer Council, develop and implement well designed and effective controls to ensure all Government of Alberta web applications consistently meet all security standards and requirements.

Criteria: the standards for our audit

Service Alberta, in conjunction with ministries and through the CIO Council, should have well designed and effective control processes to:

- review the security of all web applications on the government's shared computing infrastructure
- ensure web applications consistently meet all security standards and requirements

Our audit findings

Key Point

No evidence of monitoring for compliance to Security Directives

We obtained and reviewed Service Alberta's *Security Directive #7—Information Technology Acquisitions, Development and Maintenance*. This directive identifies the requirements for securely developing and operating applications—including web applications—throughout the government.

We also obtained and reviewed *Directive #10—Compliance*. Through review of this directive we confirmed that section 3.2 requires:

- Ministry Deputy Heads to monitor for compliance with mandatory Information Security management policy instruments and to report the results to the Corporate Chief Information Officer.
- Information systems to be regularly checked for compliance with mandatory information security management policy instruments.

However, Service Alberta was unable to demonstrate it:

- developed and implemented procedures or controls to review and assess the security of all web applications using the government's shared computing infrastructure and ensure they consistently meet security directive standards and requirements
- obtained sufficient assurance from departments that their web applications using the government's shared infrastructure are:
  - properly secured before being implemented
  - regularly assessed to ensure they are updated and continually meet Service Alberta's security directive standards

To enable us to conclude that Service Alberta has made satisfactory progress on implementing this recommendation, it would need to demonstrate that it has documented well-designed controls that ensure requirements in *Directive #7—Information Technology Acquisitions, Development and Maintenance* are consistently met and to:

- review and approve that new web applications meet the security directive standards before being allowed into the shared computing infrastructure[1]
- regularly review and ensure that all existing web applications in the shared computing infrastructure consistently meet the security directive standards
- remove or bring into compliance all web applications in the shared computing infrastructure not meeting security directive standards

To fully implement this recommendation, Service Alberta must demonstrate that there are effective controls to ensure web application security directives, policies, procedures, and standards are followed. For example Service Alberta must ensure that it:

- adequately and continually monitors and assesses the security of all web applications using the government's shared computing infrastructure
- takes action to remove or secure web applications that do not meet the standards as set out in *Directive #7*:

> *Exceptions to meeting web application security directives, policies, procedures, and standards must be documented and approved through the Exceptions Process where a Deputy Minister completes a risk assessment and accepts the risk that an application does not meet the security standard.*

Shared network policies, procedures and standards—satisfactory progress

Background

In our *October 2008 Report* (no. 6—page 68), we recommended that Service Alberta work with all ministries and through the Chief Information Officer (CIO) Council, to develop and implement security policies, procedures, standards, and well designed control activities for the Government of Alberta's shared computing network.

Our audit findings

We confirmed that Service Alberta's ten directives were finalized on January 22, 2010, and approved by the Corporate Chief Information Officer on February 5, 2010. These directives apply to all government departments. The CISO also developed and provided policy advisory guides to departments to supplement further detail requirements set in the security directives to mitigate security risks in government and departmental operating environments.

We reviewed the CISO security directives and agree that if implemented and consistently followed, the policies, procedures and standards in them would reasonably ensure the confidentiality, integrity and availability of government information systems and data.

Security Directive #10—Compliance, section 3.2 requires:

- *Ministry Deputy Heads to monitor for compliance with mandatory Information*

1 The shared computing infrastructure is any part of the Government of Alberta's computing environment that is hosted or administered by Service Alberta.

Security management policy instruments and to report the results to the Corporate Chief Information Officer (CCIO).

- *Information systems to be regularly checked for compliance with mandatory information security management policy instruments.*

In response to our recommendations from October 2008, Executive Council determined that Corporate Internal Audit Services (CIAS) will conduct periodic audits of Service Alberta's security systems and protocols once they are developed. CIAS will also perform periodic audits of ministries to give assurance that the directives are being implemented.

We met with representatives from CIAS and confirmed that they are aware of their role in ensuring compliance with the security directives approved in January 2010. We determined that CIAS has concluded it would be appropriate to conduct audits to assess the development or implementation and compliance with Service Alberta's ten security directives over a four to five year cycle, beginning in the 2011–2012 audit year. CIAS is currently in the initial planning and knowledge gathering stages for this four to five year cycle.

Some milestones for CIAS include:

- started knowledge gathering of the requirements to assess the ITM security directives
- will finish the plans for their security directives assessments/audits by June 30, 2011
- these plans will be based on a risk assessment of the ten security directives
- will start their assessment of ministries for their implementation and compliance with the security directives starting in the 2011–2012 audit year
- plan to assess all ministries for initial implementation and compliance by March 31, 2015

Through our assessment, we did not identify current procedures or controls that ensure government departments are properly implementing the directives and can demonstrate that they are meeting them.

To fully implement this recommendation, Service Alberta must demonstrate that they have adequate controls to monitor, assess, and ensure that the security directives are being implemented and followed by government departments.

Wireless policies and standards—satisfactory progress

Background

In our *October 2008 Report* (page 75), we recommended that the Ministry of Service Alberta, in conjunction with all ministries and through the Chief Information Officer (CIO) Council, update its existing *Wireless LAN Access Security Policy* to provide clearer guidance to ministries in deploying and securing wireless-network-access points.

Our audit findings

We obtained and reviewed Service Alberta's ten security directives.

We found that *Directive #5—Communications and Operations Management* references wireless security requirements. Specifically, it requires that wireless local area networks include:

- encryption of information transmitted over the wireless network
- user and device network access controlled by authorized authentication services
- network access control

We also found that *Directive # 6—Access Control* includes the requirement to scan for unauthorized network equipment—including wireless access points.

We were also informed that the Government of Alberta is including wireless technologies in its upcoming *ICT Bundle 6 Activities—the Unified Communications RFP* process. *Bundle 6* will encompass all communications across the GoA, including the deployment and surveillance of wireless communications. The request for information (RFI) for this bundle was previously posted on Alberta Purchasing Connect.

However, we did not find sufficient evidence to demonstrate that Service Alberta has:

- offered guidance to departments to help them deploy a secure wireless solution
- ensured that wireless solutions in use are properly secured and meet the requirements of *Security Directive #6*
- defined what is required to secure a wireless wide area network—should one be desired to be implemented

To fully implement this recommendation Service Alberta must demonstrate that it:

- provides guidance to departments to deploy a secure local area wireless network
- ensures wireless solutions meet *Security Directive #6*
- has defined security standards for a wireless wide area network

Device configurations—satisfactory progress

Background

In our *October 2008 Report* (page 76), we recommended that the Ministry of Service Alberta, in conjunction with all ministries and through the Chief Information Officer (CIO) Council, review the configuration of laptops, and approve policies to prevent laptops from inadvertently exposing the government environment.

Our audit findings

Through our review of the security directives we confirmed that the CISO developed and promoted security requirements for portable computing—including laptops.

The CISO in *Directive # 6—Access Control*, section 4.7.1 states that:

> *...appropriate controls must be implemented to mitigate security risks associated with the use of portable computing devices such as laptops or personal digital assistants.*

Further 4.7.1.1 details the implementation expectations for administrative safeguards and minimum technical standards.

However, we were unable to obtain sufficient evidence to demonstrate that Service Alberta has effective procedures to ensure that departments are meeting their standards.

To fully implement this control, Service Alberta must demonstrate that it has an effective procedure to ensure that departments and government entities are complying with the mobile computing standards it defined and implemented in *Security Directive #6*. Service Alberta must also demonstrate it has an effective procedure to obtain results of compliance with this policy from Ministry Deputy Heads as per section 3.2 of *Directive # 10—Compliance.*

Ongoing monitoring and surveillance—satisfactory progress

Background

In our *October 2008 Report* (no. 7—page 77), we recommended the Ministry of Service Alberta, in conjunction with all ministries and through the Chief Information Officer (CIO) Council, update network surveillance methods to detect and investigate the presence of unauthorized wireless access points within the Government of Alberta.

Our audit findings

We obtained and reviewed *Security Directive #6—Access Control*. We confirmed that there are defined requirements for information custodians to restrict the ability of users to physically and logically connect to networks according to the access control procedures defined by information controllers and may include scanning for unauthorized network equipment (e.g., unauthorized wireless access points and virtual local area networks).

We also confirmed that section 3.2 of *Security Directive #10—Compliance,* also requires that Ministry Deputy Heads self-report to the CISO that they are meeting the security directives.

Through inquiry, we were informed of a pilot project to install Port-Based Network Access Control that is based on the IEEE 802.1X wireless standard by installing 801.1X certificates on GoA client machines. The pilot project is to assess the ability to successfully prevent unauthorized access through the use of unauthorized devices at the physical layer.

We were also informed that although there are security standards to prevent unauthorized devices, Service Alberta still does not have documented and effective procedures to monitor for and prevent unauthorized devices from entering the computing environment.

To fully implement this procedure, Service Alberta must demonstrate that it has effective procedures to monitor the government's IT networks to identify unauthorized devices and take the necessary steps to investigate and resolve identified issues.

Increasing collaboration by ministries—implemented

Background

In our *October 2008 Report* (page 84), We recommended that the Ministry of Service Alberta and the Ministry of Infrastructure work in conjunction with all ministries and through the CIO Council to improve physical and environmental security controls of data facilities by:

- improving communication of responsibilities between ministries
- establishing government-wide minimum physical and environmental standards for data facilities

Our audit findings

We obtained and reviewed the:

- Ministry of Infrastructure's defined and approved physical and environmental security standards for Alberta's shared data centers
- Service Alberta's *Security Directive #4—Physical and Environmental Security Directive*

Through review of these documents we determined that:

- there are now adequate standards for physical and environmental security for shared and distributed data facilities
- if the directives, procedures and standards are implemented and consistently followed, they would reasonably protect the government's data and systems

We also obtained documentation demonstrating that Service Alberta and Infrastructure:

- and other departments are communicating these standards and the associated procedures
- have plans to upgrade data centers and the associated responsibilities to ensure the new standards are consistently met

Physical and environmental security

The next three recommendations are similar in nature and we used the same or similar documentation and evidence to confirm that satisfactory progress is being made. Therefore, we document the individual recommendations and their specific criteria below and the combined audit findings we used for all three.

Backup power supplies—satisfactory progress

Background

In our *October 2008 Report* (page 85), we recommended that the Ministry of Service Alberta, work in conjunction with all ministries and through the Chief Information Officer (CIO) Council, to ensure that ministries that use data facilities ensure that connected computer equipment has a sufficient redundant power supply.

Physical security—satisfactory progress

Background

In our *October 2008 Report* (no. 8—page 87), we recommended that the Ministry of Service Alberta work with the Ministry of Infrastructure and in conjunction with all ministries and through the Chief Information Officer (CIO) Council, to improve:

- physical security controls at data facilities
- logging of access to data facilities by implementing effective controls to track access

Environmental security—satisfactory progress

Background

In our *October 2008 Report* (page 89), we recommended that Ministry of Service Alberta work with ministries to improve the environmental security controls at shared data facilities.

Our audit findings

For the three preceding recommendations, Service Alberta developed and implemented physical and environmental standards through their security directives. We reviewed *Directive #4—Physical and Environmental Security.* We also reviewed the Ministry of Infrastructure's physical and environmental security standards for Alberta's shared data centers.

Through review of these documents we determined that:

- there are now adequate standards for physical and environmental security for shared and distributed data facilities
- if the directives, procedures and standards are implemented and consistently followed, they would reasonably protect the government's data and systems

We also obtained additional documentation from the Ministry of Infrastructure. Through review of this documentation we determined that the ministry hired a consultant to develop recognized government standards for shared data facilities based on the size and number of servers accommodated.

The consultant also prepared a gap analysis of physical and environmental security needs for server rooms and ranked their priority—based on the risk to the systems and available resources.

Updates to shared data facilities are now ranked according to a high medium, low or more information needed scale. The costs required to bring the server rooms up to the new standards was also determined for each shared data facility (SDF).

The documentation states SDFs will be upgraded based on the priority list and available funds and resources. However, the Ministry of Infrastructure provided information that during the past year, they and Service Alberta:

- upgraded or provided back-up power to meet the new standards in 31 of the 41 shared data facilities
- upgraded the security and other electrical capabilities in 21 of the 41 SDFs
- implemented improvements to security, back-up power and air cooling in eight distributed server rooms managed by other ministries
- developed a 3–5 year plan to upgrade the remaining shared and distributed data facilities on the priority list pending availability of resources and funding

We did not perform additional audit testing to confirm that these upgrades were implemented. When upgrades to all SDFs are finished, we will select a representative number of SDFs, and reassess all of their physical and environmental security controls.

We were unable to obtain sufficient evidence to demonstrate that the Ministries and Infrastructure and Service Alberta have adequate procedures or requirements to ensure that physical and environmental security alerts and issues are properly:

- monitored
- logged
- responded to
- resolved

To fully implement these recommendations, Service Alberta and Infrastructure must demonstrate that:

- SDFs consistently meet all required physical and environmental security standards

- SDFs have adequate back-up power, and critical devices are properly connected to that source
- SDFs have adequate user access controls
- access to SDFs is logged and monitored
- physical and environmental security alerts are monitored and logged and are then properly responded to and resolved

Assessing and Prioritizing Alberta's Infrastructure Needs—Follow-up

Summary

What we examined

In 2007, we audited systems the Department of Treasury Board (the Department) used to assess and prioritize infrastructure needs of departments and supported organizations that rely on the Government for their infrastructure needs. We made five recommendations in our *October 2007 Report*, starting at page 29. This year, we conducted follow-up work to assess the Department's progress in implementing the recommendations that it should:

1. Finish developing the guidelines that define the roles and responsibilities of government departments and other organizations that rely on government funding for their infrastructure needs.
2. Develop objectives, timelines, and targets for reducing deferred maintenance, and include information on reducing deferred maintenance in the province's Capital Plan.
3. Require life-cycle costing information for proposed infrastructure projects, and establish a process that enables public infrastructure assets to be properly maintained over their life.
4. Improve the process to evaluate proposed infrastructure projects that departments submit.
5. Examine how the information submitted to Treasury Board can be improved.

Why it is important to Albertans

Albertans depend on programs and services that rely on infrastructure that government owns or funds. The province's highways, schools, hospitals and parks are built and maintained with infrastructure funding. Because the government does not have unlimited funds, it needs to make choices about infrastructure spending. Albertans need to know that the government has chosen the infrastructure to build based on what is most important to meet program needs.

What we found

The Department developed a *Capital Planning Manual* that clarified the roles and responsibilities of all participants, and provided guidance on the capital plan process. The Department made satisfactory progress improving the process to evaluate proposed infrastructure projects by working closely with the departments to determine the criteria that should be used to rank projects, and improving the process to apply the criteria consistently. We cannot conclude that the recommendation is implemented because the Department needs to complete a capital planning cycle using this process, and it should develop an information system to better facilitate the capital planning process.

For the 2011–2014 and future capital plans, the Department will require departments to include life-cycle costs for proposed projects, including the cost to maintain the infrastructure over its life. This improvement will help the government make better decisions on infrastructure, since knowing the total cost of infrastructure over its life is more relevant than just the initial purchase cost.

However, the Department has not made any meaningful progress in establishing a process that enables publicly funded infrastructure assets to be maintained over their life. The Department has made some improvements in the quality of the information on the condition of infrastructure, but it still doesn't have a plan, with timelines and targets, for reducing deferred maintenance.

The Department still needs to assess how the current information available for Treasury Board to make funding decisions can be improved.

What remains to be done

The Department still needs to determine how best to maintain existing infrastructure over its life. This includes improving its processes so it has good information on:

- the condition of existing infrastructure

- the life-cycle costs to maintain it over its life, and
- the deferred maintenance that, if not corrected, impacts program and service delivery, future maintenance costs, or life of the infrastructure.

The Department needs to develop a plan, with timelines and targets to reduce the deferred maintenance. It also should include this information in the publicly reported capital plan, or some other form of public reporting, as this is important information to demonstrate the government's accountability for maintaining valuable provincial infrastructure.

The Department has not yet completed its examination of how the information provided to Treasury Board can be improved to assist them in making decisions on how to allocate capital funding. Examples of factors that the Department will need to consider include:

- how to summarize infrastructure needs between new projects and maintaining existing assets
- how to summarize information so that decision makers get an appropriate amount of detail on proposed projects
- how approving new infrastructure will impact future maintenance costs, and the impact in terms of service quality and overall costs of maintenance, if that maintenance is deferred
- how to summarize key qualitative information, such as health and safety issues

Audit objectives and scope

Our audit objective

Our audit objective was to determine if the Department of Treasury Board has implemented the five recommendations from our 2007 report by:

- establishing guidelines that define the roles and responsibilities of government departments and other organizations that rely on government funding for their infrastructure needs
- developing objectives, timelines and targets for reducing deferred maintenance, and including information on reducing deferred maintenance in the province's capital plan
- requiring life-cycle costing for proposed infrastructure projects, and establishing a process that enables public infrastructure assets to be maintained over their life
- improving the process to evaluate proposed infrastructure projects that departments submit
- examining how the information submitted to Treasury Board can be improved

Our scope

We limited our audit work to the Department of Treasury Board's processes to carry out their responsibilities, and focused on the Department's actions since our original audit. The following chart summarizes the responsibilities of the government, the Department of Treasury Board, and departments. A complete list of the key players and their responsibilities can be found in the appendix—see page 97.

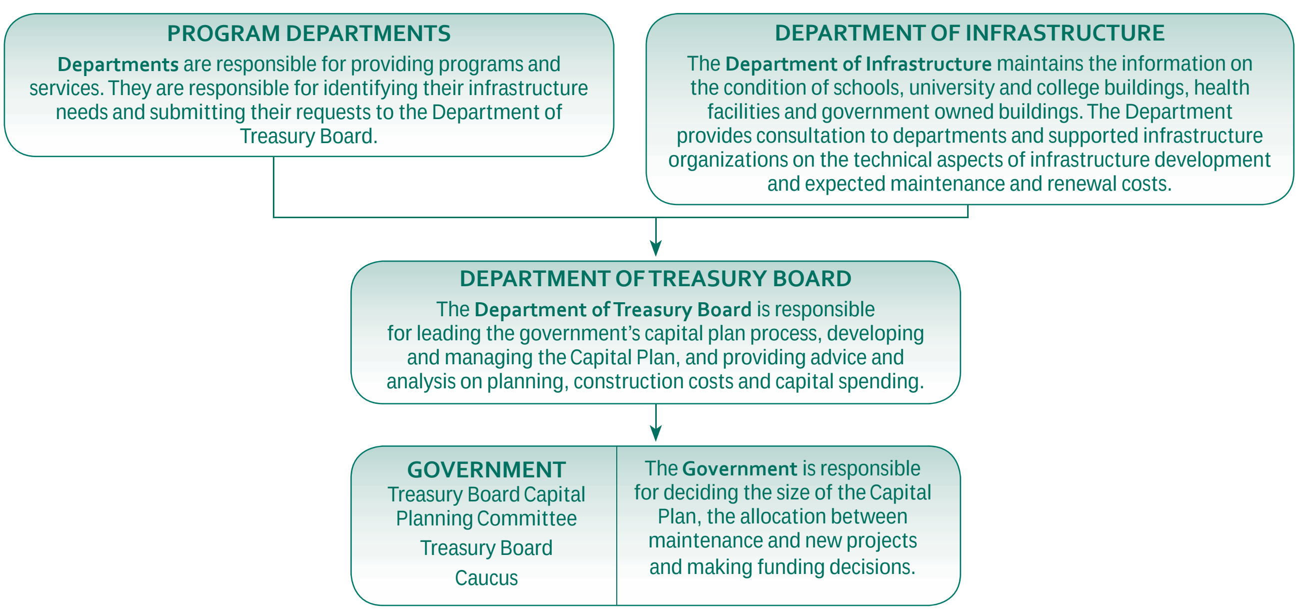

Figure 1: Chart of the responsibilities for infrastructure planning

We interviewed management and staff of seven program departments that represented a cross-section of infrastructure needs to enable us to assess the Department of Treasury Board's processes:

- Department of Health and Wellness for health care facilities
- Department of Education for schools
- Department of Advanced Education and Technology for university and college buildings
- Department of Transportation for roads and highways
- Department of Infrastructure for government buildings
- Department of Environment for water management infrastructure such as dams
- Department of Tourism Parks and Recreation, for parks

We conducted our fieldwork from January to July, 2010. As in our 2007 audit, we did not examine the process to allocate infrastructure grants to municipalities. Our interviews with the staff of the departments focused on the 2010–2013 capital plan process.

The Department solicited input from departments on the *2010–2013 Capital Plan* process and made changes for the *2011–2014 Capital Plan*. We examined the Department's process to make those changes through document review and discussion with the Department of Treasury Board's staff.

2006–2007 Annual Report	Original Recommendation	Status Based on Our 2010 Follow-up audit
No. 1, page 39	Finish developing guidelines that define the roles and responsibilities of government ministries and other organizations that rely on government funding for their infrastructure needs.	Implemented
No. 2, page 49	Develop objectives, timelines, and targets for reducing deferred maintenance and include information on reducing deferred maintenance in the province's Capital Plan.	Recommendation repeated
No. 3, page 54	Require life-cycle costing information for proposed infrastructure projects, and Establish a process that enables public infrastructure assets to be properly maintained over their life.	Satisfactory progress. The Department needs to complete the 2011–2014 Capital Plan before we can assess that the recommendation is implemented. Recommendation repeated
No. 4, page 57	Improve the process to evaluate proposed infrastructure projects that ministries submit.	Satisfactory progress. The Department needs to complete the 2011–2014 Capital Plan before we can assess that the recommendation is implemented.
No. 5, page 59	Examine how the information submitted to Treasury Board can be improved.	Progress not assessed

Table 1: Status of the original recommendations based on our 2010 follow-up audit

Findings and recommendations

Roles and responsibilities – implemented

Background

We recommended that the Department of Treasury Board, working with departments, finish developing the guidelines describing roles and responsibilities for assessing and prioritizing individual infrastructure projects. It should then have communicated the guidelines and developed processes for monitoring department's compliance with the guidelines.

Our audit findings

The Department of Treasury Board took the following steps to implement the recommendation:

- consulted with departments on the roles and responsibilities for capital planning and the process to prioritize projects
- used the findings from the consultation process to draft Alberta's *Capital Planning Manual*
- tested the process and draft *Capital Planning Manual* used for the 2010–2013 capital plan submissions
- developed a pre-screening process and reviewed departments' submissions for

compliance with its requirements, and requested departments to correct their submissions
- consulted with departments on the process and manual to identify areas for improvement
- established committees to recommend solutions to the problems identified
- recommended changes to the process and manual to a committee of Assistant Deputy Ministers
- incorporated the approved changes into the process and manual for the 2011–2014 capital plan submissions

Deferred maintenance—recommendation repeated

Background

When maintenance is not done when required, it is referred to as deferred maintenance. In our *October 2007 Report* (vol. 1—page 49), we reported that a deferred maintenance backlog had developed over time as a result of not maintaining infrastructure. The Financial Management Commission had recommended five years earlier, in 2002, that the province develop a plan to deal with deferred maintenance over the next five years. Although the government had accepted the recommendation, there was still no plan to deal with deferred maintenance when we reported in 2007.

The Department's response to our recommendation, and the government's *20-Year Strategic Capital Plan*, announced in January 2008, was that they believed that the focus should have been on all maintenance, whether deferred or not, and that maintenance should be addressed on a risk basis, with the greatest risk items addressed first.

We agreed with the Department that the focus should be on all maintenance requirements. We had recommended that the Department should establish a sustainable process to ensure that all public infrastructure assets are maintained, (see page 91). However, the backlog of deferred maintenance needed to be addressed.

Funding for capital maintenance and renewal is provided in a variety of ways:
- departments request funding for capital maintenance and renewal:
  - departments submit requests through the annual capital planning process
  - departments submit requests to the Department of Infrastructure for funding from the Capital for Emergent Programs Fund, for emergency funding between capital planning cycles
- annual block funding for capital maintenance is provided to departments responsible for education, post-secondary education and health care—The departments distribute this funding directly to the supported organizations.
- capital maintenance and renewal funding for infrastructure assets that were procured through long-term contractual arrangements (public-private-partnership arrangements—P3) is included in the contract—Eighteen schools, for example, were recently acquired under a P3 arrangement. The contract included 30 years of maintenance and facility renewal.[1]
- funding for capital maintenance and renewal was provided to departments and supported organizations, under the *Surplus Allocation Policy*. In *Budget 2007*, the government had established a *Surplus Allocation Policy*, and at least one-third of any surpluses were to be used for capital maintenance and renewal.

Information on the physical condition of infrastructure is stored in three main information management systems:
- the Department of Transportation's system (TIMS) tracks the physical condition and utilization of roads and highways
- the Department of Environment's system (EIMS) tracks the physical condition, utilization and functionality of the province's water management systems such as dams
- the Department of Infrastructure's system (BLIMS) tracks the physical condition of the government owned buildings and supported organizations such as school boards—The Department of Infrastructure prepares the

1 http://education.alberta.ca/media/1320820/asapip3valueformoneyassessmentandprojectreport.pdf

performance information on the physical condition of buildings. Beginning in 2004–2005, the Department started updating the information on buildings based on independent evaluations. The Department's goal was to complete an evaluation of each facility every five years.

The Department of Infrastructure requests that school boards and post-secondary institutions update the information in its information system and provides access to these organizations to enable them to access the system directly. The Department of Infrastructure told us that they plan to make the updating of school information mandatory for the 2010–2011 fiscal year, but have not yet made it a requirement for post secondary institutions and health facilities.

Criteria: the standards for our audit

1. The Department of Treasury Board should use a disciplined needs assessment and prioritizing process to recommend funding allocations to decision makers.
2. Complete, relevant and accurate information should support the needs assessment and prioritizing process.
3. The Capital Plan should include information on the current amount of deferred maintenance, and the government's plan to reduce it.

Recommendation: deferred maintenance

RECOMMENDATION NO. 8—REPEATED

We again recommend that the Department of Treasury Board, in consultation with departments, develop objectives, timelines and targets for reducing deferred maintenance, and include information on deferred maintenance in the province's Capital Plan.

Our audit findings

Key Points

- No meaningful progress in implementing recommendation
- Still no objectives, timelines or targets for reducing deferred maintenance
- Deferred maintenance still not reported publicly
- Process for maintaining current information of maintenance requirements not operating e ectively

We repeat the recommendation because the Department still has not made any meaningful progress in developing objectives, timelines and targets for reducing deferred maintenance, and has yet to include information on deferred maintenance in its Capital Plan, or some other similar form of public reporting. The Department did not complete its plan by December 2008, which was the target of the original implementation plan, and in its August 2009 status report to our office no longer specified a completion date.

It has made some progress in both updating its process to prioritize maintenance submissions and in obtaining more complete information on the current condition of infrastructure. However, the Department has yet to implement a sustainable system to ensure current infrastructure condition information is available for summarizing and making recommendations to Treasury Board. Ultimately, Treasury Board provides recommendations to Cabinet on the funding decisions.

As discussed on page 91, the Department does not have a process in place that enables ongoing maintenance for new infrastructure to occur as needed. Until this is done, the risk exists for the current deferred maintenance balance to grow.

The Department made improvements in:

- the process to prioritize departments' requests for capital maintenance and renewal funding—For the *2010–2013 Capital Plan*, the Department of Treasury Board required departments to submit information for each capital maintenance and renewal request: physical condition, likelihood of the infrastructure failing, and impact if it fails. This information enabled the Department to rank the risk of each project from low to high.

- the information on the physical condition of buildings—The Department has more complete information on the physical condition of buildings than it had in 2007. Evaluations to independently assess the condition of supported infrastructure buildings are still not complete, but have improved since 2007 based on the information the Department of Infrastructure provided us.

Type of buildings	Number of buildings	Facilities included in the Building Information System (BLIMS)		Independent evaluations completed to assess the condition of the facility	
	2010	2007[2]	2010	2007	2010
Post-secondary	325	100%	100%	58	228
Schools	1,505	100%	100%	325	1,424
Health Facilities	389	0%	25%	0	83

Table 2: Source: Department of Infrastructure, unaudited

The process to keep the information on the physical condition of buildings current is not operating effectively. The following table uses the Department of Infrastructure's timelines to determine the average number of years between evaluations for supported organizations.[3] The average number of years between evaluations is greater than the Department of Infrastructure's goal of completing evaluations every five years.

Department	Number of buildings to be evaluated	Fiscal year the evaluations were started	Fiscal year in which one evaluation of each facility will have been done	Average number of years between evaluations
Advanced Education	325	2005–2006	2011–2012	7
Education	1,505	2004–2005	2009–2010	5
Health	389	2008–2009	2017–2018	10

Table 3: Source: Department of Infrastructure,unaudited

The process to keep information on the physical condition of buildings current needs to be improved. The Department of Treasury Board does not have a process to provide assurance to Treasury Board that information on building condition is the most current and accurate, since there is no consistent process where that data is updated by all organizations, accurately and regularly. There is no evidence that all school boards and post-secondary institutions are updating the information on the condition of buildings between evaluations because their participation has been voluntary. It will be mandatory for school boards for the 2010–2011 fiscal year, but there is currently no requirement for post-secondary institutions and Alberta Health Services to update the information.

We reviewed the access logs to assess whether school boards and post-secondary institutions update the facility data and found that the data bases were accessed regularly. However, the Department of Infrastructure could not tell us whether all organizations that should have updated the data had done so because they don't track that information.

The Department of Treasury Board cannot ensure the accuracy of the information on the physical condition of buildings on its own. However, since its mandate is to establish and oversee the overall capital planning framework and budgeting for the province, and it is responsible for providing information to decision makers, it has a role to play to see that the information gathered is complete and accurate. Therefore, it will have to work closely with other departments, including most importantly the Department of Infrastructure, to enable good information to exist.

The government did not allocate the surpluses in accordance with the policy as described in *Budget 2007.*[4] The government allocated approximately $1.6 billion to capital maintenance and renewal, which was approximately $2.25 billion less than the amount that would have been allocated based on the description of the policy in *Budget 2007.*

2 *Annual Report of the Auditor General of Alberta 2006–07*, vol. 1, p. 52.

3 We did not verify the information provided to us by the Department of Infrastructure. We used the information provided to determine the average number of years between evaluations, assuming that the number of evaluations conducted per year is constant.

4 www.finance.alberta.ca/publications/budget/index.html

	Capital Maintenance and Renewal
The amount that should have been allocated under the policy	$3.85 billion[5]
The amount actually allocated	$1.6 billion
Difference between the policy and the actual allocations	$2.25 billion

Table 4: Allocation to Capital Maintenance and Renewal under the *Surplus Allocation Policy*

Surpluses for the quarter ended June 30, 2009, were primarily allocated to strategic initiatives such as the Green Transit Incentives Program and the Carbon Capture and Storage Initiative, which were each allocated $2 billion, and to new infrastructure. In effect, the policy was changed.

Implications and risks if recommendation not implemented

Infrastructure may cost more than it should over the life of the asset and may have to be replaced prematurely. Public safety and effective program delivery may be at risk.

Maintaining existing infrastructure—recommendation repeated

Background

We modified the wording our original recommendation made in our *October 2007 Report* (no. 3, vol. 1—page 54). That recommendation stated that the Department of Treasury Board needed to establish a process to ensure public infrastructure assets are properly maintained over their life. However, the Department does not determine funding levels, so we changed the wording to reflect that the Department needs to establish a process that provides information needed to determine maintenance requirements for infrastructure assets over their life. Our expectation is that the Department provides the information to Treasury Board on the amount of funding needed to properly maintain infrastructure. Treasury Board will then make recommendations to Cabinet on funding levels.

When we reported in 2007, the Department did not follow a disciplined maintenance regime, such as it used for assets contracted through long-term contracts (P3 partnerships). The Department required departments to submit the costs to acquire and operate the proposed infrastructure, but didn't require the maintenance and renewal costs. Knowing the total cost of infrastructure over its life would provide decision makers with better information about which projects to fund.

In January 2008, the government announced its strategic long-term capital plan for the province.[6] The government's maintenance and renewal approach was outlined in the plan.[7]

- As a "*risk-based approach for addressing all capital maintenance and renewal requirements.*
- *The approach will be based on information that identifies critical capital maintenance and renewal needs for Alberta.*
- *Once the need is determined in an accurate and verifiable manner, an action plan will be implemented.*
- *The action plan will also implement a system to monitor and report on the condition of Alberta's assets to ensure maintenance issues are addressed in a timely manner.*
- *The government will continue to address the most critical maintenance and renewal issues through existing programs.*"
- The *Surplus Allocation Policy* "*will continue to help address critical maintenance and renewal issues in the years to come".*

By December 2007, the Department had completed a *State of Infrastructure Report*, to identify potential issues and strategies to deal with capital maintenance and renewal. The Department initially

5 Under this policy, if the annual surplus was higher than the budget estimate, two-thirds of the unbudgeted surplus would go to capital needs, and at least 50% of the capital share had to be used to address capital maintenance and replacement.

6 The *20-Year Strategic Capital Plan to Address Alberta's Infrastructure Needs,* January 29, 2008, http://www.treasuryboard.alberta.ca/capitalplanning.cfm

7 Page 65, The *20-Year Strategic Capital Plan to address Alberta's Infrastructure Needs,* January 29, 2008, http://www.treasuryboard.alberta.ca/capitalplanning.cfm

planned to follow the approach described by the government in the long-term strategic plan and would:

- by June 30, 2008, develop a framework for assessing and measuring all government infrastructure requirements, including maintenance and renewal
- by September 30, 2008, in consultation with other departments, determine the specific requirements for owned and supported infrastructure, and recommend a plan to fulfill the requirements over an appropriate period of time
- by September 30, 2008, in consultation with departments, complete an assessment of the needs regarding information requirements for measuring the effectiveness of capital maintenance and renewal strategies

Recommendation: maintaining assets over their life

RECOMMENDATION NO. 9—REPEATED

We again recommend that the Department of Treasury Board establish a process that enables public infrastructure assets to be properly maintained over their life.

Criteria: the standards for our audit

1. The costs of providing the government program and maintaining facilities should be estimated for capital projects' expected useful life when projects are assessed.
2. Infrastructure maintenance should occur when needed to protect the service life of the asset; it should not be deferred past that time.

Our audit findings

Key Points

- Departments will now be required to submit information on the cost of maintaining assets over their life for proposed projects
- But still no process for providing complete and accurate information on funding requirements for capital maintenance and renewal to decision makers
- For projects carried out by private sector, capital maintenance and renewal requirements governed by contract

The Department has made satisfactory progress in implementing the first criterion because it will require departments to submit all costs associated with projects, including the acquisition, operating and maintenance and renewal costs, starting with the *2011–2014 Capital Plan.*

We have repeated the part of our recommendation related to the second criterion because the Department still has not established a process to provide complete and accurate information to decision makers on the funding needs for maintaining new and existing infrastructure that it self-finances, even though it has established effective processes to maintain infrastructure constructed and financed under long-term contractual arrangements with the private sector (P3 arrangements). The Department has structured those contracts so that the payments include the capital maintenance and renewal for 30 years. Contractors' payments will be contingent upon them completing the maintenance agreed to in the contracts which will enable the infrastructure to be properly maintained.

The Department did not meet its timeline of September 30, 2008, as the date it would have recommended a plan to government to maintain existing infrastructure. In August 2009, the Department told our office that their work was ongoing but did not have an estimated completion date.

In January 2010, the Departments of Treasury Board and Infrastructure established a Sustainability Stewardship Committee to advance life-cycle costing and measures of infrastructure performance for government owned and supported buildings. The Department of Treasury Board told us that they will initially focus on buildings as they feel that the government's current information on life-cycle costing is more advanced for roads, bridges and water management systems.

At the Committee's first meeting in June 2010, members agreed on the working committees that will be established and their priorities. At subsequent meetings, the Committee will define its mandate and terms of reference, and develop timelines for the priorities that have been established.

Implications and risks if recommendation not implemented

Infrastructure may cost more than it should over the life of the asset and may have to be replaced prematurely. Public safety and effective program delivery may be at risk.

There may be a disconnect in the service levels between assets the government self-finances, and those it acquires through contracts that include construction and maintenance of the infrastructure.

Process to prioritize infrastructure projects—satisfactory progress

Background

In our *October 2007 Report* (no. 4, vol. 1—page 57), we recommended that the Department improve the process to evaluate projects that departments submit. We focused primarily on proposed new projects and made the recommendation because we noted two areas where improvements were needed: in the criteria used to rank projects, and the Department's process apply the criteria consistently and the information systems used for infrastructure planning.

Our audit findings

Key Points

- Improvements made relating to the process for ranking new infrastructure projects
- Still too early to determine if decision makers have good information on health and safety risks
- No progress to improve functionality of capital planning information system

Based on our examination of the Department's 2010–2013 capital plan process, and the proposed changes for the 2011–2014 process, we concluded that the Department has made satisfactory progress implementing changes to deal with the weaknesses noted in the criteria and the process to apply the criteria consistently. We also concluded that the Department has not made progress in improving the functionality of the capital planning information system. Overall, given the improvements, we note progress as satisfactory.

The Department made satisfactory progress regarding the criteria used to rank new infrastructure projects, by:

- reviewing the criteria, in consultation with departments, and testing the revised set of criteria for the *2010–2013 Capital Plan*
- debriefing the 2010–2013 process with departments, and establishing a sub-committee to review issues and recommending changes for the *2011–2014 Capital Plan*
- adopting the sub-committee's recommendations, thereby correcting the deficiencies identified by departments at the debriefing sessions—The sub-committee reviewed other jurisdictions' processes to evaluate projects and concluded that the criteria used for the *2010–2013 Capital Plan* covered most areas of importance, but recommended additional criteria to incorporate health and safety concerns, and other economic, social and environmental aspects of projects.

During our audit of Alberta's Water Supply (our *April 2010 Report,* pages 53 to 79), we noted that the Department of Environment's dam rehabilitation projects had not scored well against other infrastructure projects submitted for the *2010–2013 Capital Plan*. We said that we would try to understand why they didn't score well when we did this follow-up audit. Environment had submitted these projects as their highest priorities based on their overall risk. Risk was determined based on: the condition, what would happen if the problem was not corrected, and the likelihood it would happen. In the 2010–2013 process, health and safety issues did not have points assigned, however, information on these issues was brought forward through the written department submissions.

For the *2011–2014 Capital Plan*, points will now be assigned for health and safety issues. However, it is still too early for us to determine if decision makers have good information on health and safety risks when they make their funding decisions. We still need to see how the Department summarizes the information for decision makers, either through the follow-up of this recommendation and the recommendation below, or a systems project on infrastructure health and safety, before we can assess whether decision makers have adequate information on factors such as health and safety risks.

The Department made satisfactory progress regarding its process to apply the criteria consistently for new infrastructure projects, by:

- expanding the peer review of each department's ranking of the criteria for their projects from a single department to all departments
- providing each department an opportunity to present their proposed projects to their peers prior to the review of the ranking of the criteria by the group
- debriefing the 2010–2013 process, with departments, and establishing a sub-committee to review the issues and recommend changes for the *2011–2014 Capital Plan*, and
- adopting the sub-committee's recommendations, thereby addressing the issues identified by departments at the debriefing sessions—The key changes adopted were to separate the presentation by departments of their projects to their peers from the review of the ranking of the criteria, and to reduce departments' time commitment by establishing online review and scoring.

The Department improved the process to prioritize maintenance and renewal projects by:

- requiring departments to submit their assessment of the physical condition of the infrastructure and the likelihood of the infrastructure failing, and the impact if it fails, and
- using the information to rank the projects by risk

The Department has not made satisfactory progress improving the capital planning information (CPI) system, and the issues we identified in 2007 still exist. The CPI system still does not produce summary information for Treasury Board, such as the ranking of maintenance and renewal submissions noted above. The system cannot produce historical reports such as prior years' submissions. The process places heavy reliance on Excel spreadsheets to manipulate data for reporting which is both inefficient and prone to error without appropriate safeguards in place.

The Department told us that they plan to request funding in the *2011–2014 Capital Plan* to replace the existing system. Between May and July 2010, the Department contracted for a needs' assessment that it could use as the requirements document for development of a new information system.

What needs to be done

In order to finish implementing the recommendation, the Department needs to:

- complete a capital planning cycle using the process it developed—Assess with departments whether what is available for the prioritization process and summarized for decision makers represents the information decision makers need to assess the projects.
- develop an information system that meets its needs

Information to Treasury Board—progress not assessed

Background

In our *October 2007 Report* (no. 5, vol. 1—page 59), we recommended that the Department of Treasury Board, working with the Treasury Capital Planning Committee, examine how the current information provided to Treasury Board can be improved.

The Department of Treasury Board planned to complete their initial assessment of the information requirements of the Committee and Treasury Board by April 2008, with annual updates thereafter. The

Department told us that revisions to the *Capital Plan Manual* have delayed implementation of the recommendation.

Examples of factors that the Department will need to consider include:

- how to summarize infrastructure needs between new projects and maintaining existing assets so that decision makers understand the risks and costs of approving one project over another
- how to summarize information so that decision makers get an appropriate amount of detail on proposed projects.
- how approving new infrastructure will impact future maintenance costs so that decision makers understand the impact it will have on both current and future budgets
- how not maintaining new infrastructure will impact the overall cost of maintenance or the service life of the infrastructure
- how to summarize key qualitative information about projects, such as health and safety issues and the environmental impact

Roles and Responsibilities for Capital Planning

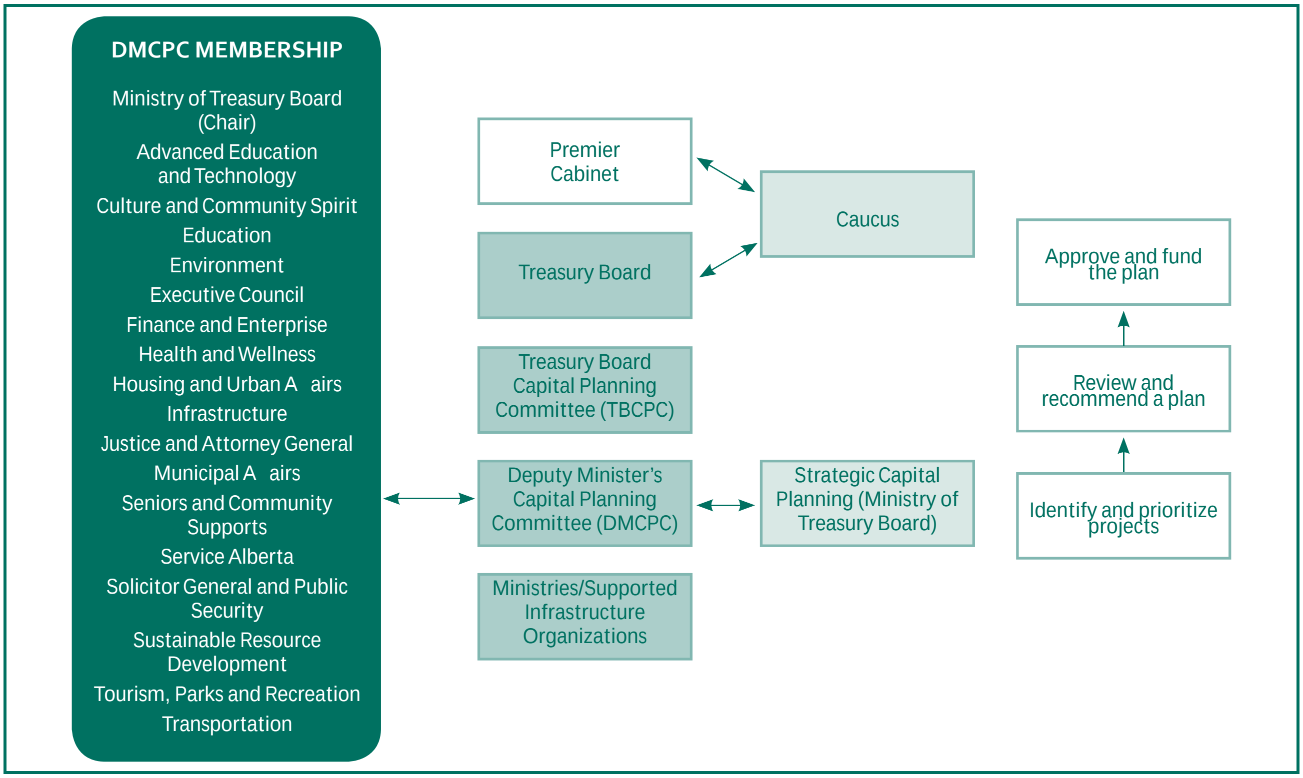

Figure 1: Organizational chart for capital planning, *Alberta's Capital Planning Manual,* June 28, 2010, page 25.

Cabinet	Approves the overall parameters of the capital plan, including its overall size, the basic allocation to funding envelopes and any portion of capital planning dollars to be alternately financed.
Caucus	Provides input to Treasury Board on capital plan priorities and reviews the Treasury Board Capital planning Committee (TBCPC) recommendations.
Treasury Board	Reviews capital requirements and capital plan options, directs the Deputy Minister' Capital Planning Committee (DMCPC), consults with Caucus, and provides recommendations to Cabinet on: • overall parameters of the capital plan, including size, allocation to funding envelopes, and funding within the fiscal plan • funding options • individual priority projects, and • viable P3 projects
Treasury Board Capital Planning Committee (TBCPC)	Consists of five members of Treasury Board. The Committee's primary responsibilities are to: • provide advice and make recommendations on matters relating the province's three year capital plan

- assess the DMCPC's recommendations regarding the strategic direction of the capital plan, including program service priorities, potential scenarios, and alternative capital procurement options
- provide an independent assessment regarding capital budget and resource allocation decisions
- provide timely and complete information to Caucus regarding the government's capital plan

Deputy Ministers' Capital planning Committee (DMCPC)

Consists of Deputy Ministers from all program ministries with infrastructure needs, and is chaired by the Deputy Minister of the Department of Treasury Board. The DMCPC is responsible for providing advice and recommendations to Deputy Minister, Ministry of Treasury Board regarding:

- three-, five- and ten-year capital requirements for government owned and supported infrastructure
- ministry and cross ministry capital project and program priorities
- long-term capital plan alternatives
- strategies to address deferred maintenance
- strategic impacts of the capital plan
- allocation of new funding to capital program envelopes
- alternative capital financing of projects
- ongoing capital project status reports, including potential in-year changes to the capital plan

Department of Treasury Board

Establishes and oversees the overall capital planning framework and budgeting for the province. The Department is responsible for:

- co-ordinating the capital plan process, setting timeframes and submission expectations, compiling ministry submissions, overseeing joint activities such as the prioritization process, and developing capital budget scenarios
- acting as the secretariat for DMCPC, coordinating requests from ministries, developing policy proposals and plan scenarios, and preparing reports and presentations

Advisory Committee on Alternative Capital Financing (ACACF)

Advises Treasury Board on alternative capital financing options, and the feasibility and desirability of proposed P3 projects.

Program ministries

Are responsible for:

- determining their individual program needs and the infrastructure required to support those program needs
- developing performance measures for assessing the performance of their infrastructure from a condition, utilization and functional adequacy perspective
- preparing business cases for each infrastructure project, and determining the scope and cost of priority projects with the assistance of the technical ministries

Technical Ministries Consists of the ministries of Infrastructure, Transportation, and Service Alberta. Technical ministries provide consultation to program ministries and supported infrastructure organizations on the technical aspects of infrastructure development and expected project costs. The Ministry of Infrastructure maintains the information on the condition of government owned buildings, schools, post secondary institutions, and health facilities.

Financial Statement Audits and Other Assurance Work

Report of the Auditor General of Alberta—October 2010

Government of Alberta and Ministry Annual Reports

Financial statements

Our auditor's opinion on the Government of Alberta's consolidated financial statements for the years ended March 31, 2010 and 2009 is unqualified.

This year, the government included the SUCH sector in its financial statements using line-by-line consolidation. Previously, the SUCH sector was included using modified equity consolidation. In accordance with accounting standards, the government restated its prior year financial statements, to make them comparable to the line-by-line consolidated financial statements. We issued our auditor's opinion on both years to communicate that we had audited both the current year, and the restated prior year.

We are satisfied that the transactions and activities we examined in financial statement audits complied with relevant legislative requirements. As auditors, we test only some transactions and activities, so we caution readers that it would be inappropriate to conclude that our testing would identify all transactions and activities that do not comply with the law.

We issued unqualified auditor's opinions on ministry financial statements for the years ended March 31, 2010 and 2009.

Performance measures

Prior-year recommendation

Analysis and review of performance measures—satisfactory progress

In our *October 2009 Report* (no. 16—page 136), we recommended that the Ministry of Treasury Board work with Ministries to improve processes at the Ministry level relating to analysis and review of performance measures. We also recommended that the Ministry of Treasury Board establish a protocol with Ministries whereby it is informed of proposed changes by Ministries to performance measures methodology in a timely manner.

Our audit findings

For the 21 measures that we audited, we noted that substantially all ministries used the materiality guidance and checklist to prepare the performance information. We noted improvement in the level and consistency of analysis, documentation and review of performance information by management at ministries.

In order to fully implement this recommendation, the Ministry of Treasury Board needs to work with ministries to continue to facilitate their understanding of requirements for analysis, documentation and review of performance information. This could be done by holding a debriefing session on the results of the current year process with ministries and presentation of a workshop on how to determine materiality.

Modify the profiles to more specifically refer to and explain changes planned to measures.

Public performance reporting

Measuring Up

We audited 21 of the 62 performance measures in *Measuring Up* and were able to issue an unqualified auditor's opinion.

Ministry annual reports

We reviewed 108 performance measures included in 23 ministry annual reports and were able to issue 23 unqualified review engagement reports.

The Province of Alberta has issued Public Performance Reports (PPRs) including government-wide and ministry business plans and annual reports since the mid 1990s. The objective of the PPRs is to provide performance information (both financial and non-financial), that allows the citizens of Alberta to assess the government's overall performance. This is accomplished by publishing strategic three-year business plans and annually reporting on the progress made in achieving those plans. The role of the Auditor General in the public reporting process has been to add credibility to performance reporting and to recommend improvements in that reporting.

In 2007, government approached CCAF-FCVI, Inc.[1] (CCAF) to undertake a direct dialogue with the users of the government's PPRs. The purpose of this dialogue was to identify ways the government could improve its PPRs to better meet the needs of users—legislators, the media and the citizens of Alberta. The government accepted 20 of the 25 recommendations and is currently working on implementing those recommendations.

In 2008–2009 the government, acting on one of the CCAF recommendations, conducted research into the best practices of online performance reporting and developed basic principles for moving government PPR's from the current book-based format to web-based performance reporting.

In May 2010, the government made significant changes to the requirements and timelines to prepare PPRs. The changes are intended to refocus the business plans and annual reports at a strategic level and improve the timeliness and readability of ministry annual reports. These changes included:

- Effective with Budget 2011, ministry business plans are limited to four pages, from about 12 pages, to encourage ministries to focus only on the ministry's strategic goals, strategies and performance measures.
- Effective in 2011, ministry annual reports will be released at the end of June 2011, rather than the end of September. The Ministry and government annual report will be released at the same time, thereby providing in a timely manner, the ministry financial and non-financial information that supports the aggregated information in the government annual report.
- Effective with 2009–2010 ministry annual reports, ministries are to focus on reporting only key information in ministry annual reports. However, ministries are also encouraged to provide supplemental information on their website that readers may find useful regarding their ministry's performance. Ministries are to present a balanced discussion of the ministry's overall results and performance (financial and non-financial). Ministries are discouraged from discussing every performance measure or strategy published in the ministry business plan. However, they are encouraged to discuss those results where there is a significant variance from targeted results or the previous year's results, and where strategies resulted in significant improvements in programs and services or proved to be challenging in their implementation.

Audit of performance information

We currently carry out audits and limited assurance reviews on selected performance measures in government and ministry annual reports at the request of government. Although the above changes to the timing of annual report release dates present staffing challenges to our Office, we are committed to reviewing our practices and determining how we can meet the needs. One of the primary issues is the requirement to staff both financial statement audits and performance measures reviews at the same time.

1 CCAF-FCVI, Inc., was created in 1980 as the Canadian Comprehensive Auditing Foundation—La Fondation canadienne pour la vérification integrée.

Aboriginal Relations

There are no outstanding recommendations for this Ministry or the organizations that form it.

Financial statements

Our auditor's opinions on the financial statements of the Ministry and Department of Aboriginal Relations for the years ended March 31, 2010 and 2009, were unqualified.

Performance measures

The Ministry engaged us to review selected performance measures in the Ministry's 2009–2010 Annual Report. We issued an unqualified review engagement report on these measures.

Advanced Education and Technology

Summary

The Department of Advanced Education and Technology

The Department should improve its controls over the student finance program by:

- properly approving changes to student loan programs and communicating the changes to staff
- reviewing and approving changes to assumptions and methodologies used in calculating the allowance for loan subsidies—see page 108

Entities that report to the Minister

We have made several recommendations to the University of Calgary over the last few years. The University has made substantial progress implementing the recommendations arising from our financial statement audit work, with one notable exception being its progress to deal with access security to programs and data—see page 112. In our systems audit section—page 43, the University implemented three of seven recommendations related to research management, but still has substantive issues to resolve on the other four recommendations. Overall, the University has improved its controls and processes for budgeting, executive compensation, payroll documentation and journal entries. We reported that the University has made satisfactory progress in improving the effectiveness of its control environment. We are encouraged by the progress made to deal with our recommendations, but stress that continued execution of the innovative Support Services (iS^2) and Institutional Research Information Services Solution projects is key to implementing the remaining recommendations.

This year, we conducted audits at two universities to determine if they have effective information technology governance and project management systems. We found that:

- Grant MacEwan University established an effective governance structure and well-designed project management standards, policies and procedures to implement its new enterprise resource planning system. This included providing relevant and timely information to the Project Steering Committee, Executive Committee and Audit and Finance Committee on the project status such as actual cost compared to budget, work completed, risks and mitigating strategies—see page 29
- Athabasca University management is unable to demonstrate that investments in IT projects achieved the expected results and benefits. Athabasca University needs to improve its IT governance systems, project management systems, reporting on project status, and resolving inefficiencies in its financial, human resources and payroll systems—see page 19

Athabasca University should also:

- assess the risks and take the necessary steps to establish appropriate off-site disaster recovery facilities that include required computer infrastructure to provide continuity of critical IT systems
- complete and test its existing disaster recovery plan to ensure continuous services are provided in the event of a disaster—see page 110

The University of Lethbridge should improve its endowment policies and procedures by:

- clarifying its goals for preserving the real value of endowments, and how it plans to achieve this
- tracking investment income between amounts for preserving the real value of investments and amounts available for spending—see page 118

For outstanding recommendations previously made to the organizations that form the Ministry, please see our outstanding recommendations list on page 203.

Department of Advanced Education and Technology

Findings and recommendations

Student finance program

Background

The Department provides financial assistance to students attending Alberta post-secondary institutions. Students receive loans interest-free during their studies, but must repay the loan with interest after they complete their studies. The Department also provides relief to students whose loan balance exceeds certain debt levels. Management makes various assumptions and uses methodologies to calculate this relief and to estimate year-end balances for the Department's financial statements. These assumptions include interest rates, repayment periods and default rates.

The Minister delegates certain powers, duties and functions to various levels of Department staff. These delegated powers are conferred on the Minister under the *Alberta Heritage Scholarship Act* and its regulations and the *Student Financial Assistance Act* and its regulations.

Recommendation: improve controls over student finance program

RECOMMENDATION

We recommend that the Department of Advanced Education and Technology improve its controls over the student finance program by:

- properly approving changes to student loan programs and communicating the changes to staff
- reviewing and approving changes to assumptions and methodologies used in calculating the allowance for loan relief completion payments and loan subsidies

Criteria: the standards for our audit

The Department should have effective controls over the student finance programs. This includes appropriate review and approval of changes to programs, assumptions and methodologies, communicating the changes to staff, and an independent review of calculations.

Our audit findings

Key Point

Certain changes to the student loan program, assumptions and methodologies were not properly reviewed and approved

The Department has made considerable improvements in how it estimates the allowance for loan relief completion payments. Based on our testing and review of the Department's testing, we agree with the reasonableness of this estimate.

However, the Department could improve its processes and controls over changes to the student financial assistance programs. We found the following issues:

- In August 2009, the Department changed the minimum debt level used to calculate loan relief completion payments (loan remissions) from $2,500 to $2,805 for students who started their studies in 2004–2005 and earlier. However, the Executive Director, the Minister's delegated authority, did not approve the change until March 1, 2010 retroactive to August 2009, after we requested evidence of the approval.
- The Department did not sufficiently communicate the loan relief change to staff. As a result, some staff used the new minimum debt level while others continued to use the old minimum debt levels to calculate the loan relief completion payments to students. We estimated that the Department awarded students approximately $284,000 more than they were eligible for under the original remission levels. Management decided not to correct the error through revision of the student's loan balances or through recovery of payments from students.
- The Department changed the methodology to calculate the loan repayment period that it uses in the year-end estimates related to the student loan portfolio. However, the Department does not have a process to document the rationale, and to review and approve any changes.
- The Department did not follow its process, which requires an independent person to review the assumptions and calculations used in calculating the year-end estimates. Student

finance staff incorrectly calculated the interest rate used in the student loan calculation as the average of four years, rather than three years. This resulted in the interest rate changing from 4.09% to 4.7%. Management corrected the calculation after we brought the error to their attention, and adjusted the financial statements by $2.7 million.

Implications and risks if recommendation not implemented

The Department may not adhere to legislation, regulations and policies, if program changes are not properly approved. Without independent verification of its assumptions and calculations for year-end estimates of loans, the Department might incorrectly provide loan relief to students and use inaccurate estimates that result in incorrect decisions.

Guidance to institutions on IT control frameworks—progress report

Background

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 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. In our *April 2010 Report* (page 171), we restated the recommendations to recommend that the Department of Advanced Education and Technology, through the Campus Alberta Strategic Directions Committee, give guidance to public post-secondary institutions on using an IT control framework to develop control processes that are well designed, efficient and effective.

The Department and institutions created a Project Steering Committee, consisting of chief information officers and senior financial officers from institutions, to oversee the project.

Management's actions

Twenty-four of 26 post-secondary institutions are currently participating in this project. The Department recently presented the control framework and its six over-arching policies to the Project Steering Committee for final approval. The framework allows individual institutions to use the high-level policies and tailor them and the related procedures, processes and standards to meet the institution's needs.

Once institutions approve and adopt the policies, they will be able to focus on implementing procedures and standards to support the policies. The Department contracted with a third party to provide assistance to develop and communicate procedures, processes and standard templates for each institution to use. These templates will allow institutions to tailor templates based on a risk assessment so that procedures and standards are reasonable for each institution. They will also ensure that there are individualized, but similar standards and controls throughout the province that meets a minimum standard.

To fully implement this recommendation, the Department must complete the framework, policies, procedures and standards and provide guidance to post-secondary institutions on how use the IT control framework to implement well designed policies and control processes.

Institutions' annual report standards—implemented

In our *October 2009 Report* (page 144), we recommended that the Department of Advanced Education and Technology improve its requirements for post-secondary institutions' annual reports to ensure that these institutions and their management are accountable for their control and use of public resources.

The Department has revised the annual report guidelines that requires post-secondary institutions to include in their annual reports:

- an accountability statement
- an acknowledgment of management's responsibility for reporting and internal controls, signed by the president/chief executive officer and senior financial officer
- management's discussion and analysis, which should provide a balanced discussion of the institution's overall results and performance, including reporting on performance measures—Institutions are also to link financial results to the progress in achieving goals, expected outcomes, strategies and initiatives set out in the institution's business plan.

We consider the recommendation implemented. In future, as part of our audits of institutions, we may review the Department's processes to monitor institutions' compliance with the new guidelines.

Grant accountability—implemented

Background

In our *October 2009 Report* (no. 17—page 142), we recommended that the Department improve its processes for managing conditional grants. The Department had not yet fully implemented its monitoring and accountability processes for the Access to the Future Fund, even though the fund started in 2006–2007. The Department had also not received accountability reports from most institutions for one-time funds for credit program expansion, and did not have a process to follow-up with institutions to review how they use funds or to identify if any funds remain unspent.

Our audit findings

Key Points

- Department implemented new monitoring and accountability processes over grant funds
- New processes implemented to obtain accountability reports

Access to the Future Fund

To obtain reasonable assurance that the institutions have met the eligibility requirements for the matching grants, the Department has:

- provided more guidance in the *Renaissance Fund Guide* to institutions for calculating their eligible donations
- established a timeframe of three years for spending these funds and achieving outcomes
- implemented a pre- and post-review process to assess if institutions met their eligibility criteria—The Department visited several institutions to review the eligibility and use of funds.
- communicated reporting requirements to ensure the appropriate and timely use of grant funds

Enrolment planning envelope

The Department has implemented a tracking system to ensure that it receives accountability reports from institutions. It requested institutions to submit their outstanding accountability reports for the 2007–2008 and 2008–2009 grants. Once received, Department management reviews the reports to ensure the documentation is appropriate and that the expenditures support the objective for which the funds were intended. All accountability reports for the 2007–2008 grants had been received and documentation for two reports that we reviewed appears appropriate.

Entities that report to the Minister

Athabasca University

On page 19, we report the results of our systems audit of the University's IT Governance, Strategic Planning and project management policies, processes and standards.

Information technology resumption plan

Background

The University relies heavily on its IT systems and infrastructure to deliver online student courses, including course materials and course evaluations, as well as for the University's daily corporate financial activities. Failure to recover promptly from a disaster affecting the University's data centre would significantly affect the University's ability to continue providing these services.

Disaster recovery planning includes the policies, procedures and infrastructure needed to recover and continue technology services critical to an organization, after a natural or human-induced disaster. Disaster recovery planning is a subset of a larger process known as business continuity planning. It should include planning to resume applications and recover data, hardware, communications (such as networking) and other IT infrastructure. A well-designed and frequently tested disaster recovery plan can better prepare the University to recover from a major outage or a total loss of its IT infrastructure, within an identified timeframe.

Recommendation: establish IT resumption capabilities

RECOMMENDATION NO. 10

We recommend that Athabasca University:

- assess the risks and take the necessary steps to establish appropriate off-site disaster recovery facilities that include required computer infrastructure to provide continuity of critical IT systems
- complete and test its existing disaster recovery plan to ensure continuous services are provided in the event of a disaster

Criteria: the standards for our audit

The University should have:

- an up-to-date disaster recovery plan (DRP) that is based on a risk assessment of critical IT services and business requirements for the continuity of these services
- a documented and effective back-up and restoration plan for its critical applications and IT infrastructure
- effective plans and means to test the DRP regularly using an off-site IT recovery facility
- effective procedures to assess the adequacy and completeness of the DRP after testing

Our audit findings

Key Points

- Disaster recovery plan outdated, partly incomplete and not yet tested
- No o -site recovery facilities to recover IT systems within required timeframes

The University prepared a DRP in 2008, but has not updated it since then. The DRP includes recovery roles, responsibilities and contact information, as well as a high-level risk assessment. The risk assessment identifies priority systems the University must recover first, to continue services to students. The University has tested its ability to restore data from back-up media using its data centre in Athabasca. However, it has not completed defining specific recovery procedures or tested its DRP.

In addition, the University does not have an off-site recovery facility or a contractual arrangement for such a facility. An off-site recovery facility would allow the University to recover critical student and financial systems within required timelines in the event of a failure of the University's data centre. The University could work with institutions that have similar requirements, to share recovery facilities and equipment services and costs, thereby improving the cost-effectiveness of this service.

Implications and risks if recommendation not implemented

The University may be unable to systematically recover data or resume critical business and student services within the required timeframes.

University of Alberta

Security configuration settings—implemented

In our *October 2007 Report* (vol. 2—page 24), we recommended that the University of Alberta obtain assurance that its service provider maintains security configurations for the outsourced services as contracted.

The service provider provided a report that shows the security settings and configurations in PeopleSoft meet its security standards, except where exceptions were previously documented and agreed to by both parties. Effective July 1, 2010, the University receives application services from a new service provider. The University plans to obtain assurance from the new service provider through an independent audit over the security controls. We consider this recommendation implemented as the University has a contractual provision to obtain assurance from the service provider. In future, we will review the results from the service provider and the steps to remediate any issues noted.

University of Calgary

We have made several recommendations to the University of Calgary over the last few years. The University has made substantial progress implementing the recommendations, with some notable exceptions. For the fourth time, we repeated the recommendation that the University improve controls over access security to programs and data, as the University has been too slow in taking sufficient action to implement the remaining parts of this recommendation. In our systems audit section—page 43, we reported on the University's progress to implement recommendations from our *October 2004 Report* and *October 2005 Report* related to research management. The University implemented three of seven recommendations, but we repeated four recommendations because substantive issues still remain several years after we made the first recommendation.

The University has improved its controls and processes for budgeting, executive compensation, payroll documentation and journal entries. Also, we reported that the University has made satisfactory progress in improving the effectiveness of its control environment—see page 114. Despite having five repeated recommendations, we are encouraged by the progress made on the Innovative Support Services (IS^2) and Institutional Research Information Services Solution projects. The execution of identified key deliverables for these projects should deal with our past recommendations. However, we stress that the University must adhere to key activities and timelines identified for the projects—see pages 114 and 115.

Access security to programs and data—recommendation repeated

We first made this recommendation in our *October 2006 Report* (vol. 2—page 24). We repeated this recommendation three times since then in our *October 2007 Report* (vol. 2—page 13), *October 2008 Report* (no. 22—page 219), and *October 2009 Report* (no. 19—page 155). For the fourth time, we repeat the recommendation because the University has been too slow in taking sufficient action to implement the remaining parts of this recommendation to mitigate PeopleSoft security risks this past year. We are making this recommendation for a fifth time.

Background

In April 2004, the University started a three-year project to move several critical business and financial processes to PeopleSoft, an ERP (see glossary on page 233). Considerable time has passed since our original recommendation and the University has implemented parts of our recommendation.

Recommendation: improve access to data and systems

RECOMMENDATION NO. 11—REPEATED

We again recommend that the University of Calgary improve controls in the PeopleSoft system by:
- finalizing and implementing the security policy and the security design document
- ensuring that user access privileges are consistent with both the user's business requirements and the security policy

Criteria: the standards for our audit

The University should have well-designed and effective procedures to reduce the risk of unauthorized or inappropriate access to PeopleSoft programs and data by:
- implementing a comprehensive security policy and maintaining an up-to-date security design framework for the PeopleSoft control environment
- controlling access to programs and data by defining and enforcing procedures to identify, authenticate and authorize the use of PeopleSoft and to ensure that only authorized changes are made to user accounts (additions, deletion, changes) and that they are made promptly
- developing and implementing a security policy for administrative systems

- implementing an effective control process to periodically review the appropriateness of user access rights and restricting user roles and functions they can perform

Our audit findings

Key Points

- Developers of enhancements to PeopleSoft system still have access to live system
- No process yet to remove contractors' and non-employees' access

The University completed a review of PeopleSoft privileged and administrative access, and developed an "access security matrix" for PeopleSoft role-based security as a part of the security design document. However, the University did not make satisfactory progress to control access to PeopleSoft and restricting the user roles and the functions users can perform. We confirmed that developers of enhancements for the PeopleSoft system continued to have excessive access to the PeopleSoft production environment. This is a separation of duties conflict that could allow one person to bypass critical management controls and make unauthorized changes to the PeopleSoft system or its data.

The University must ensure its access security matrix defines who can have privileged access to the production system and under what circumstances. For example, developers should not have access to the production system unless other mitigating controls are in place. When there is a separation of duties conflict with access or roles in the PeopleSoft system, the University must ensure there are other mitigating controls to reduce the risk that unauthorized changes are made to the PeopleSoft system or its data.

We also confirmed that the process for removing user access does not remove the access of contractors and other non-employees. We were informed that the University plans to incorporate the functionality to remove contractor and other non-employee access to PeopleSoft when no longer required. We observed that this is a part of the information security work plan for 2010.

The University made progress by:

- integrating the human capital management and student administration system modules to support the overall PeopleSoft security requirements
- implementing an integrated vulnerability assessment infrastructure to monitor and identify defined security incidents—We confirmed that this vulnerability assessment process monitors the PeopleSoft system for security incidents and compliance to the security policy requirements.
- implementing an automated tool for removing user access no longer required as a result of staff terminations

To fully implement the recommendation, the University must:

- restrict user and privileged access for administrators, developers and database administrators within the PeopleSoft system
- ensure that PeopleSoft security design document is completed, reviewed and approved by senior management, and then fully implemented
- have well-designed or automated control processes to ensure that when an individual with access to the PeopleSoft system leaves the University or changes job roles, access to all applications and systems—including PeopleSoft—is either terminated or changed to reflect their new job roles
- regularly review account access for:
  - possible conflicts with other roles
  - ongoing business need
  - appropriateness of access for the job

Implications and risks if recommendation not implemented

Weak access controls to and within PeopleSoft may result in unauthorized access to confidential data, entry of unauthorized transactions, and the accidental or deliberate destruction or alteration of data. Poor controls may also allow the unauthorized release of confidential student or financial information.

Improving the University's control environment—satisfactory progress

Background

In our *October 2008 Report* (no. 21—page 213), we recommended that the University of Calgary improve the effectiveness of its control environment by:

- assessing whether the current mix of centralized and decentralized controls is appropriate to meet its business needs
- defining clear goals, responsibilities and accountabilities for control systems' design, implementation and monitoring
- documenting its decentralized control environment and implementing training programs to ensure those responsible for business processes have adequate knowledge to perform their duties
- monitoring decentralized controls to ensure processes operate effectively

The University is in the final phase of a multi-year business transformation project called Innovative Support Services (iS^2). The project is focused on improving internal controls, clarifying roles and responsibilities, leveraging the University's purchasing power and process automation, discovering efficiencies across departments and improving cost effectiveness.

To update our understanding of the University's progress to implement this recommendation, we interviewed management, reviewed iS^2 project documents provided to the audit committee and obtained iS^2 reports such as the *Project Charter* and *Financial Accountability and Authority Framework.*

Criteria: the standards for our audit

The University's control environment should ensure that:

- business processes are efficient and result in timely and accurate financial and non-financial information
- employees have adequate knowledge and are properly trained to perform their duties
- controls are well-designed, understood, documented, assessed for adequacy and centrally monitored for effectiveness
- roles and responsibilities are defined to ensure controls are properly implemented, improved, maintained and monitored

Our audit findings

Key Points

- Key deliverables identified for implementation phase
- *Financial Accountability and Authority Framework* is foundation for policies and changes to processes
- Final implementation expected to be completed by June 2011

The project's planning and development phases were completed in October 2009. These phases included detailed planning and process changes for critical support services in human resources, facilities and spend management, finance and information technologies. The iS^2 project team identified key deliverables and dates for each work stream for the implementation phase (phase 3).

The *Financial Accountability and Authority Framework* endorsement by the Board of Governors is a key milestone of the implementation phase, as it is the foundation for implementing the policies and business process changes expected throughout the final two phases of the iS^2 project. The framework clarifies who is authorized to make decisions and who is accountable for delivering on those decisions, relating to financial resources. The key elements of the framework are the role-based definitions of what individuals can and cannot do and role-based dollar value thresholds for approvals for operating, capital and research expenditures. We have reviewed this framework and agree it defines clear goals, responsibilities and accountabilities for controls systems' design, implementation and monitoring.
Other key priorities of the implementation phase include the following:

- preparing to establish and enable a campus-wide shared service delivery framework
- beginning to implement widespread compliance monitoring with key policies and business processes

- identifying changes to core financial processes to meet the unique needs of research
- making key decisions on the scope of, initial implementation of and initial business requirements for critical PeopleSoft improvements

The priorities of the final phase (phase 4) focus on implementing and adopting new accountabilities, authorities, processes and policies using PeopleSoft's automated workflows, system controls and improved access to information. Key areas include:
- the *Accountability and Authority Framework* being enabled by PeopleSoft
- Shared Service Delivery Team deployed
- support units being reorganized as required
- research financial processes and organization redesign complete
- changes to core financial processes to meet the unique needs of research
- design changes to PeopleSoft, with appropriate support provided

To fully implement this recommendation, the University must adhere to the key activities and timelines identified for the final two phases of the iS^2 project. Specifically, the University needs to complete its plan to:
- document its control environment and implement training programs to ensure those responsible for business processes have adequate knowledge to perform their duties
- monitor controls to ensure processes operate effectively

Prepare approved budget on an accrual basis—implemented

Background

In our *October 1999 Report* (page 83), we recommended that the University of Calgary prepare its budget on an accrual basis, reporting all transactions in the same way they would be reported in its financial statements.

At that time, we found that the University's used a cash based model for budgeting instead of an accrual model. It treated certain non-expense items, such as capital acquisitions and internal transfers, as operating expenditures. Also, its budget did not account for amortization costs, donations, pension liability changes or certain restricted revenues and related expenditures, such as sponsored research, and showed certain expenditures on a net basis instead of a gross basis.

Our audit findings

Key Points
- Improved budget practices resolved deficiencies
- Budgets are prepared on an accrual basis

The University fully implemented our 1999 recommendation by preparing its recent years' budgets using the practices it uses for its financial statements. To resolve the critical deficiencies highlighted in our original audit, University management changed its budget practices to include:
- separating and excluding non-expense items such as capital acquisitions from its operating budget expenses
- reflecting previously excluded items such as amortization costs, restricted revenues and expenses, and annual estimates of pension expenses
- preparing a separate capital budget, which clearly shows how the planned projects are to be funded
- reporting components such as ancillary services on a gross basis, showing expected gross revenues and expenses instead of a net result

Balanced budgeting—implemented

Background

In our *October 1999 Report* (page 86), we recommended that the University of Calgary review its budgeting process to determine whether its definition of a balanced budget is adequate to ensure programs and facilities are supported and will continue to be supported. A balanced budget should consider not only the current year's operating revenues and expenses, but also building a sufficient base of net assets to sustain future needs of the University. It should also reflect the University's commitment to allow faculties and business units to carry unspent money forward for use in future years. The University calls these commitments carryover reserves. The major issues that led to our recommendation were that the University:

- did not properly budget for capital expenditures and amortization costs. It based capital expenditures on cash revenues remaining after operating needs were met and did not budget for amortization expenses. Under this approach, the budget did not allow for sufficient funds to maintain and replace the University's capital assets.
- did not have a capital plan that identified strategies for funding its long-term capital requirements
- did not have sufficient and available net assets to meet carryover reserves commitments reported at $47.9 million in its 1997–1998 financial statements

At that time, we stated that it would be useful for the University to define a balanced budget as one that maintains a capital base (equity) that meets the University's overall fiscal needs. Otherwise, the existing capital base could be consumed, putting the University at financial risk.

Our audit findings

Key Points

- Accrual based budgets prepared
- Separate capital budget prepared
- Implemented stringent spending controls over carryover reserve balances
- Reduced unfunded carryover reserve commitments by $20 million
- University faces challenges to eliminate $11 million deficit and sustain operations

The University has substantially implemented the recommendation through several measures. These include:

- preparing budgets on an accrual basis, including budgeting for amortization expenses and preparing a separate long-term capital budget with identified sources of capital asset funding—This approach provides the University with good information for management to decide on spending, including setting aside sufficient reserves for future asset replacements and establishing sources of funds for capital asset acquisitions.
- performing a comprehensive review of historical carryover reserve balances (valued at $47.9 million in the fiscal year 1998) and other internally restricted accounts—This review resulted in stringent disciplines such as removing the authority from faculties, departments and business units to spend fiscal year 2008 carryover reserve balances of $28 million. The University also reduced its unfunded carryover reserve commitments by $20 million from fiscal year 1998 to fiscal year 2009.
- improving its annual budget practices through a business planning process that includes forecasts, a four-year business and capital plan, resources set aside for contingencies and internally restricted net assets
- lowering spending rates of endowment investment earnings (reduced from 4.875% for fiscal 2009 to 4% for fiscal 2010)

Although the University made substantial improvements to its budget processes, the University currently faces diverse challenges that reflect the importance of the recommendations we made to them ten years ago. These include:

- eliminating the March 31, 2010 unrestricted net deficit of $11 million
- minimizing the deferred maintenance liability, estimated to be in excess of $362 million

The University's 2009–2013 business plan forecasts operating budget deficits ranging from $17 million to $47 million for fiscal years 2011 to 2013. The University has set goals to eliminate these deficits. For example, a performance measure in the 2009–2013 business plan targets a level of unrestricted net assets with a positive balance of $50 million at the end of the 2012–2013 fiscal year. The University's management and Board understand the need to resolve its deficit position and better use resources allocated to it. It is taking steps to live within its means. For example, the University is working on a multi-year business transformation project, called iS^2 with a goal to reduce its administrative costs and improve efficiencies.

The University is also working with the Department of Advanced Education and Technology to reduce its deferred maintenance liability.

Improve payroll controls—implemented

In our *October 2009 Report,* (page 154), we noted that for salaried employees, exception time, such as overtime, vacation or sick leave, is entered into PeopleSoft at the department level. Employee's managers must approve the time in PeopleSoft. However, Central Human Resources automatically approved, on a mass basis, any exception time not approved by an employee's manager.

The current process requires that a time and labor specialist review and request departments to approve any unapproved time. The specialist will also follow up with departments who have not yet approved time from the previous pay cycle. The University does not include, in the pay run, any time that has not been appropriately approved. We did not identify any instances of mass approvals of exception time since the University implemented this process.

Improving executive compensation processes—implemented

In our *October 2009 Report* (no. 18—page 146), we recommended that the University establish systems and processes to guide all aspects of compensation, including timely negotiation and completion of pension and employment contract arrangements for senior executive positions.

The University has implemented this recommendation. In April 2009, the Board of Governors replaced its Senior Compensation Committee with a Human Resources and Governance Committee. The Committee's purpose is to advise and guide the Board of Governors on governance practices, human resources and compensation matters.

In February 2010, the Board approved an interim executive compensation approval process recommended by the Committee. The interim approval process requires general counsel to review offers that create a long-term obligation for the University. This process was used to determine the compensation for the newly appointed president.

Improving controls over journal entries—implemented

In our *October 2008 Report* (page 217), we recommended that the University of Calgary improve controls for approvals and documentation of journal entries. We repeated the recommendation in our *October 2009 Report* (page 157).

The University approved a new *Journal Entry Policy*, effective March 2010. It defines the roles of the journal creator and approver, and clarifies the responsibilities and accountabilities associated with each role. The policy aims to ensure that journal-entry transactions are correct, reviewed and substantiated by sufficient supporting documentation. In addition to the policy, the University has taken steps to validate that journal creators and approvers read, understand and agree to comply with the policy. As part of creating and approving journal-transaction entries, the PeopleSoft system will not allow journals to be processed without proper review and approval.

Controls—Research and trust accounts—implemented

In our *October 2004 Report* (page 257), we recommended that the University of Calgary improve controls over sponsored research and trust accounts. We repeated it in our *October 2007 Report* (page 15). We identified deficiencies in the processes for monitoring over-expended projects, reporting to research sponsors, monitoring research and trust aged-receivables and updating the University's *Signing Authority Policy*. Last year, we followed up the University's progress in addressing the deficiencies and confirmed that the University had successfully dealt with three of the four areas of the deficiencies.

The remaining deficiency was that the University's *Signing Authority Policy* did not delegate signing authority to researchers, principal investigators or research staff buying goods and services. The signing authority policy has been updated to include appropriate staff from Research and Development.

General computer controls—implemented

In our *October 2006 Report* (vol. 2—page 20), we recommended that the University strengthen the overall computer control environment by clearly defining the role and responsibilities of the Chief Information Officer and resolving deficiencies in the following areas:

- defining standards
- strategic planning
- risk assessment and mitigation
- IT disaster recovery planning
- day-to-day operations

Our recommendation included 11 specific control activity areas for the University to implement. The University's management agreed with the recommendation and the 11 areas for improvement and started a project to develop and implement efficient and effective procedures to remediate them.

In previous years, the University successfully implemented six control areas. This year, we followed-up on the University's progress implementing the final five control areas. The University successfully implemented four of the five remaining control areas. We now consider this recommendation effectively implemented. We will follow-up on the final outstanding control activity—no standards for business cases or post-implementation reviews of completed projects—through the IT governance and IT control framework recommendation.

University of Lethbridge

Endowment policies

Background

The University had approximately $34.5 million in endowments as at March 31, 2010. Earnings from endowment investments support scholarships, bursaries and teaching. An objective of the University's *Endowment Management Policy* is to administer endowments to meet annual spending requirements while preserving, as much as possible, the economic value (that is, to inflation-proof) of the original endowment funds.

The University allocates all investment income earned to a capitalized investment earnings account. It allocates a "spending allocation" from this account, to pay for related endowment expenses. The policy also requires the University to allocate to the capitalized investment account any unspent funds.

While some donors encourage spending all endowment investment earnings, others expect institutions to preserve the real value of endowments over time. As an example, in 2005–2006, the Government of Alberta began to preserve the real value of the Alberta Heritage Savings Trust Fund by retaining a portion of investment earnings in the fund.

Recommendation: improve endowment policies

RECOMMENDATION

We recommend that the University of Lethbridge improve its endowment policies and procedures by:

- clarifying its goals for preserving the real value of endowments, and how it plans to achieve this
- tracking investment income between amounts for preserving the real value of investments and amounts available for spending

Criteria: the standards for our audit

The University should have:

- established goals and performance measures to preserve endowments, and administrative policies and processes to ensure it meets those goals
- clear policies to guarantee long-term sustainability of spending from endowment investment earnings
- procedures to ensure that investment managers account for investment income in

accordance with generally accepted accounting principles

Our audit findings

Key Points

- No clear goals to inflation-proof endowments or ways to track if it is achieving the goal
- Unclear if University is preserving endowments
- Errors corrected in University's 2009 and 2010 financial results

The University's endowment objective is to preserve the economic value of endowments as much as possible. To that end, the University allocates excess investment income to the capitalized investment income account. However, it does not have:

- clear goals or a plan for preserving the economic value of endowments
- a way to track the portion of the capitalized investment account needed to preserve the economic value of endowments and determine how much is available for spending in current and future years

As a result, the University is unable to determine if the amount it allocates to the capitalized investment earnings preserves or exceeds the economic value of the endowments. The University should clarify its policies to indicate how it plans to preserve the economic value of endowments. It should also improve its processes to track investment income by distinguishing between amounts available for spending and needed for preserving the economic value of each endowment. This process should include setting a target economic value, identifying its actual value and identifying any encroachment.

In addition, the University incorrectly recorded investment income from external endowment contributions that are used for spending as direct increases to endowment net assets. The University adjusted the 2010 and 2009 financial statements by $740,000 and $425,000 respectively to recognize the investment income as revenue to match the corresponding expenses. The University also recorded the unspent investment income as a direct increase to net assets. However, the University has not formally established the "inflation-proofing portion" of the endowment investment income. Once the University determines the amount needed to preserve the endowments, it should record any excess investment income as deferred contributions, instead of endowments.

Implications and risks if recommendation not implemented

Without clear goals to preserve the endowment balance and an endowment policy that defines the recapitalization to manage endowment earnings, the University may be exposed to inconsistent spending and recapitalization practices and may not be meeting donors' expectations.

Financial statements

Our auditor's opinions on the financial statements for the following entities for the years ended March 31, 2010 and 2009, were unqualified.

- Ministry of Advanced Education and Technology
- Department of Advanced Education and Technology
- Access to the Future Fund
- Alberta Enterprise Corporation
- Alberta Innovates—Bio Solutions
- Alberta Innovates—Energy and Environment Solutions
- Alberta Innovates—Health Solutions and its subsidiary Alberta Foundation for Health Research
- Alberta Innovates—Technology Futures and its subsidiary CFER Technologies Inc.
- Athabasca University
- University of Alberta
- University of Calgary
- University of Lethbridge

To be reported in April 2011

Our April 2011 report will include the results of the financial statement audits of the following entities that have a June 30, 2010 year end:

- Alberta College of Art and Design
- Bow Valley College
- Grande Prairie Regional College and its related entity Fairview College Foundation

- Grant MacEwan University and its related entity Grant MacEwan University Foundation
- Keyano College
- Lakeland College
- Lethbridge College
- Medicine Hat College
- Mount Royal University and its subsidiary/ related entities Mount Royal University Day Care Society and Mount Royal University Foundation
- NorQuest College
- Northern Alberta Institute of Technology and its related entity the Northern Alberta Institute of Technology Foundation
- Northern Lakes College
- Olds College
- Portage College
- Red Deer College
- Southern Alberta Institute of Technology

Performance measures

The Ministry engaged us to review selected performance measures in the Ministry's 2009–2010 Annual Report. We issued an unqualified review engagement report on these measures.

Agriculture and Rural Development

Summary of our recommendations

The Department of Agriculture and Rural Development has implemented:

- our October 2006 recommendation to verify information on Farm Fuel Benefits applications and require regular renewal—see below
- our October 2003 recommendation on performance measurement—see below
- our October 2000 recommendation to improve management information—see page 122

Agriculture Financial Services Corporation should:

- improve its processes to determine the specific loan loss allowance—see page 122
- improve its processes for conducting compliance audits and investigations—see page 123

Agriculture Financial Services Corporation:

- implemented our October 2009 recommendation to perform a quarterly review of its investments—see page 126
- had changed circumstances that make our October 2009 recommendation to verify the cost effectiveness of debt restructuring not applicable—see page 127

For outstanding recommendations previously made to the organizations that form the Ministry, please see our outstanding recommendations list on page 203.

Findings and recommendations

Department of Agriculture and Rural Development

Verifying eligibility for Farm Fuel Benefit program—implemented

Background

The Alberta Farm Fuel Benefit program provides farmers with a tax exemption benefit, allowing them to purchase dyed gasoline and diesel that is exempt from the 9¢/litre provincial fuel tax. In addition, the Alberta Farm Fuel Distribution Allowance (AFFDA) further reduces the cost of marked diesel fuel by 6¢/litre. The current fuel tax on propane is 6.5¢/litre, and propane used for farming purposes is exempt from this tax.

Our audit findings

In our *October 2006 Report* (no. 24, vol. 2—page 37), we recommended that the Department of Agriculture, Food and Rural Development improve its administration of the Alberta Farm Fuel Benefit program by:

- verifying information on completed program application forms
- requiring applicants to regularly renew their registration in the program

In December 2008, the Department started a three-year continuous Alberta Farm Fuel Benefit program renewal process. Each year, the Department contacts one-third of AFFB program registrants to renew their AFFB registration number and update their renewal forms. The renewal information is used to determine if producers are still eligible to use marked fuel in their farming operations. Renewals for 2008 and 2009 are substantially complete; they resulted in approximately 5,000 producers being cancelled. We reviewed the renewal and verification process and are satisfied that the process ensures the eligibility of recipients.

Improve the process to compile Ministry performance measures—implemented

Background

We followed up on our *October 2003 Report* (no. 3—page 49) recommendation for the Department to strengthen the process used to compile its performance measures.

Our audit findings

The Department has designated a performance measures manager and a performance measures analyst to support the process, and used standard performance measure templates to document the measures. Results were available promptly. Management also significantly strengthened the quality review process of draft results before including them in the draft annual report. Our review of the narrative sections for the reviewed performance measures identified no significant errors. This supports the conclusion that the Department carefully performed the review process to ensure that accurate, reliable numbers are included in the draft annual report.

Improved management information—implemented

Background

We followed up on our *October 2000 Report* (page 44) recommendation for the Department to improve performance reporting, thereby providing better management information for decision-making and enabling the Department to better align its annual report with its business plan.

Our audit findings

The Department implemented a new system—OPAR (Operational Planning and Reporting System)—as a tool to capture and report operational data.

OPAR facilitates development of a Ministry operational plan and enables review of sector and division operational plans across the Department. OPAR encompasses the strategies and performance measures from the Department's business plan, as well as day-to-day business activities and targets from performance reporting criteria such as the Deputy Minister's performance contract and long-term strategic objectives.

The Department trained all divisions on how to use the system. The divisions have entered their operational plans into OPAR and followed the templates provided. The Department is further fine-tuning the information in divisional operational plans. The reporting system is in place and divisions are using OPAR on a quarterly basis to update management information, support decision making, and align the strategic and operational decisions with performance indicators.

Agriculture Financial Services Corporation

Specific loan loss allowance

Background

The loan loss allowance is an estimate of the losses that exist in AFSC's loan portfolio at a specific time. The loan loss allowance has two parts—the specific loan loss allowance and the general loan loss allowance.

The specific allowance for loan losses is made on accounts that are individually identified as being impaired. The specific allowance calculation is derived from total debt, less the interest revenue (which is not recognized on impaired loans), less the net present value of security.

AFSC's specific loan loss allowance as at March 31, 2010 is $7.5 million. It includes 31 accounts, representing 0.5% of AFSC's loan portfolio ($1,302 million and over 10,000 accounts).

Recommendation: verify accuracy of specific loan loss allowance

RECOMMENDATION

We recommend that Agriculture Financial Service Corporation improve the effectiveness of processes to determine the specific loan loss allowance on impaired loans.

Criteria: the standards for our audit

The specific loan loss allowance should be accurately recognized using AFSC's methodology, and reviewed promptly by knowledgeable authorized personnel, to ensure that the lending portfolio is fairly stated.

Our audit findings

Key Points
- Calculation errors in specific loan loss allowance
- Ine ective review of calculated allowance

We examined AFSC's list of impaired loans as of December 31, 2009, and tested the controls on the calculation of the specific allowance, security values and estimated costs to collect. We found the following errors in the control testing:

- In four out of 10 loans that we examined, the calculation of the specific loan loss allowance was inaccurate and did not comply with AFSC's policy. This resulted in an overstatement of the specific allowance of $406,000. By year end, AFSC had corrected the error.
- In three out of 16 loans that we sampled, the estimated costs to collect did not comply with AFSC's policy. The account managers overlooked deducting prior charges, or calculated the costs to collect based on multiple loans. This resulted in an overstatement of costs to collect and of the specific allowance of $137,000. By year-end, AFSC had developed a spreadsheet to ensure costs to collect are within policy and would be reviewed on a quarterly basis.
- Five out of 12 impaired loans that we reviewed had discrepancies in their security values in the two lending systems. These differences resulted in understatement of the specific loan loss allowance of $458,000. By year-end, AFSC had developed a spreadsheet to compare security values between the two systems. Management reviewed results quarterly.

We performed further testing on the specific loan loss allowance at year-end. We found the following errors through our testing:

- Three of 25 loans were impaired in April 2010, although the underlying conditions for a doubtful loan existed before March 31, 2010. This resulted in an understatement of the specific loan loss allowance of $107,000.
- Four of 25 loans were not impaired as at March 31, 2010, although the indicators of impairment existed (payment in arrears, security shortfall between, security actions, etc.). This resulted in an understatement of the specific loan loss allowance of $999,000.
- These loans were not captured by the general loan loss report, as loans in security action will not be reported on the general reserve report (the assumption was that those loans will be specifically impaired). AFSC is revising the criteria for the general loan loss allowance to capture these loans in future years.

These errors arose because AFSC did not perform an effective review to ensure that the specific allowance was appropriately recognized on impaired loans. After we identified the errors, AFSC recorded a correcting adjustment in the financial statements.

Implications and risks if recommendation not implemented

Inaccurate calculation of the specific loan loss allowance may result in misstated financial statements. In addition, AFSC's Board and senior management may not have sufficient information to monitor and manage the lending portfolio.

Cross-compliance review

Background

AFSC runs several programs and offers many products to support the business needs of farmers, the agriculture industry and small businesses in Alberta. Its main program areas are lending and business risk management (BRM). BRM programs include income stabilization, disaster assistance and insurance.

In 2008–2009, AFSC provided $662 million to Alberta producers through three programs—AgriStability,[1] AgriInvest[2] and Production

1 AgriStability provides support when a producer experiences larger farm income losses. The program covers declines of more than 15% in a producer's average income from previous years.

2 AgriInvest is a savings account for producers, supported by governments. It provides coverage for small income declines and allows for investments that help mitigate risks or improve market income.

Insurance.[3] The breakdown of AFSC's program expenses[4] are as follows:

AgriInvest and AgriStability *(in thousands)*	Production Insurance	Lending	Hail Insurance	Other	Total
$357,014	$304,754	$80,026	$79,821	$8,227	$829,842
43%	37%	10%	9%	1%	100%

Table 1: AFSC's Program Expenses Breakdown

Four departments report to AFSC's vice-president of risk management: Business Risk Management, Insurance Operations, Program Development and Policy and Program Cross-Compliance and Investigations Group (PCCI).

AFSC's program areas are responsible for filing and processing claims submitted for various programs offered by AFSC and ensuring claims comply with program guidelines. PCCI was created from an identified need to have a separate group dedicated to reviewing the accuracy, reliability and integrity of information provided by customers to AFSC. PCCI is responsible for identifying areas of non-compliance and inconsistencies in information provided by customers within and between programs to protect the integrity of AFSC's programs. Alberta is one of the first provinces to have a group like PCCI.

Files reviewed by PCCI are either identified and selected by PCCI or are referred from complaints or concerns received by parties either internal or external to AFSC. Once a file is selected or referred, PCCI assesses the file to determine whether an investigation is warranted. The preliminary assessment includes extracting and analyzing data obtained from AFSC program databases and reviewing it for non-compliance or inconsistencies.

If non-compliance or inconsistencies are found, the file is further assessed for causes such as a misunderstanding, misrepresentation, an error or an alleged act to commit fraud. This determination is made through interviews with AFSC staff, program participants, business associates and authorized representatives, to identify and clarify inconsistencies in information provided. PCCI must apply knowledge of AFSC's programs as well as the *Agriculture Financial Services Act* and regulations, federal—provincial agreements, and policy and procedures governing the programs.

If there appears to be an alleged fraud or misrepresentation, PCCI's investigations will involve legal counsel, the RCMP and Crown prosecutors. In these instances, PCCI is the lead to prepare exhibits, act as a key witness and ensure adequate file documentation exists to support the work performed, findings, conclusions and recommendations. PCCI works with legal counsel and this may involve examinations under oath in civil litigation and criminal prosecution.

Upon completion of a file review, examination or investigation, PCCI provides recommendations to program administration staff to reassess program benefit entitlements. PCCI also reports any control weaknesses identified as a result of its file reviews, and recommends areas for policy and procedure improvements.

Recommendation: improve processes for conducting compliance audits

RECOMMENDATION NO. 12

We recommend Agriculture Financial Services Corporation improve its processes for conducting compliance audits and investigations by:

- clearly defining the roles and responsibilities of the Program Cross Compliance and Investigations group
- improving the coordination between PCCI and program areas

Criteria: the standards for our audit

AFSC should have effective processes for conducting compliance audits and resolving issues between the program areas and PCCI.

3 Production Insurance includes insurance against production losses for specific perils (weather, pests, disease) and is being expanded to include more commodities.

4 Based on AFSC's *2008–2009 Annual Report*, reported in thousands of dollars less AFRP II program of $300 million.

Our audit findings

Key Point

Need to improve collaboration between PCCI and program areas and clarify role of PCCI within AFSC

PCCI has systems to conduct its compliance audits and investigations. Generally, they work effectively. However, processes to guide collaboration between PCCI and the program areas need to be clarified to establish better procedures, responsibilities and authorities. We also found PCCI can improve its processes for selecting files to review.

We examined the systems used by PCCI for conducting compliance audits during the year ending March 31, 2009. Our work included examining a number of files reviewed by PCCI and their processes for completing investigations and collaborating with the program areas on the results of the investigations. The following is a summary of the findings from our audit.

PCCI's roles and responsibilities—PCCI's role is to support the program areas within AFSC by conducting compliance verification procedures. PCCI's mission statement outlines its scope and responsibilities, which include reviewing high-risk files to protect the integrity of AFSC's programs.

We examined a sample of four files that had been assigned to PCCI for review, but were transferred back to the Business Risk Management Unit prior to completion by PCCI. These files were complex; obtaining supporting documentation was difficult. At the time of our review, two files had been completed by the BRM unit, but they were continuing work on the others. We made the following observations:

- The results from PCCI's preliminary review were different from the final results processed by BRM for two of the files. There was no process to assess the differences in the approach and involve PCCI in the final assessment.
- Initially there was no documentation showing the direction senior management gave the BRM specialists at the time the files were transferred to them, nor support as to why the files were transferred back to BRM prior to PCCI completing their work.
- There was no documentation of the criteria the BRM specialists used to evaluate the files, making it difficult to determine if program guidelines were used consistently by the various specialists involved in reviewing these files.

Since we raised this issue, BRM staff documented the criteria for file selection, review procedures, and conclusions on the results of their reviews. Senior management needs to complete a final review of the results and conclusions.

Criteria for referring files to PCCI—The program areas did not have criteria to identify which files to refer to PCCI. Each program area, with input from PCCI, should establish criteria to identify when information submitted on a claim requires further analysis and review. Each criterion should be regularly reviewed and updated based on trend analysis, current issues and high-risk situations identified by program areas and PCCI. The criteria should be the basis for determining which files are referred to PCCI from the program area.

Verification of the methodology used by PCCI—Once a file was selected or transferred to PCCI, they conducted their overview and risk assessment of the file. PCCI did not confirm their key assumptions, estimates, program guideline interpretations and methodology with the program area at this stage of their review. After completing their review, PCCI reported their findings and proposed adjustments back to the program area. The program areas have the final authority to conclude on claim submissions, and do not have to accept PCCI's findings. We found there was limited communication between PCCI and the program areas throughout PCCI's review process.

Vetting at an earlier stage of PCCI's review process would help avoid disagreements with PCCI's findings after completion of their investigation. Consensus should be reached with regards to interpretation of program guidelines, appropriate supporting documentation obtained to support claim submissions and any other issues deemed necessary. Consultation between PCCI and the program areas should occur throughout the process of PCCI's review especially when key assumptions or estimates are used to derive information on the claim submission.

Resolution of file investigations—AFSC lacked formal procedures to indicate which group, PCCI or the program area, has the authority and responsibility to decide when external legal counsel must be consulted and engaged to bring resolution to an issue. We found that PCCI was performing this work; however, there is no formal documented authority allowing PCCI staff to represent AFSC during litigation proceedings.

Establishing hold on payments—Once PCCI selected a file to be examined, they notified finance to hold payments to the producer until PCCI completed their review. Some PCCI investigations required extensive work, which resulted in a producer's file being put on hold for a long time. Some producer's may have their file reviewed by PCCI based on a random selection process. It takes PCCI one to two weeks to complete a preliminary risk assessment of a file. Normally, as a result of this high level review, PCCI would determine whether potential issues require further investigation. To prevent unnecessary delays in payments to producers, particularly those randomly selected with no known issues, holds on payment could be considered after PCCI completes a preliminary risk assessment and identifies potential issues.

Responsibility for collections—AFSC has not defined which department is responsible for collections on overpayments for producers. There are various collection/offset methods that must be considered in the event of an overpayment, therefore, determining ownership of this role is important.

Program policies and procedures—When PCCI completes a file review, examination or investigation, it should document any internal control weaknesses for consideration in improving internal processes by the program areas. We did not observe any examples of identified improvements from PCCI being accepted and implemented by the program areas.

PCCI process for selecting claim files to review—PCCI selected files to examine based on the dollar value of the claim, linkage to another claim being reviewed, random selection and through complaints received. PCCI could improve the selection process by data-mining program data to identify high-risk situations.

Implications and risks if recommendation not implemented

Without proper processes in place, PCCI may not be able to fulfill its mission of reviewing the information provided by customers to protect the integrity of AFSC's programs. Also, improved coordination between PCCI and the program areas will enhance efficiencies in conducting compliance reviews.

Investment portfolio analysis—implemented

Background

In our *October 2009 Report* (page 170), we recommended AFSC perform a quarterly review of its investments.

Our audit findings

We found that AFSC has implemented a formal process to analyze the performance of its portfolio investments. On a quarterly basis, AFSC reviews losses in value of the portfolio and assesses whether a write-down is required based on the following criteria:

- if the loss is other than temporary
- if the percentage decrease in the market value compared to the carrying value is significant (over 20%)

We are satisfied that this review process will ensure AFSC's investments are properly valued.

Note payable repurchase—changed circumstances

Background

In our *October 2009 Report* (page 170), we recommended that AFSC verify the cost-effectiveness of debt restructuring.

Our audit findings

We learned that AFSC did the debt restructuring as a one-time event on a trial basis. It has no plans to use debt restructuring as a regular cash management strategy in the future. The government bonds that AFSC purchases are not callable, so another repurchase is not likely to happen in the near future. AFSC is analyzing pursuing hedging and derivative markets to mitigate the interest rate risk. AFSC's new strategy for mitigating interest rate risks makes this prior recommendation now invalid due to changed circumstances.

Financial statements

Our auditor's opinions on the Ministry's and Department's financial statements for the years ended March 31, 2010 and 2009, were unqualified.

Our auditor's opinions on the Agriculture Financial Services Corporation's financial statements for the years ended March 31, 2010 and 2009, were unqualified.

Our auditor's opinions on the Alberta Livestock and Meat Agency's financial statements for the years ended March 31, 2010 and 2009, were unqualified.

Performance measures

The Ministry engaged us to review selected performance measures in the Ministry's 2009–2010 Annual Report. We issued an unqualified review engagement report on these measures.

Children and Youth Services

Summary of our recommendations

Previously, we recommended that the Ministry complete its risk assessment and use this risk assessment to plan internal audit activities. This recommendation is no longer valid due to changed circumstances—see below.

For outstanding recommendations previously made to the organizations that form the Ministry, please see our outstanding recommendations list on page 203.

Risk assessment and internal audit—changed circumstances

Background

In our *October 2002 Report* (no. 9—page 54), we recommended that the Ministry improve accountability for audit services provided by Alberta Corporate Services Centre. In 2002–2003, 2003–2004 and 2004–2005, we followed up and concluded that the Ministry had made satisfactory progress.

In 2003–2004, we restated the recommendation "that the Ministry of Children's Services complete its risk assessment, and use this risk assessment to plan internal audit activities."

Our audit findings

The Department completed and documented its enterprise risk assessment, identified mitigation strategies and appointed risk owners. This assessment evaluates risks at a Ministry level. The Department no longer performs its own internal audits. Instead, it relies on the Government of Alberta's Corporate Internal Audit Services (CIAS) for this function. In consultation with government departments and other stakeholders, CIAS performs its own risk assessments to develop their annual audit plan.

We concluded that the circumstances giving rise to the recommendation have changed.

Financial statements

Our auditor's opinions on the financial statements of the Ministry and Department of Children and Youth Services, and ten Child and Family Services Authorities for the years ended March 31, 2010 and 2009, were unqualified.

Performance measures

The Ministry engaged us to review selected performance measures in the Ministry's 2009–2010 Annual Report. We issued an unqualified review engagement report on these measures.

Culture and Community Spirit

For outstanding recommendations previously made to the organizations that form the Ministry, please see our outstanding recommendations list on page 203.

Financial statements

Our auditor's opinions on the financial statements of the Ministry, Department and the following six provincial agencies for the years ended March 31, 2010 and 2009, were unqualified:

- Alberta Foundation for the Arts
- Historic Resources Fund
- Human Rights Education and Multiculturalism Fund
- The Alberta Historical Resources Foundation
- The Government House Foundation
- The Wild Rose Foundation

Performance measures

The Ministry engaged us to review selected performance measures in the Ministry's 2009–2010 Annual Report. We issued an unqualified review engagement report on these measures.

Education

Summary of our recommendations

Entities reporting to the Minister

Northland School Division No. 61 should:

- ensure that it obtains a legal interest in land before beginning construction of schools—see below
- improve its financial reporting processes—see page 134

For outstanding recommendations previously made to the organizations that form the Ministry, please see our outstanding recommendations list on page 203.

Findings and recommendations

Northland School Division No. 61

Acquiring school sites

Background

School jurisdictions often obtain land for school sites without purchasing the land. Joint use agreements are in place in many municipalities that allow school jurisdictions to build schools on municipal or school reserve land.

The *Métis Settlements Act* and the *Métis Settlements Land Registry Regulation* govern the means by which school divisions obtain a leasehold interest in land within a Métis Settlement. The legislation does not allow the Division to obtain title to land within a Métis Settlement. However, the regulation allows the Division to obtain a leasehold interest in land within a Settlement.

Recommendation: obtaining an interest in land

RECOMMENDATION NO. 13

We recommend that Northland School Division No. 61 develop processes to ensure it obtains a valid legal interest in land before beginning construction of schools.

Criteria: the standards for our audit

The Division should obtain title or leases for long-term access to school sites before beginning construction.

Our audit findings

Key Point

Failure to secure a long-term interest in school sites increases costs and risks

The Division has completed construction of two schools, in the East Prairie and Peavine Métis Settlements, without obtaining long-term leases to govern the Division's rights to access the sites to operate the schools. The total cost to construct these schools was approximately $19 million.

In the Peavine Métis Settlement, the Settlement Council had not obtained a Métis title to the school site and could not grant a leasehold interest to the Division. The Division completed the school for September 2009, but had not obtained either a leasehold interest in the school or other right of access to operate the school at that time. The school remained vacant from September 2009 to April 2010. The Division incurred additional costs to continue operating in the old school and to heat and provide security for the new school.

At the East Prairie Métis Settlement, the Division had not completed lease negotiations with the Settlement Council prior to completing construction of the school. The school was placed into service upon completion, but the Division does not have the security that a long-term lease may provide.

Implications and risks if recommendation not implemented

The Division won't have control of schools built on land to which it has not obtained long-term access. The Division may incur higher costs if it negotiates land leases after construction is complete.

Financial reporting

Background

A school division's management is responsible for preparing financial statements and accompanying notes and schedules in accordance with Canadian generally accepted accounting principles. Regular preparation and review of interim financial statements supports management's accountability and assists school trustees in their governance role.

For the year ended March 31, 2009, Northland School Division No. 61 was governed by a Board of Trustees comprised of the Chairs of 23 local school councils. On January 21, 2010, the Minister of Education dismissed the Board of Trustees and appointed an Official Trustee for the Division.

Recommendation: improving financial reporting

RECOMMENDATION NO. 14

We recommend that the Northland School Division No. 61 improve its financial reporting by:

- preparing and presenting quarterly financial information to the Official Trustee
- regularly reviewing and reconciling general ledger accounts
- preparing year-end financial statements promptly

Criteria: the standards for our audit

Strong financial reporting processes should be in place to provide reliable, periodic financial information to management and the Official Trustee.

Our audit findings

Key Point

Financial reporting processes need improvement

The Division experienced significant difficulties in preparing accurate year-end financial statements. The statements needed numerous, large adjustments after year-end. Management did not provide the Board of Trustees with quarterly financial statements or forecasts that would have aided them in making decisions about the Division or in assessing how the Division's $58 million budget was managed.

The Division was unable to produce accurate financial statements within scheduled year-end timelines. Management made numerous updates to the financial statements in December and January, primarily for capital asset additions. Significant sub-ledgers were not reconciled to the general ledger on a regular basis.

The Division completed its financial statements in January 2010, we issued our audit report in March 2010.

The Secretary Treasurer resigned in July 2009. A new Secretary Treasurer began work in mid-August 2009. We understand that a transition period was required; however, that transition and the year-end reporting would have been more effective if the Division had strong financial reporting processes and controls in place throughout the year.

Implications and risks if recommendation not implemented

Management and the Board of Trustees may not have reliable financial information with which to make decisions.

Financial statements

Our auditor's opinions on the financial statements of the Ministry, Department and the Alberta School Foundation Fund for the year ended March 31, 2010 were unqualified.

Our auditor's opinions on the financial statements of Northland School Division No. 61 were unqualified.

Performance measures

The Ministry engaged us to review selected performance measures in the Ministry's 2009–2010 Annual Report. We issued an unqualified review engagement report on these measures.

Employment and Immigration

Summary of our recommendations

Department

The Department has implemented our recommendations to improve the use of exception reports and to strengthen its compliance audit for the income support program—see below.

The Department has implemented our recommendation to improve its IT control environment—see below.

Workers' Compensation Board

The Workers' Compensation Board should ensure that access to computer systems is restricted to appropriate staff—see page 136.

For outstanding recommendations previously made to the organizations that form the Ministry, please see our outstanding recommendations list on page 203.

Findings and recommendations

Ministry and Department

Income Support Program—implemented

Background

In our *October 2007 Report* (vol. 2—page 55), we recommended that the Department of Employment, Immigration and Industry improve the use of exception reports to manage the income support program by:

- identifying available exception reports
- assessing if the exception reports identify key program risks
- identifying the review and follow-up requirements

In our *October 2007 Report* (vol. 2—page 56), we also recommended that the Department strengthen its compliance audit of the income support program by ensuring that its regional office staff review and act on key exception reports.

Our audit findings

Key Point

The Department uses key exception reports and has provided guidelines to worksites

The Department has implemented these two recommendations. The Department identified key exception reports and provided them to all the regions in June 2008. During their income support audits, the Department's internal auditors followed up to ensure worksite staff were using exception reports to manage the income support program. The Department has provided guidelines to the worksites for the review of reports, filing and retention. The follow-up process is incorporated in the internal audit program and plan.

IT Control Environment—implemented

Background

In our *October 2007 Report* (no. 23, vol. 2—page 60), we recommended that the Department of Employment, Immigration and Industry:

- develop service level agreements with information technology service providers that clearly define expected services
- establish processes to obtain assurance that these service providers consistently meet service level requirements and that control activities performed by the providers are operating effectively

Our audit findings

Key Point

Service providers are required to provide terms and conditions on service levels

The Department has implemented this recommendation. The Department has outsourced IT services in two main areas: application maintenance support and IT infrastructure support. This year, it issued a request for proposals for vendors to bid on application maintenance services. We reviewed the request for proposals and confirmed that the Department included terms and conditions on service levels and requirements for independent audits of the vendor.

Workers' Compensation Board
Computer systems access

Background

The Workers' Compensation Board makes extensive use of computer systems for most aspects of its operations. Staff are provided access privileges to computer systems based on their role and position within the organization.

Recommendation: computer access

RECOMMENDATION

We recommend that the Workers' Compensation Board ensure that access to computer systems is restricted to appropriate staff.

Criteria: the standards for our audit

Computer access should be removed promptly for users that no longer require it. A regular review of user access roles should be performed to ensure they continue to be appropriate.

Our audit findings

Key Point

Computer access privileges to a key financial system were not terminated

We identified one individual with Administrator privileges to the purchasing module of WCB's Integrated Financial Management System (IFMS), who no longer required this access. He continued to have these privileges, even though he had transferred to another department within WCB in 2005. The continuation of access privileges was approved, on a temporary basis, but was not terminated after the access was no longer required.

The Workers' Compensation Board does not carry out regular reviews of user access to its IFMS system to ensure that the access continues to be appropriate. It does carry out regular reviews to identify any terminated staff who may continue to have access to the system, but this review does not include employees who have transferred to other positions within the Workers' Compensation Board.

While our review was limited to IFMS, similar risks may exist for other Workers' Compensation Board systems. The Workers' Compensation Board should review its processes to manage access for other systems to consider whether staff may continue to have access after they are transferred or terminated.

Implications and risks if recommendation not implemented

Unauthorized or inappropriate transactions may be processed, increasing the risk of fraud or error.

Matters from prior-year audits
Claims audit—implemented

Background

In our *October 2009 Report* (page 191), we recommended that the Workers' Compensation Board assess whether it is conducting an adequate number of claims audits each year.

Our audit findings

The Workers' Compensation Board implemented the recommendation by refocusing its efforts on fewer compliance elements, and increasing the number of audits. The Workers' Compensation Board has also clarified its risk exposures for segments of the employer population. The Workers' Compensation Board uses a risk focused approach for selecting employers for audit, based on indications of non-compliance in the Workers' Compensation Board employer and claims data.

The Workers' Compensation Board has also defined how alternative measures, such as an employer self-evaluation checklist are used to manage the lower risk employers. The Workers' Compensation Board monitors the performance of employers on accident reporting and other criteria subsequent to the self-evaluation to target for further follow-up.

Financial statements

Our auditor's opinions on the Ministry and Department's financial statements for the years ending March 31, 2010 and 2009, were unqualified.

We issued unqualified audit opinions for the years ending March 31, 2010 and 2009, for the Labour Market Development Claim.

We issued an unqualified audit opinion for the March 31, 2009 Employability Assistance for People with Disabilities Claim.

We issued unqualified opinions on the financial statements of the Workers' Compensation Board for the years ended December 31, 2009 and 2008. We also issued an unqualified audit opinion on the schedule of administrative charges of the Workers' Compensation Board for the year ended December 31, 2009.

Performance measures

The Ministry engaged us to review selected performance measures in the Ministry's 2009–2010 Annual Report. We issued an unqualified review engagement report on these measures.

We found no exceptions when we completed specified auditing procedures on WCB's performance measures in its accountability framework.

Energy

Summary of our recommendations

The Department of Energy has:

- implemented our recommendation to improve the monitoring of the implementation of the bitumen valuation methodology—see below
- implemented our recommendation to monitor the impact of changes in the effective royalty rate—see page 140
- implemented our recommendation to strengthen controls to detect and prevent errors in reporting royalty-liable fuel-gas volumes—see page 140
- made satisfactory progress implementing our recommendation to improve processes to prepare financial information—see page 140
- made satisfactory progress implementing our recommendation to improve controls and documentation for the revenue forecast system—see page 141

The Energy Resources Conservation Board has implemented our recommendation to improve SAP security controls—see page 142

See our outstanding recommendations list on page 203 for outstanding recommendations previously made to the organizations that form the Ministry.

Findings and recommendations

Department of Energy

Bitumen valuation methodology—implemented

Background

In our *October* 2009 *Report* (no. 20—page 195), we recommended that the Department improve its monitoring of the implementation of the bitumen valuation methodology.

As part of the *New Royalty Framework* implemented January 1, 2009, the *Bitumen Valuation Methodology Regulation (Regulation)* was enacted. The *Regulation* established a method to determine a unit price for bitumen for producers who upgrade bitumen instead of selling it to a third party. The unit price is used to calculate royalties due to the province.

The Suncor and Syncrude oil sands mine projects are assessed royalties under Royalty Amending Agreements (RAAs). Each of these RAAs contemplated the implementation of a bitumen valuation methodology and each contained clauses modifying the application of the bitumen valuation methodology to the respective Crown agreement projects. The RAAs indicate that the bitumen valuation methodology applicable to the projects will include “reasonable adjustments” to reflect quality differences between their project bitumen and the reference price used in the *Regulation,* and also to reflect transportation costs to the reference price location. During 2009, Suncor and Syncrude filed non-compliance notices with the Department indicating that the *Regulation* does not establish the reasonable quality and transportation adjustments required by their respective RAAs. Both companies paid royalties based on a unit price that was lower than the price determined by the *Regulation*.

The Department’s 2009–2010 revenue includes an estimate of the royalties that the Department expects to recover from the Suncor and Syncrude projects. This amount may be adjusted following the resolution of the issue.

Our audit findings

The Department has implemented processes to monitor the producers’ application of the bitumen valuation methodology.

The Department is in the process of discussing this issue with Suncor and Syncrude. The Department has also implemented a process to ensure that other oil sands projects that are subject to the *Regulation* use the appropriate unit price to determine their royalties.

Corporate effective royalty rate—implemented

Background

In our *October 2009 Report* (no. 22—page 200), we recommended that the Department monitor the impact of the change to the provincial average corporate effective royalty rate on the Department's accounts receivable and incentive programs.

Our audit findings

Department staff now complete an analysis within the forecast model of natural gas and by-product royalty revenue that estimates the impact of the annual cost adjustment resulting from fluctuations in the facility effective royalty rate. Beginning January 1, 2009, the Department uses a facility effective royalty rate instead of the corporate effective royalty rate in the calculation of allowable costs. Staff track the facility effective royalty rate each month to assist in determining the potential impact when companies file calendar year actual costs the following June. If staff expect a significant difference, they communicate this information to decision makers within the Department along with the quarterly results.

Strengthen controls to prevent and detect errors in reporting royalty-liable fuel-gas volumes—implemented

Background

In our *October 2008 Report* (no. 26—page 257), we recommended that the Department:

- strengthen controls to prevent fuel-gas volumes from being incorrectly reported in the Petroleum Registry of Alberta and to detect incorrect reporting
- improve its detection and monitoring processes over fuel-gas volume amendments

Our audit findings

The Petroleum Registry of Alberta now requires the seller of fuel-gas volumes (the party responsible for paying royalties) to code the volumes. In the past, the purchasing facility was responsible for coding the volumes.

To ensure that fuel-gas volumes are being reported accurately and completely going forward, the Department developed a report that contains past trends on fuel-gas sales. It uses this report to identify any variances or anomalies that require further investigation.

The Department also regularly communicates with industry to ensure incorrectly recorded volumes are amended and that industry is aware of the appropriate method of reporting the volumes.

The Department completed a comprehensive review of dispositions potentially impacted by fuel-gas reporting. Also, after each natural gas royalty monthly invoice is processed, the Department produces a report that identifies all amendments processed relating to fuel-gas volumes. This enables the Department to verify that amendments are being made.

Improving processes to prepare financial information—satisfactory progress

Background

On page 197 of our *October 2009 Report*, we recommended that the Department improve:

- quality control processes for the preparation of working papers and financial statements
- internal communication processes between the Finance branch and program staff

Criteria: the standards for our audit

The Department should have processes to ensure complete, accurate and timely information is available.

Controls over financial reporting processes should be implemented to reduce the risk of material misstatements in the Department's accounting records.

Our audit findings

Key Points
- Financial reporting processes operate e ectively for transactions that occur regularly
- Processes for recording new types of transactions need to improve

Quality control processes over working papers and financial statements

The Department provided Ministry and Department financial statements, with supporting working papers, within the year-end deadlines established by the Department of Treasury Board. The Department also has a more defined process for the preparation, review and timing for regularly prepared working papers.

Sharing of information

The Department has made improvements in establishing responsibilities and accountability for information being provided by the royalty operations and other supporting areas to the financial statement preparers. For regularly occurring reporting and estimates, the processes have operated effectively. However, we noted two instances where significant transactions and estimates were not adequately or accurately communicated to the financial statement preparers. Our audit identified and management corrected:

- an overstatement of revenue of $253 million—The error was not detected by the financial statement preparers because program staff provided only the results of a calculation for a new accrual and not the support for the calculation.
- an understatement of revenue of $18 million because program areas did not advise the financial statement preparers that additional royalties should have been accrued

To fully implement this recommendation, program staff need to provide financial statement preparers with information supporting calculations so they can do a proper review and advise preparers of changes to royalty calculations that need to be taken into account when making new accruals.

Improving controls over the revenue forecast system—satisfactory progress

Background

In our *October 2009 Report* (no. 21—page 199), we recommended that the Department improve the controls and documentation supporting the revenue forecast model to help ensure continued accuracy of the forecast system.

Criteria: the standards for our audit

The extent of documentation and control over end-user applications, should be commensurate with the complexity and impact on the financial statements.

Our audit findings

Key Points
- Department improved controls over the revenue forecasting model
- Department improved some of the documentation
- Some areas still need better documentation

Controls over forecast model

The Department has implemented the Sharepoint application to improve the controls to track changes and versions of the model, and to limit the risk of inaccurate and/or unauthorized data input.

Documentation of forecast model

The Department has enhanced the forecast model documentation to include additional detail regarding the assumptions made, the logic and reasoning supporting the assumptions, and some of the changes made to the underlying revenue stream being forecasted. However:

- the methodology for the drilling royalty credit used to estimate the amount in the financial statements was not adequately, or accurately, described in the forecast model documentation
- the section in the document that describes new programs is incomplete

The most recent draft of the forecast model documentation is dated December 2009. Thus, significant changes to estimate methodology and assumptions made subsequently have not been reflected.

To fully implement this recommendation, the Department needs to update the section describing new programs and the documentation of the methodology for calculating the drilling royalty credit.

Energy Resources Conservation Board

Assessing and improving SAP security controls—implemented

Background

Last year, the Energy Resources Conservation Board upgraded SAP,[1] the primary system it uses to record financial and business information. In our *October 2009 Report* (page 202), we recommended that the ERCB assess the adequacy of its SAP business application access and security controls and configurations to ensure its information is properly protected.

Our audit findings

The ERCB implemented the recommendation by engaging external consultants to independently reassess the security controls within its SAP applications and make the necessary changes to its security controls in November 2009.

We reviewed the work completed by ERCB and its consultant and confirmed that the weaknesses we previously identified were remediated. We concluded that ERCB had adequately assessed and improved the user access, separation of duties and security controls in its SAP system.

Financial statements

Our auditor's opinions on the financial statements for the Ministry and the Department for the years ended March 31, 2010 and 2009, were unqualified.

In our *October 2009 Report* (page 204) we highlighted the financial significance of the Department's Drilling Royalty Credit and New Well Royalty Rate programs that were implemented effective April 1, 2009. We indicated the accounting treatment to record the cost of these programs as a reduction to revenue or as an expense would need to be assessed based upon the underlying economic substance of the transactions.

The Department reviewed the accounting and concluded that it is appropriate to recognize the cost of both programs as a reduction to royalty revenue as opposed to recognizing the amounts as an expense. The Department disclosed these two programs as a reduction to revenue line item on Schedule 1 in the Ministry and Department financial statements. We also completed an analysis and agreed with this financial statement presentation.

Our auditor's opinions on the financial statements for the Alberta Petroleum Marketing Commission for the years ended December 31, 2009 and 2008, were unqualified.

Our auditor's opinions on the financial statements for the Alberta Utilities Commission and the Energy Resources Conservation Board for the years ended March 31, 2010 and 2009, were unqualified.

Performance measures

The Ministry engaged us to review selected performance measures in the Ministry's 2009–2010 Annual Report. We issued an unqualified review engagement report on these measures.

1 SAP is a company that provides business software products and services.

Environment

Summary of our recommendations

The Department should:

- improve its grant monitoring process—see below
- clarify which regulatory expenses the Climate Change and Emissions Management Fund can pay—see page 144

The Department has implemented our 2007–2008 recommendation on governance of ad hoc grants—see page 144.

For outstanding recommendations previously made to the organizations that form the Ministry, please see our outstanding recommendations list on page 203.

Findings and recommendations

Matters from the current audit

Grant monitoring process

Background

The Department administers a number of grant programs such as the Alberta waste management assistance program, community based activities to enhance the environment, and environmental collaboration and partnerships. Total grant expenditures for the year ended March 31, 2010, were approximately $60 million, and recipients were individuals, businesses, not-for-profits and other government ministries.

Department staff communicate with grant recipients to track the progress of projects and ensure they achieve milestones on time and spend funds for intended purposes. In most cases, grant agreements require recipients to submit progress reports, statements of interest earned, and audited financial statements to the Department. Regional staff review these progress and financial reports, to ensure they are delivered on time and that incurred costs are eligible under the grant agreement.

Recommendation: improve and document grant monitoring activities

RECOMMENDATION NO. 15

We recommend that the Department of Environment improve its monitoring of compliance with conditions in grant agreements and retain evidence of the review.

Criteria: the standards for our audit

The Department should have adequate controls to ensure that it effectively monitors grant agreements. Recipients should deliver results that meet the terms of the grant agreement, within timelines and budget. The Department should document evidence of its monitoring processes.

Our audit findings

Key Points

- Improve monitoring of compliance agreements
- Document evidence of review

We tested 11 grant agreements (sampled from each grant program) and noted the following:

- For one of the 11 agreements sampled, the financial statements submitted had a qualified audit report attached. There was no evidence of evaluation by the Department to determine whether the qualification impacted the recipients compliance with the terms of the grant agreements.
- In five of the 11 samples, the Department did not receive financial reports within the timeline in the grant agreement. There was no evidence of communication between the Department and grant recipient requesting the reports.

We also requested documented evidence of the Department's review for compliance with the terms of the grant agreements for the 11 samples. Based on the information provided, there is no documented evidence to indicate Department staff reviewed the financial reports.

Implications and risks if recommendation not implemented

Grant recipients may not comply with the terms of the grant agreement, and may not contribute to achieving the Department's business plan goals.

Administrative payments made from the Climate Change and Emissions Management Fund

Background

The *Climate Change and Emissions Management Act,* Section 10(3), indicates that the Fund may be used only for purposes related to reducing emissions of specified gases or improving Alberta's ability to adapt to climate change. These purposes include: "paying salaries, fees, expenses, liabilities or other costs incurred by a delegated authority in carrying out a duty or function of or exercising a power of the Minister in respect of the Fund that has been delegated to the delegated authority, if authorized by the regulations."

Section 10(4) indicates the Minister may make payments out of the Fund:

a) for the purposes of the Fund, or
b) in accordance with the regulations, to a delegated authority to enable the delegated authority to make payments for the purposes of the Fund

Recommendation: clarify what are valid regulatory expenses

RECOMMENDATION

We recommend that the Department of Environment clarify the kind and extent of regulatory expenses that can be paid out of the Climate Change and Emissions Management Fund.

Criteria: the standards for our audit

There should be clear authority for the types of regulatory expenses that can be paid out of the Fund.

Our audit findings

- While the *Act* authorizes the operational expenses incurred by a delegated authority to be paid out of the Fund, there is no similar provision specifically authorizing regulatory costs of the Department[1] to be paid out of the Fund.
- The Department has not documented the kind and extent of regulatory expenses that can be paid out of the Fund.
- In 2010, management paid out of the Fund $855,000 for verification[2] costs and $163,000 to establish the Climate Change and Emissions Management Corporation.
- The other regulatory costs incurred to administer the Fund were paid out of the Department's budget.

Implications and risks if recommendation not implemented

Management may pay regulatory expenses out of the Fund that may not have been originally contemplated by legislation.

Matters from prior-years audits

Governance of ad hoc grants—implemented

Background

In March 2007, the federal government announced $155.9 million EcoTrust funding for Alberta. EcoTrust is to support provincial projects that will result in real reductions in greenhouse gas emissions and air pollutants. The funding for the province was made available through a third-party trust deposited with Alberta Finance. The funding was transferred to the Department in April 2007 and recorded as unearned revenue. The funds continued to be reported as unearned revenue as

1 For the purposes of this report, regulatory costs of the Department means the operating costs incurred for carrying out its regulatory role under the *Act.*
2 In some cases, the Department hires independent third parties to verify the information supplied by facilities that the Department regulates under the *Specified Gas Emitter Regulation*. The information supplied is used to determine whether facilities are required to make payments to the Fund.

at March 31, 2009. The Department has budgeted to recognize $51.9 million EcoTrust revenue by March 31, 2010.

In our *October 2008 Report* (page 262), we recommended that the Department improve its governance of ad hoc grants received by implementing processes to ensure that conditions attached to grants received will be complied with. The Department could not provide information about the intended use of the funds.

Our audit findings

The Department has developed a plan for using the EcoTrust funds. We reviewed this plan and concluded it provides complete information about the intended use of the funds and will comply with the terms of the grant agreement.

Financial statements

Our auditor's opinions on the Ministry's and Department's financial statements for the years ended March 31, 2010 and 2009, were unqualified.

Our auditor's opinions on the Climate Change and Emissions Management Fund's financial statements for the years ended March 31, 2010 and 2009, were unqualified.

Performance measures

The Ministry engaged us to review selected performance measures in the Ministry's 2009–2010 Annual Report. We issued an unqualified review engagement report on these measures.

Executive Council

For outstanding recommendations previously made to the Executive Council, please see our outstanding recommendations list on page 203.

Financial statements

Our auditor's opinions on the Ministry's financial statements for the years ended March 31, 2010 and 2009, were unqualified.

Performance measures

The Ministry engaged us to review selected performance measures in the Ministry's 2009–2010 Annual Report. We issued an unqualified review engagement report on these measures.

Finance and Enterprise

Summary of our recommendations

Ministry and Department

The Department of Finance and Enterprise should improve its year-end financial reporting processes—see page 150.

The Department has implemented our recommendations that:

- its Investment and Accounting Reporting Group improve its financial reporting processes and succession planning—see page151
- it assess and evaluate the risk of individuals exceeding the tax-exempt tobacco limit of the Alberta Indian Tax Exemption program—see page 151
- it review the use of spreadsheets in the processing of insurance corporations tax—see page 152

Alberta Treasury Branches (ATB)

On pages 61 to 65, we report on the improvements ATB has made to its project governance and management systems related to its new banking system implementation.

ATB expects its new banking system to be in place by April 2011. We have completed a progress report on page 152 on ATB's consideration of internal controls within the new banking system.

We repeat our recommendations that ATB:

- promptly update the derivative credit limits disclosed in the *Daily Derivative Exposure Report*—see page 153
- improve controls over the calculation of the fair value for its derivatives and securities—see page 153

ATB has implemented our recommendations that it:

- have systems and processes in place to ensure it complies with the Minister of Finance and Enterprise's *Outsourcing of Business Activities, Functions, and Processes Guideline*—see page 154
- improve its hiring processes to ensure criminal record checks are completed on prospective employees—see page 154

Alberta Investment Management Corporation (AIMCo)

AIMCo should:

- identify financial reporting requirements in its investment management agreements with clients, and meet with clients to understand their financial reporting frameworks, financial accounting requirements and the investment-related information they need to prepare financial statements—see page 155
- implement additional control procedures so that AIMCo itself can ensure the completeness and accuracy of its investment general ledger. Currently, the Department of Finance and Enterprise performs certain control procedures that supplement those performed by AIMCo—see page 157
- strengthen its IT change management controls—see page 158

AIMCo has implemented our recommendations that it:

- establish a process to estimate current fair values for its private and hedge fund investments—see page 159
- re-establish an Internal Audit Group—see page 160
- maintain, file and be able to retrieve all hard copy records supporting completed investment transactions—see page 160
- improve procedures for valuing its real estate investments—see page 160
- reconcile its investments in private equity partnerships to audited partnership financial statements, and accrue income tax refunds for private equity investments as soon as the amounts are known—see page 161
- review its ISDA agreements regularly and document any changes to the standard ISDA form—see page 161

For outstanding recommendations previously made to the organizations that form the Ministry, please see our outstanding recommendations list on page 203.

Findings and recommendations

Department of Finance and Enterprise

Financial reporting processes

Background

The Department of Finance and Enterprise has among the most complex and difficult financial reporting tasks within government. The Department prepares and/or consolidates the financial statements of many entities, including the Ministry, Department and endowment funds, such as the Alberta Heritage Savings Trust Fund. Many of the amounts and disclosures in the Ministry's consolidated financial statements are significant to, and appear in, the Province's consolidated financial statements, including tax revenues, investments, pensions and debt.

In addition to preparing financial statements, the Department prepares other year-end financial reporting disclosures, such as management's results analysis, performance measures, and disclosures required under specific legislation. It also prepares working papers for the audits conducted by the Office of the Auditor General, and working papers for the Province's Office of the Controller, to support the consolidation of the Ministry's financial statements in the Province's consolidated financial statements.

In order to prepare endowment fund financial statements, and to account for its own investments, the Department performs investment accounting procedures. These include preparing monthly bank reconciliations, preparing working papers, and checking whether fair value, cost, contributions, redemptions and income have been appropriately allocated to investment clients.

The Province's Office of the Controller sets year-end timelines. These timelines allow coordinated completion of the financial statements of all government ministries, which form the basis of the Province's consolidated financial statements. The Department must operate within these timelines.

Recommendation: improve financial reporting processes

RECOMMENDATION NO. 16

We recommend that the Department of Finance and Enterprise improve its year-end financial reporting processes.

Criteria: the standards for our audit

The Department's financial reporting processes should support accurate and timely preparation of financial statements and supporting working papers.

Our audit findings

Key Point

Year-end financial reporting processes should be improved

The Department is under significant time and resource pressure to meet year-end deadlines set by the Province's Office of the Controller, as well as to provide financial statements and supporting working papers to the Office of the Auditor General. We observed the following:

- Financial statements are not updated on a proforma basis before year-end. We observed errors in prior year amounts in financial statements presented for audit. There were also substantial changes in disclosures and classifications that were not discussed with the Province's Office of the Controller or the Office of the Auditor General before year-end. We suggest that the Department prepare proforma endowment fund, department and ministry financial statements much earlier in the year, and invite comments from the Province's Office of the Controller and the Office of the Auditor General on these proforma statements.
- Coordination of disclosures in the Ministry financial statements which originate in underlying entities could be improved. For major consolidated entities with disclosures

in the Ministry's financial statements, the Department receives information to prepare the Ministry disclosures. The Department requests other information as needed. The Department could request more detailed working paper packages for these disclosures and have entity management review draft disclosures.

- Accounting entries associated with several major accounts and disclosures are not prepared until year-end. In some cases, more information is available at year-end, such as personal income taxes; in other cases, these entries are done as part of year-end processes. To streamline year-end, the Department could consider performing a "hard close" preparation of the financial statements at, for example, December 31, including major estimates that are included in the financial statements. This "hard close" set of financial statements could be audited, with a roll-forward of balances to year-end.
- Quality control review of the financial statements could be improved. Several versions of the financial statements were presented for our audit. Even later versions had missing or inconsistent note references. While these are minor, they take time to correct. Without adequate processes to identify and approve changes in subsequent revisions, there is a risk that new errors are introduced when minor errors are corrected.
- Management review of the financial statements, and review of the financial statements by the Financial Reporting Advisory Committee, occurs later in the year-end process. Such reviews contribute to improving the quality of the financial statements; having the reviews occur earlier, before the financial statements are presented for audit, could reduce audit queries and financial statement revisions, improving efficiency.

Implications and risks if recommendation not implemented

Without improvements to the Department's year-end financial reporting processes, there is an increased risk of error in both the Ministry's financial statements and the Province's consolidated financial statements.

Matters from prior-year audits

Financial reporting processes and succession planning—implemented

Background

In our *October 2008 Report* (no. 28—page 268), we recommended that the Department's Investment Accounting and Reporting Group improve the timeliness of its financial reporting and decrease workloads by:

- recruiting skilled personnel with expertise in investment accounting
- allocating sufficient time for management review
- creating a management succession plan

The Group's specialized focus on investments makes it unique within the Department. The Group is responsible for preparing financial information used in the preparation of financial statements by investment clients of AIMCo, which has total investments under management of $70 billion.

Our audit findings

The Department implemented our recommendation by restructuring its Financial Services division and obtaining additional resources, so that priorities could be met and existing resources could provide necessary training and mentorship to new and existing staff. The Department also formalized a succession plan for the Group, which identifies back-up resources, and professional development and cross-training activities.

Alberta Indian Tax Exemption program limits—implemented

Background

In our *October 2007 Report* (vol. 2—page 85), we recommended that the Department of Finance and Enterprise assess and evaluate the risk of individuals exceeding the tax-exempt tobacco limit of the Alberta Indian Tax Exemption program.

Our audit findings

The Department implemented our recommendation by assessing the risk of overpayment to individuals exceeding the tax-exempt tobacco program's limit. Based on the assessment, the risk of overpayment is not significant.

Use of spreadsheets in processing taxes—implemented

Background

In our *October 2008 Report* (page 273), we recommended that the Department of Finance and Enterprise's Tax and Revenue Administration division review the use of spreadsheets in the processing of insurance corporations tax. The Department should assess the costs, benefits and risks of using spreadsheets, and consider whether using existing established computer systems is more appropriate.

Our audit findings

The Department implemented our recommendation by reviewing the use of spreadsheets. Insurance corporations tax is now processed using established computer systems.

Alberta Treasury Branches

ATB New Banking System Internal Controls—progress report

Background

In our *October 2009 Report* (beginning on page 219), we reported on Alberta Treasury Branches' insufficient consideration of the need for well-designed and effective internal controls in the functional design phase of its new SAP financial modules, which are a part of the new banking system (Core project). As a result of our 2009 audit, we recommended that ATB's Strategic Steering Committee receive the appropriate assurance from the Core project's leadership team that the organization's control objectives have been satisfied before the user acceptance testing phase of the Core project is complete. When we made our recommendation, management agreed to act on our recommendation before the go live date. ATB's internal audit group did a similar audit on the consideration of internal controls within the functional design process for the SAP banking modules. This work resulted in ATB's internal audit group recommending in July 2009 that management initiate the development of a formal plan, in consultation with key stakeholders, to ensure internal controls are given adequate consideration as part of the Core project.

ATB management expects the Core project to go live in April 2011, which does not leave the newly created internal control project team much time to complete its work. In our opinion, ATB's internal control project must achieve its goals and objectives prior to the Core project's implementation date to ensure ATB will be able to continue to meet its business objectives and serve its customers.

Key Point

ATB's internal control project team must meet its goals and objectives prior to implementation of the new banking system.

On pages 61 to 65, we report on improvements ATB has made to the Core project's governance and management.

Management actions

Subsequent to our recommendation and the internal audit group's recommendation, ATB hired a professional services firm to assess how internal controls should be considered in the Core project. The professional services firm completed its work and provided a report to ATB in March 2010.

ATB created an internal controls project team to ensure there are sufficient internal controls in place when the Core project is implemented. The internal control project charter was presented to the Strategic Steering Committee in April 2010 and approved by ATB's Vice President of Central Services in June 2010.

The internal control project team's goals and objectives are to:[1]

- develop an internal controls strategy and plan specific to the Core project to enable ATB to meet a level of controls at implementation that is at least on par with the current pre-Core level of controls

1 ATB project charter, *Internal Controls Initiative*

- establish the minimum level of controls to use as the project benchmark for implementation of controls relative to the Core program implementation
- assess, design, build and test internal controls to meet the minimum level of desired controls
- develop a road map for future implementation of controls to meet a desired state of controls for the Core applications

The internal controls project team has an executive project sponsor and dedicated resources. Training was provided to project team members on internal controls. The project team has created detailed project plans to identify risks and implement internal controls into the SAP system before the implementation date. The project team has also defined plans to report, on a weekly and monthly basis, progress to the executive project sponsor. An internal controls risk and control matrix was created for the project team to use as it does its work.

The internal controls project team is currently assessing approximately 490 business processes. As of July 2010, the project team has identified 158 business processes that are in scope for the internal controls project to assess for risks and risk mitigation. The project team has also identified approximately 60 information technology controls that need to be in place for internal controls to be reliable when the Core project is implemented.

Client derivative credit limits—recommendation repeated

Background

In our *October 2008 Report* (page 276), we recommended that ATB promptly update the derivative credit limits disclosed in the *Daily Derivative Credit Exposure Report*.[2] We noted discrepancies between the monitoring report and the amounts authorized in client's approval credit application.

Recommendation: improve credit monitoring

RECOMMENDATION—REPEATED

We again recommend that Alberta Treasury Branches promptly update the derivative credit limits disclosed in the *Daily Derivative Credit Exposure Report*.

Our audit findings

We examined the process for updating the *Daily Derivative Credit Exposure Report* and concluded that no significant changes to the process had occurred since our original recommendation. We tested the process and still identified differences between the customer credit limits on the credit application and those on the monitoring report.

To implement this recommendation, ATB must create a process that promptly updates customer credit limits on the *Daily Derivative Credit Exposure Report* when customer credit limits change.

Implications and risks if recommendation not implemented

The monitoring of ATB's client derivative credit risk exposure will be ineffective if inaccurate credit limits are reported within the *Daily Derivative Credit Exposure Report*.

Internal controls over fair value calculations of securities and derivatives—recommendation repeated

Background

In our *October 2008 Report* (page 274), we recommended that ATB improve controls over the calculations of fair value for its derivatives and securities. We noted that manual data inputs used in the computation of fair values[3] were not reviewed for accuracy or approved.

2 A report used by ATB to monitor whether a client's derivative credit exposure exceeds the client's approved derivative credit limit.

3 Fair value is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing partners who are under no compulsion to act.

Recommendation: improve internal controls over fair value calculations

RECOMMENDATION—REPEATED

We again recommend that Alberta Treasury Branches improve controls over the calculation of the fair value for its derivatives and securities by:

- implementing a peer review and approval process for inputs and assumptions used in the valuation models. Alternatively, for derivatives, management could use a benchmarking process to assess reasonability of its calculated fair values
- documenting the results of this work consistently

Our audit findings

We have repeated this recommendation because ATB has not yet implemented effective controls over the calculation of the fair value for its securities and derivatives.

Implications and risks if recommendation not implemented

Income and assets within the financial statements could be misstated if there are not adequate controls over the fair value calculation of derivatives and securities.

Process for confirming compliance with Alberta Finance and Enterprise guidelines—implemented

Background

In our *October 2007 Report* (no. 26, vol. 2—page 94), we recommended that ATB should have systems and processes in place to ensure it complies with the *Outsourcing of Business Activities, Functions, and Processes Guideline* issued by the Alberta Minister of Finance and Enterprise. We repeated the recommendation in our *October 2009 Report* (no. 25—page 226).

Our audit findings

ATB implemented our recommendation by improving its materiality assessment process. We concluded that the new process corrects the override in the previous process that allowed a material outsourcing arrangement to be misclassified in 2009.

Criminal record checks—implemented

Background

In our *October 2008 Report* (no. 30—page 279), we recommended that ATB improve its hiring processes to ensure criminal record checks are completed on prospective employees prior to hiring these employees. ATB's responsibilities to its customers include the duty to ensure that confidential customer information is adequately safeguarded. Only employees who have met ATB's hiring standards should have access to this confidential information.

Our audit findings

ATB implemented our recommendation by contracting with a third party service provider to have criminal record checks completed within two business days. ATB also will not grant new employees an employee number from the payroll system until all required documentation is received, including criminal record checks. In 2010, we tested 20 samples that followed this new process and found no instances where employees were hired without a criminal record check being completed.

Alberta Investment Management Corporation (AIMCo)

Overview of the audit

On January 1, 2008, the Department of Finance and Enterprise transferred its investment management operations to the newly formed Alberta Investment Management Corporation (AIMCo), a Crown corporation within the Ministry of Finance and Enterprise.

AIMCo manages approximately $71 billion of investments owned by Alberta endowments funds such as the Alberta Heritage Savings Trust Fund, public sector pension plans such as the Local Authorities Pension Plan, government funds such as the Alberta Sustainability Fund and other government entities. Below is a summarized "assets under management" table from the *Alberta Investment Management Corporation Annual Report 2009/10:*

Investment Clients	Market Value
Endowment Funds	$17.3 billion
Pension Plans	$27.7 billion
Short-term Government of Alberta Funds	$23.0 billion
Special Purpose Government Funds	$2.7 billion
Total	**$70.7 billion**

Table 1: AIMCo's assets under management

Since its creation, AIMCo has focused on organizing and building upon the investment management operations it inherited from the Department. Our current audit recommendations relate to AIMCo's need to also develop processes for and controls over the financial information it provides clients.

When investment operations were in the Department, investment management staff worked closely with investment accounting staff who prepared financial statements or financial statement information for the Department's investment clients. The investment accounting staff were familiar with the Department's investment management operations. They attended investment management meetings and were involved with establishing accounting policies and procedures. They also identified and corrected accounting errors.

The Department continues to be responsible for preparing financial statements or financial statement information for pension plans, endowment funds and other investment clients. Therefore, the Department's investment accounting staff must be sure that the underlying investment information is complete and accurate. Although AIMCo has taken over the investment management operations, the Department's investment accounting staff continue to prepare financial statements or financial statement information for investment clients, using information from AIMCo's general ledger (Genvest) and portfolio management system (Pacer).

Department staff also perform certain control activities such as:

- reconciling transactions between Pacer and Genvest
- reviewing the allocation of investment income to clients
- performing monthly bank reconciliations
- reviewing asset transfers
- correcting and reporting errors identified to AIMCo

AIMCo needs additional accounting expertise to maintain the control activities that Department staff put in place so that AIMCo itself can ensure the accuracy of its investment general ledger.

Our new recommendations focus on improving AIMCo's ability to provide accurate and timely financial information used in the preparation of financial statements to its investment clients, including the Department. These improvements include identifying its clients' financial reporting needs as well as developing better controls over the investment general ledger and information technology change management processes.

Findings and recommendations

Client financial reporting requirements

Background

AIMCo's clients use various financial reporting frameworks. These include:

- Canadian generally accepted accounting principles for government business and government business-type enterprises
- Canadian generally accepted accounting principles for pension plans
- Canadian accounting standards developed by the Public Sector Accounting Board

In 2011, two of AIMCo's clients will be adopting International Financial Reporting Standards.

These frameworks differ from each other and require AIMCo's clients to report and disclose different types of investment information. In addition, the governing bodies for each framework frequently issue new and revised accounting standards.

Some of AIMCo's clients, such as the Department, have access to the Genvest general ledger and Pacer portfolio management systems and are able to prepare financial statements without additional information or assistance from AIMCo. However, other clients require additional investment-related information to prepare their financial statements in accordance with their particular financial reporting framework.

Recommendation: help clients meet financial reporting requirements

RECOMMENDATION NO. 17

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

Criteria: the standards for our audit

AIMCo management should:

- periodically discuss financial reporting requirements with its clients
- understand its clients' financial reporting frameworks and develop systems and procedures to produce the investment-related information they require
- have investment management agreements with its clients that include the provision of the specific financial reporting information they require
- provide the agreed upon information in a timely and accurate manner

Our audit findings

Key Points

- AIMCo does not have agreements with its clients to provide investment financial reporting information
- Two new investment accounting standards were in place for December 2009. AIMCo did not develop systems to produce the required information in time to meet client reporting deadlines.

AIMCo management has discussed financial reporting requirements with some of their clients, but AIMCo does not have written agreements to provide the information. Some client financial reporting information is provided by AIMCo and some is provided by the Department.

Two new accounting standards applicable to the financial reporting of certain AIMCo clients were in effect as of January 1, 2009:

- *CICA Handbook, EIC-173*, requires that counterparty credit risk be considered in the valuation of derivative investments
- *CICA Handbook, 3862, Financial Instruments—disclosures* requires an entity to classify financial instruments using a fair value hierarchy which is based on the quality and reliability of the information to estimate fair value

AIMCo did not review and assess the implications of these new standards in advance of the December 31, 2009 year-end. AIMCo did not develop appropriate systems and procedures to produce the investment-related information in time to meet its clients' financial reporting deadlines.

AIMCo hired a public accounting firm to guide its approach to counterparty credit risk in the valuation of derivative investments (*CICA, EIC-173*). The firm's initial assessment was that the effect would be immaterial. However, the full assessment was incomplete at December 31, 2009, and remained incomplete as of May 2010. AIMCo did not provide the information that would have been needed to make the appropriate adjustment or disclosure in its clients' financial statements. Consequently, AIMCo's clients were exposed to the risk of inaccurate derivative valuation in their financial statements.

AIMCo did not review changes to *CICA 3862* in advance of the December 31, 2009 year-end, to develop a clear approach to disclosing the inputs it uses to make fair value measurements. AIMCo's valuations group prepared an initial classification of the fair value hierarchy for several investment pools; AIMCo's Controller prepared a different classification. Consequently, AIMCo's clients had to revise their financial statement disclosures several times.

Implications and risks if recommendation not implemented

Without a clear understanding of its clients' individual financial reporting frameworks, AIMCo might not be providing them with complete and accurate reports of investment fair values and disclosures. As a result, its clients' financial statement disclosures might be incomplete or inaccurate.

General ledger controls

Background

AIMCo records its investment transactions in two systems: Pacer and Genvest. Pacer is an investment portfolio management system that tracks investment activity (purchases, sales, splits, dividends, maturities, cash deposits and withdrawals, changes in market value). Genvest is a general ledger system that is integrated with Pacer. It requires no duplication of data entry when operating effectively. Genvest is needed to produce trial balances and to provide a full audit trail of transaction modifications.

AIMCo staff enter investment transactions directly into Pacer. Genvest is automatically updated through journal entries that use cross-reference codes from Pacer; however, these codes do not work for all investment transactions. When the cross reference codes don't work, AIMCo uses manual journal entries to update Genvest.

AIMCo's investment pools include cash balances. AIMCo prepares daily bank reconciliations for all investment pool transactions recorded in Pacer. Pacer transactions can be recorded at the current date, or they may be backdated.

Department of Finance and Enterprise staff access information from Pacer and Genvest to prepare financial statements or financial statement information for pension plans, endowment funds and other entities. AIMCo closes Genvest and Pacer six business days after each quarter-end, to facilitate this process. Department staff perform review procedures to ensure that the data within Pacer and Genvest is reliable. The Department's procedures include the following:

- cash controls:
  - preparing monthly bank reconciliations for each investment pool and client to both the Pacer and Genvest systems
  - agreeing individual client deposits and disbursements in Genvest to bank statements
  - identifying the nature of cash transactions and reviewing them for reasonability, to correct coding errors, duplicated entries, reversals and ensure the accuracy of large or unusual transactions
  - reviewing cash transactions posted subsequent to the reporting date, to determine the financial statement effect
- investment pool controls:
  - analyzing entries made to client's cost accounts to identify purchases, disposals and income distributions, and recording them in a spreadsheet
  - preparing investment pool working papers to reconcile opening cost and fair values to ending balances

Recommendation: improve controls over investment general ledger

RECOMMENDATION NO. 18

We recommend that the Alberta Investment Management Corporation implement additional control procedures so that the Corporation itself can ensure the completeness and accuracy of its Genvest investment general ledger.

Criteria: the standards for our audit

AIMCo should have effective internal controls to ensure that investment information in its Genvest general ledger is complete and accurate.

Our audit findings

Key Point

AIMCo's control activities over its investment general ledger are not e ective and continue to be supplemented by control activities performed by the Department of Finance and Enterprise.

AIMCo, by itself, does not have effective internal controls to ensure that financial information in its Genvest investment general ledger is complete and accurate. The Department of Finance and Enterprise continues to perform certain control activities over the Genvest investment general ledger to supplement control activities performed by AIMCo. For example, the Department currently performs monthly bank reconciliations for investment pool and client bank accounts, prepares investment pool working papers, and reconciles opening cost and fair value balances to period ending balances. These control activities performed by the Department identify accounting errors in the Genvest investment general ledger that the Department communicates to AIMCo. The accounting errors are then corrected by AIMCo.

During its review procedures for the year ended December 31, 2009, the Department's accounting staff identified a $400 million understatement of cost and realized investment income in four investment pools. By the time the Department reported the errors to AIMCo, it had already issued client reports. A client used the AIMCo client report to prepare financial statements, understating investment cost and realized investment income by $4.4 million.

AIMCo does not reconcile cash balances in Genvest to the corresponding bank accounts on a monthly basis. This procedure is performed by the Department. During our audit, we identified the following differences between cash reported in the Genvest investment general ledger and the bank accounts:

- For the Universe Fixed Income Pool, Canadian cash reported by the bank was $56 million, compared to $48 million reported in Genvest.
- For the Global Equities Index Pool, Canadian cash reported by the bank was $317 million, compared to $352 million in Genvest. US cash reported by the bank was $2 million, compared to $61 million in Genvest.
- For the Global Equities Master Pool, Canadian cash reported by the bank was nil, compared to $455 million reported in Genvest.

AIMCo staff could not explain the reasons for these differences because they do not prepare monthly Genvest bank reconciliations. We obtained explanations for the differences through discussions with Department staff. We were satisfied that the Department's controls identified and dealt with the differences.

Implications and risks if recommendation not implemented

Without adequate investment general ledger controls, AIMCo needs to continue to rely on the Department's control activities and might provide inaccurate financial reports to its investment clients.

Information technology change management

Background

Changes to IT systems are usually done to improve the efficiency and effectiveness of programs or services or to respond to problem areas or external requirements, such as legislative changes.

Well-designed and effective change management controls ensure that staff consistently follow standardized procedures for efficient and prompt handling of changes to an organization's IT systems. Change management processes also help maintain the proper balance between the need for change and the potential detrimental impact of changes.

Recommendation: strengthen IT change management controls

RECOMMENDATION

We recommend that the Alberta Investment Management Corporation strengthen its IT change management controls to ensure that it adequately assesses the risks of changes, and does not make changes outside of the change management process.

Criteria: the standards for our audit

AIMCo should have a well-designed IT change management policy, procedures and controls.

Our audit findings

Key Points

- A large number of changes to AIMCo's IT systems were made and implemented into the systems by the same person
- AIMCo does not have a detective control to ensure that no IT systems changes were made outside of its change management process

We tested 20 changes and found that 15 of the changes were implemented into the production system by the same person, who developed or tested them. These changes followed AIMCo's change management policy and procedures. But the procedures allowed the same person to develop, test and implement the change after approval. The procedures did not have a control to ensure that the change was implemented as approved.

We also found that:

- AIMCo considers direct changes to data or information in the database as standard changes, which therefore do not require any formal testing, approval or quality assurance.
- AIMCo does not have an effective control to review system-generated logs to ensure that no changes were made outside of the change management process.

Implications and risks if recommendation not implemented

Without effective change management procedures, AIMCo may not be able to rely on the IT financial and business systems it uses to securely provide complete and accurate information.

Matters from prior-year audits

Valuation of private equity and hedge fund investments—implemented

Background

In our *October 2009 Report* (no. 26— page 233), we recommended that AIMCo establish a process to estimate current market values for private and hedge fund investments. AIMCo should have a process to obtain the current market value of all private and hedge fund investments at December 31, and compare it to the recorded market values of these investments. If the recorded market values are significantly different from the current market values, they should be adjusted.

AIMCo's private investments include private equities, private income, private infrastructure and timberland. AIMCo updates valuations for these investments when the external managers submit unaudited quarterly financial information, which is generally three months after quarter-end. Unaudited financial statements for hedge fund investments are obtained monthly by the custodian, State Street, with a one-month time lag.

Our audit findings

AIMCo has implemented our recommendation by establishing an Investment Valuation Committee and using a public accounting firm to assess the accuracy of external-manager-based market values for private equity investments. The public accounting firm reviewed the valuations of 25% of AIMCo's private equity portfolio and reported that the valuations were reasonable. Based on this work, the Valuation Committee concluded that private equity valuations were reasonable and no adjustments were necessary.

We tested December 31, 2009 private equity valuations, and observed that approximately 80% were based on external data less than three months old. For the remaining private equity investments, more recent valuation data was not available. We also reviewed the public accounting firm's report and agreed with the Valuation Committee's conclusion.

In May 2010, AIMCo amended the *Valuation Committee Charter* to require an annual review of the fair value of private investments and the accuracy of the external manager valuations.

Internal audit function—implemented

Background

In our *October 2009 Report* (page 232), we recommended that AIMCo re-establish an internal audit group. The purpose of internal audit is to determine whether the governance, risk management and internal control processes, as designed and represented by management, are adequate and functioning well. Internal audit provides an independent and objective view of an organization's risk management and control environment and helps management to be accountable through its reporting to the Audit Committee.

Our audit findings

AIMCo has implemented our recommendation by having its Audit Committee approve the *Internal Audit Charter* presented by the newly appointed Vice President of Internal Audit. Internal Audit plans to evaluate the effectiveness of AIMCo's risk management, control and governance processes. The Vice President of Internal Audit reports functionally to the Audit Committee, and administratively to the CEO.

Controls over record management—implemented

Background

In our *October 2008 Report* (page 291) we recommended that AIMCo maintain, file and be able to retrieve all hard copy records supporting completed investment transactions.

Our audit findings

AIMCo has implemented our recommendation by establishing a key documentation retention policy. Internal Audit tested the policy for compliance with the retention process and found it to be effective. In our 2009–2010 audit, we were able to locate all reports selected for audit testing.

Valuation of real estate investments—implemented

Background

In our *October 2008 Report* (page 285), we recommended that AIMCo improve its procedures for the valuation of real estate investments by:

- developing a detailed accounting policy for valuation of real estate investments which considers contingent liabilities
- segregating valuation of real estate investments from the portfolio management role
- developing procedures which reconcile the fair value and cost of real estate investments in Genvest to the audited financial statements of the real estate holding companies

The accounting policy for valuation of real estate investments states that the fair value of real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. The valuation process starts with the appraisal and takes into consideration the ownership percentage, any mortgages against the property and other liabilities such as incentive, promotional or development fees.

Our audit findings

AIMCo has implemented our recommendation by introducing a new *Private Real Estate Valuation Policy* that segregates the valuation of real estate from the portfolio managers, ensuring an independent valuation. Under the *Policy*, the I-CORE group receives appraisals directly from external asset managers and uses the appraisals, together with debt valuations received from the valuations group, and adjustments received from the external asset managers, to complete the valuations. The December 31, 2009 real estate valuations were done independently from portfolio managers.

The I-CORE group also developed procedures to reconcile the fair value and cost of real estate investments in the general ledger to the audited financial statements of the real estate holding companies. We examined the reconciliation process for the private real estate pool and found it to be adequate.

Controls over completeness and accuracy of private equity partnership investments—implemented

Background

In our *October 2007 Report* (vol. 2—page 92), we recommended that AIMCo (then the Department of Finance and Enterprise) reconcile its investments in private equity partnerships to the audited partnership financial statements. We also recommended that AIMCo accrue income tax refunds for private equity investments as soon as the amounts are known.

AIMCo manages 11 private equity pools that are held through limited partnerships in which the Crown holds a direct percentage interest or through a Crown corporation (blocker corporation), which holds the partnership interest on behalf of the Crown. External auditors are engaged by the general partners to audit the holding company financial statements. These audited financial statements are made available to AIMCo within six months after their year-end. Where the partnership interest is held through a blocker corporation, a corporate tax return is prepared and a payment or refund of income tax may ensue.

Our audit findings

AIMCo has implemented our recommendation by having its I-CORE group perform reconciliations for three private equity pools, and the Timberland, private mortgage and private real estate pools. The reconciliation process identified adjustments which were made for the Timberland pool. The I-CORE group also tracked the income tax status of the blocker corporations. No material income tax refunds were identified.

This year, we reviewed the status of the private infrastructure and private equity pool reconciliations and found that substantially all were completed to December 31, 2008. The I-CORE group continues to reconcile these pools to the audited financial statements.

Monitoring ISDA agreements—implemented

Background

In our *October 2008 Report* (no. 34—page 288), we recommended that AIMCo review its International Swap Dealers Association (ISDA) agreements regularly to ensure that AIMCo was protected from default risk by its counterparties. We also recommended that the reasons for any changes to the standard form of the ISDA agreement be documented in writing.

The Department of Finance and Enterprise is responsible for the oversight of all ISDA agreements written in the name of the Province of Alberta. The Department’s Derivative Risk Management Committee monitors and approves changes to the ISDA agreements. AIMCo has a representative on the Committee.

Our audit findings

AIMCo has implemented our recommendation by reviewing its ISDA agreements. AIMCo is in the process of adopting Credit Support Annex (CSA) agreements, in place of Material Adverse Change clauses, for better protection from the risk of counterparty credit default. This initiative was approved by the Derivative Risk Management Committee. One CSA agreement has been signed to date, and AIMCo expects more will be signed the next year. To prepare for the change to CSA agreements, AIMCo’s internal legal counsel worked with external counsel to review all ISDA agreements. As per agreement with the Department, AIMCo’s internal legal counsel now reviews and approves all changes to ISDA agreements related to AIMCo’s investments.

Financial statements

We issued unqualified auditor's opinions on the financial statements of the Ministry and the Department for the years ended March 31, 2010 and 2009.

We issued unqualified auditor's opinions for the following entities consolidated within the Ministry:

- For the years ended March 31, 2010 and 2009:
    - Alberta Cancer Prevention Legacy Fund
    - Alberta Heritage Foundation for Medical Research Endowment Fund
    - Alberta Heritage Savings Trust Fund
    - Alberta Heritage Scholarship Fund
    - Alberta Heritage Science and Engineering Research Endowment Fund
    - Alberta Investment Management Corporation
    - Alberta Risk Management Fund
    - Alberta Securities Commission
    - N.A. Properties (1994) Ltd.
    - Provincial Judges and Masters in Chambers Reserve Fund
    - Supplementary Retirement Plan Reserve Fund
- For the years ended December 31, 2009 and 2008:
    - Alberta Capital Finance Authority
    - Alberta Pensions Services Corporation
    - Alberta Local Authorities Pension Plan Corp.
    - Credit Union Deposit Guarantee Corporation
- For the years ended September 30, 2009 and 2008:
    - Gainers Inc.

We issued unqualified review engagement reports on Alberta Heritage Savings Trust Fund's quarterly financial statements.

We examined the financial statements, management letters, and audit files for the years ended December 31, 2009 and 2008 for Alberta Insurance Council, a Crown-controlled corporation consolidated within the Ministry. A public accounting firm audits the Council.

We issued unqualified auditor's opinions for all of the financial statement audits we completed for Alberta Treasury Branches and its subsidiaries (ATB Investment Services Inc., ATB Investment Management Inc., ATB Securities Inc., ATB Insurance Advisors Inc.) for the years ended March 31, 2010 and 2009.

We issued unqualified review engagement reports on ATB's quarterly financial statements.

A public accounting firm performed compliance audits of ATB Investment Services Inc., ATB Investment Management Inc., and ATB Securities Inc., and reported directly to the applicable regulatory bodies. We reviewed the results of these audits:

- Mutual Fund Dealers Association of Canada's Financial Questionnaire and Report as at March 31, 2010
- Investment Industry Regulatory Organization of Canada's Joint Regulatory Financial Questionnaire and Report as at March 31, 2010
- Compliance Report on National Instrument 81-102 as required by the Alberta Securities Commission for the year ended March 31, 2010

We also issued unqualified auditor's opinions on the financial statements of the following entities that are not consolidated within the Ministry:

- For the years ended March 31, 2010 and 2009:
    - Consolidated Cash Investment Trust Fund
    - Provincial Judges and Masters in Chambers (Registered) Pension Plan
- For the years ended December 31, 2009 and 2008:
    - Local Authorities Pension Plan
    - Management Employees Pension Plan
    - Public Service Management (Closed Membership) Pension Plan
    - Public Service Pension Plan
    - Special Forces Pension Plan
    - Supplementary Retirement Plan for Public Service Managers

Performance measures

The Ministry engaged us to review selected performance measures in the Ministry's 2009–2010 Annual Report. We issued an unqualified review engagement report on these measures.

Health and Wellness

In 2009–2010, the Department of Health and Wellness had approximately 800 employees (FTEs) to support its operation. It spent approximately $13 billion, of which approximately $9 billion was provided to Alberta Health Services.

Alberta Health Services, supported by its over 64,000 employees (FTEs), spent approximately $10 billion in 2009–2010. Its expenses represent approximately 80% of the government's total health expenses and approximately 25% of the total government expenses.

Summary of our recommendations

Ministry and Department

Department of Health and Wellness has implemented our 2006—2007 recommendation to improve access and change management controls in its Claims Assessment System—see below.

Due to changed circumstances, we no longer follow-up on infrastructure funding for health facilities with this Department—see page 164.

Alberta Health Services

Alberta Health Services should:

- prepare a formal transition plan for the organization's finance operations—see page 164
- ensure signed agreements are in place prior to constructing capital projects—see page 166
- assess the effectiveness of its membership in an insurance reciprocal as a risk management tool—see page 167
- implement consistent and efficient accounting processes for externally restricted contributions—see page 168
- improve its year-end financial reporting processes—see page 169

In the past year, Alberta Health Services:

- established controls over and public reporting for executive termination payments—see page 169
- prepared an annual business and financial plan that was approved by the board—see page 170
- communicated and monitored compliance with its investment policy—see page 170
- monitored the performance of a contractor providing significant outsourced services—see page 171

For outstanding recommendations previously made to the organizations that form the Ministry, please see our outstanding recommendations list on page 203.

Findings and recommendations

Department of Health and Wellness

Claims assessment system—implemented

Background

In our *October 2007 Report* (vol. 2—page 107), we recommended that the Department of Health and Wellness improve access and change management controls in its Claims Assessment System (CLASS) by:

- regularly reviewing access to CLASS and documenting the procedures for the review
- reviewing table modification reports and documenting the procedures for the review
- reviewing change management processes when data is migrated from test to production environment within CLASS
- documenting the purpose of data tables in CLASS

Our audit findings

Key Points

- Procedural documentation completed
- Built-in functions in CLASS adequate to avoid conflicting role assignments

The Department has documented its procedures for reviewing:

- access to CLASS—Management reviews access quarterly on a sample basis.

- table modification reports—Management reviews the table modification report weekly.
- change management processes when migrating data from test to production environment—The Department has implemented a policy to ensure segregation of duties. The individual making changes in the production environment will not be responsible for reviewing the table modification report.

Management does not plan to document the purpose of data tables in CLASS. Its rationale is that the amount of time needed to complete the documentation exceeds the incremental benefits. Management asserts that the built-in functions in CLASS serve the purpose of avoiding the assignment of conflicting roles to staff. We accept management's assertions.

Infrastructure funding for health facilities—changed circumstances

Background

In our *October 2008 Report* (page 301), we recommended that the Department of Health and Wellness improve controls over infrastructure grants for health facilities by implementing:

- agreements with grant recipients that clearly outline terms and conditions, roles and responsibilities and reporting requirements
- a process to obtain periodic reporting on project status

Our audit findings

Key Point

Management of health facility capital grants transferred to Ministry of Infrastructure

During 2009–2010, the Department implemented a standard agreement for health facility capital grants. However, management informed us that the responsibility of managing health facility capital grants was transferred from the Ministry of Health and Wellness to the Ministry of Infrastructure on April 1, 2010. Due to this change in circumstances, we will not follow up on the recommendation with the Ministry of Health and Wellness.

Alberta Health Services

Financial operations transition

Background

On April 1, 2009, Alberta Health Services (AHS) commenced as one organization after the merger of nine regional health authorities, the Alberta Cancer Board, the Alberta Mental Health Board (AMHB), and the Alberta Alcohol and Drug Abuse Commission (AADAC) (the predecessor organizations). Before April 1, 2009, many finance staff had already left the organization, as the merger process had begun in 2008.

In 2009, AHS implemented its own general ledger accounting system (referred to as the topside ledger). This system continues to be fed data from the general ledgers of the predecessor organizations. Processing within these general ledgers continues much the same as when the predecessor organizations were separate.

Management intends to finish amalgamating various systems, such as the general ledger, payroll, purchasing and revenue systems, over the next few years.

Recommendation: financial operations transition plan

RECOMMENDATION NO. 19

We recommend that Alberta Health Services prepare and implement a formal transition plan for the organization's finance operations. The plan should include and integrate the following:

- assessing the resources, timelines and critical path needed to consolidate the general ledger and sub-ledger systems
- ensuring rigorous change management controls are applied before implementing application system changes
- harmonizing financial reporting policies and processes across the organization
- determining the adequate amount of human resources and skill levels required to implement the plan and then keep the processes operational

Criteria: the standards for our audit

AHS should have sufficient project management processes and controls in place to manage significant organizational changes.

Our audit findings

Key Points
- Errors were noted in the way data was processed from predecessor organization's general ledgers
- Rigorous change management processes for applications should be used
- Financial reporting processes from predecessor organizations not yet fully harmonized

General ledgers

After implementing the topside ledger, AHS found numerous errors in the way data was being processed from the predecessor organizations' ledgers. This occurred because:

- Adjusting entries made by the predecessor organizations were not included in their respective ledgers and, therefore, the topside ledger did not pick them up. This resulted in more than $500 million in misclassified expenses that needed to be corrected in the topside ledger.
- Transactions with Covenant Health were classified uniquely in Capital Health's general ledger. This unique classification was not picked up by the topside ledger and approximately $420 million of expenses were omitted.
- The topside ledger layered on top of the multiple legacy general ledgers increases the risk of error, and required a significant amount of AHS staff time to reconcile the year-end accounts between the two layers.

Inaccurate data had an impact on internal reporting systems. AHS staff spent a significant amount of time making 1,300 manual entries to reclassify data in the general ledger system. Most of these entries did not impact amounts at the financial statements classification level. The initial budget prepared and approved in August 2009 was not comparable to the actual results because of the number and magnitude of adjustments made to the underlying data throughout the fiscal year. Therefore, AHS amended the 2009–2010 budget three times—in December 2009, April 2010, and May 2010.

Change management processes for application systems

When implementing a new or significantly revised application system, rigorous testing is usually performed to ensure the application will function as intended before putting the application into active use. While AHS did have its internal audit group complete an audit of the topside ledger's implementation, this was done about nine months after the new system was put into active use. It took several months after the internal audit was completed to identify and correct anomalies found during that audit and the Finance group's own post-implementation review.

In instances where rigorous testing cannot be completed on a new system before it is put into production, another control mechanism is to run the new system in parallel with the old system for some time period. This helps detect problems with the new system in a timely manner and provides a back-up if the new system fails. AHS did not run the predecessor organizations' ledgers and the topside ledger in parallel. Instead, processing has been unsystematically commingled between the two layers of ledgers. Rather than provide a compensating control mechanism, this approach confounds the control processes and increases the risk of error.

Financial reporting policies and processes

The predecessor organizations had different policies and processes for their financial operations. AHS staff identified some of these areas, such as capital assets and financial instruments, and made conforming changes. However, as we completed the year-end audit, we found other instances where AHS has not yet harmonized policies and processes.

These included:

- deferred contributions (see our recommendation on page 168)
- accounting for employee benefit plans

- accounting for doubtful accounts receivable
- vacation accruals

These differences led to further adjustments to the financial statements during the audit period. (Also, see our repeated recommendation on page 169.)

The predecessor organizations recorded various transactions between each other and within their own organization when they were separate entities. After the merger, some of the staff continued to record these transactions while others did not. The lack of a formal policy on which transactions should be maintained for internal costing purposes and which should be discontinued, increased the risk of not identifying all necessary elimination entries for AHS's consolidated statements. AHS's multiple accounts receivable ledgers compounded the difficulty of identifying all of the inter-organizational transactions.

Human resource requirements

At the time of our audit, AHS had not assessed the resources required to complete all of the systems mergers or its ongoing staff needs for finance operations. This contributed to missing several reporting deadlines and a significant number of errors in the draft financial statements.

AHS has lost a significant amount of corporate knowledge within its financial operations since the merger began. A system to retain and transfer this corporate knowledge has not been developed. In the absence of this historical corporate knowledge, new policies and training need to be developed to ensure consistent processes are followed across the merged organization.

Implications and risks if recommendation not implemented

Operating multiple general ledgers is inefficient because of the additional manual control processes needed to reconcile them to the topside ledger. It also creates a risk of duplicating general ledger entries at the two levels of general ledgers.

Not applying rigorous change management controls to future systems consolidation could lead to further significant errors in processing when AHS consolidates its general ledger, payroll, and other financial systems.

Villa Caritas

Background

Villa Caritas is a 150-bed facility in Edmonton. In 2007, the former Capital Health (now Alberta Health Services [AHS]) issued a request for proposal (RFP) to construct a facility whose beds would replace existing long-term care beds in the region. Several proponents bid on the public-private-partnership agreement, which was ultimately awarded to the former Caritas Health (now Covenant). Capital Health's anticipated funding commitment to this project was provided by a $12 million infrastructure grant from the Department of Health and Wellness, with the balance of the facility to be financed by the partner.

Recommendation: funding agreements for capital projects

RECOMMENDATION NO. 20

We recommend that Alberta Health Services ensure that funding agreements are signed prior to commencement of construction of capital projects, and are formally amended when there are significant changes in the scope of a capital project.

Criteria: the standards for our audit

Funding agreements should be signed prior to construction and amended for significant changes in project scope. The agreement should cover:

- responsibilities for designing, operating, maintaining, and constructing the facility
- functional specifications and ownership of the facility
- funding commitments of the respective parties for the construction, operation, and maintenance of the facility

Our audit findings

Key Point

The construction of a facility is almost complete without a signed agreement in place.

As of May 2010, Covenant had almost finished construction of Villa Caritas. Residents will move into the facility in the fall of 2010. However, at the time we completed our audit, no agreement had been signed between AHS and Covenant Health or their predecessor organizations.

In 2009, AHS decided to change the purpose of the facility from a long-term care facility to a mental health facility including 120 acute geriatric beds and 30 long-term care beds. This significant change necessitated amendments to the building specifications. Conversion to an acute care facility also prompted AHS to reconsider the financing structure of the facility. Rather than funding $12 million up front with the balance to be financed by its partner, Covenant, AHS intends to fund the full cost of the facility up front. At the time of our audit, AHS was negotiating with the Department of Health and Wellness to secure approximately an additional $40 million for this purpose.

When we concluded our audit in June, there was no formal written agreement between AHS and Covenant. Without a final agreement in place prior to construction, the roles and responsibilities of the parties were not clearly defined. Although the scope of the project and the role of the contractor was contemplated in the original RFP documents, the change in project purpose made it especially important to ensure key terms and conditions, such as who controlled the facility, were agreed upon prior to construction. A signed agreement would also have allowed AHS to ensure that risks, including legal risks, were allocated to the proper party.

Implications and risks if recommendation not implemented

Due to a lack of formal agreement, Villa Caritas may not be constructed or funded to both parties' expectations, which may require difficult resolution processes after construction has finished.

Without a contract that specifies the scope and budget for a capital project, there is a greater risk of project cost escalation that would be borne by taxpayers. Also, other projects in AHS's capital plan may have to be delayed or cancelled.

Provincial Health Authorities of Alberta Liability and Property Insurance Plan

Background

The Provincial Health Authorities of Alberta Liability and Property Insurance Plan is an insurance reciprocal of which AHS is a subscriber along with approximately 70 other organizations. The purpose of the reciprocal is to share risks of liability to lessen the impact on any one subscriber.[1]

AHS and the other subscribers pay premiums to the plan annually, much like a regular insurance policy. However, unlike a regular insurance policy, subscribers can be subject to cash calls if the reciprocal group experiences claims in excess of accumulated premiums at any given time. Subscribers can also be issued a dividend if premiums exceed experienced losses and minimum equity requirements subject to the plan's advisory board approval.

Recommendation: effectiveness of insurance reciprocal

RECOMMENDATION NO. 21

We recommend that Alberta Health Services assess the effectiveness of its arrangement with the Liability and Property Insurance Plan as a risk management tool, and assess the resulting accounting implications.

Criteria: the standards for our audit

AHS should test the effectiveness of its risk-management strategies.

1 Note 19(f) In AHS's financial statements provides information about coverage limits of the plan, as well as information about the plan's assets and liabilities.

Our audit findings

Key Point

AHS may be in essentially the same economic position as being self-insured

AHS appoints six of seven trustees to the plan's advisory board. AHS is the single largest subscriber and directly accounts for an estimated 80% of the plan's activity. Organizations such as AHS's subsidiaries, primary care networks, and private not-for-profit organizations funded by AHS are the majority of the other subscribers. Therefore, AHS has indirect commitments and exposures to the plan through these organizations.

Since AHS would have to pay additional funds into the plan in the event claims exceed accumulated assets, or can receive dividends if there is a sufficient surplus, AHS retains a residual interest in the plan's net assets or liabilities. This contrasts to a typical trust or insurance arrangement where the contributor would not have residual risks and benefits.

The combination of this residual interest and that AHS and its related organizations make up the majority of subscribers in the reciprocal could mean AHS is essentially in the same economic position as being self insured.

AHS does not record its share of the assets, liabilities, and equity of the plan in its financial statements because it has not yet fully assessed the nature of its relationship with the plan.

Implications and risks if recommendation not implemented

The reciprocal insurance plan may not effectively share risk and lessen the impact on AHS of claims against it.

Deferred contributions and deferred capital contributions

Background

AHS obtains contributions from various government bodies, including Alberta Health and Wellness and Alberta Infrastructure. AHS had $1 billion in deferred capital contributions and $730 million in deferred contributions at March 31, 2010.

Starting in fiscal 2010, AHS Calgary area obtains initial grant agreements and grant funding receipts from Alberta Health and Wellness and Alberta Infrastructure. The other AHS areas then receive the funds from Calgary, and administer the various balances including tracking related expenses. These expenses are tracked through functional centres or projects set up in the general ledgers or project costing module. Many different functional centres can be assigned to a particular grant.

Recommendation: accounting for restricted contributions

RECOMMENDATION NO. 22

We recommend that Alberta Health Services implement consistent and efficient accounting processes for externally restricted contributions to assure the AHS Board that it is complying with the restrictions attached to those contributions.

Criteria: the standards for our audit

There should be consistent practices and processes for administering and accounting for deferred contributions and deferred capital contributions.

Our audit findings

Key Point

The manual tracking and splitting of the contributions into voluminous amounts of project code allocations increases the risk of error

AHS tracks approximately 7,200 different projects related to externally restricted contributions. More than 90% of these projects are less than $500,000. During the audit, we found material errors in the deferred contribution balances requiring $163 million of adjustments to the draft financial statements. Inconsistent manual tracking processes amongst the former regions combined with the disaggregation of contributions into a voluminous amount of project code allocations increases the risk of error and inefficiency. We also found AHS does not ensure unspent funds assigned to one project are applied to eligible expenses in another project. For example, we found $1.7 million in unspent funds from a pandemic planning grant were not applied to eligible H1N1 project expenditures.

Implications and risks if recommendation not implemented

Manual and inconsistent processes present a risk of material errors. AHS's existing processes are time consuming, subject to error and inefficient.

Year-end financial reporting processes—recommendation repeated

Background

Last year we found a lack of clear roles, responsibilities and direction resulted in inaccurate, incomplete and untimely financial statements at AHS's predecessor organizations. Therefore, we recommended AHS improve its year-end financial reporting practices. As described in the background of recommendation no. 19 on page 164, these organizations merged on April 1, 2009.

Recommendation: year-end financial reporting processes

RECOMMENDATION NO. 23—REPEATED

We again recommend that Alberta Health Services improve its year-end financial reporting processes by improving processes to identify and resolve key accounting risks and reporting issues on a timely basis.

Criteria: the standards for our audit

There should be appropriate resources, processes and controls in place to ensure that year-end financial statements are accurate, complete and timely.

Our audit findings

Key Points

- Steps were taken to define roles, responsibilities and decision-making authorities relating to financial reporting
- Processing data through multiple general ledgers and the identification and resolution of key accounting issues, continues to provide challenges in producing accurate financial statements

We found that AHS has taken steps to define roles, responsibilities and decision-making authorities relating to financial reporting. However, we continue to find that as a result of inefficient processes surrounding the multiple general ledgers and identification and resolution of key accounting issues, AHS has had difficulty producing accurate financial statements within the necessary timelines.

During the year, management decided to track significant matters and issues on an "issue list." This list formed the basis of ongoing consultation with us. Initially, management was proactive in identifying such issues and flagging them for our discussion on a timely basis. However, as a result of turnover and other constraints noted above, some of the issues remained unresolved until year-end and even resulted in audit adjustments. AHS corrected errors totaling $311 million that were identified through the audit.

The individually largest corrections were:

- $59 million for capital contributions recorded as receivable but not confirmed by AHW
- $69 million related to missing a reversal of an elimination entry
- $63 million related to capital contributions that should have been transferred to unamortized external capital contributions in 2010, but were not

Implications and risks if recommendation not implemented

AHS will have inaccurate, incomplete and untimely financial statements and management may make incorrect financial decisions if it relies on this information.

Implemented recommendations

Executive termination payments—implemented

Background

In our *October 2009 Report* (no. 27—page 256), we recommended that Alberta Health Services establish controls for executive termination payments by:

- developing and implementing appropriate approval and oversight processes

- clearly defining termination and post-termination benefits in employment contracts
- including future termination benefits in the salary and benefit disclosure in the financial statements

Pages 256 to 260 of our *October 2009 Report* describe in detail our findings supporting this recommendation. In summary, we found that termination benefits agreed to by the former regional health authorities with their respective executive managers varied significantly. In some cases, termination benefits were augmented in relation to bonuses and retirement plans even though contractual requirements to pay these amounts were unclear.

We also found that there was a lack of oversight by AHS management and its Board members in the entire severance process.

While AHS did disclose the value of termination benefits paid, we also recommended that AHS follow private sector best practices and disclose contractual termination benefits for existing executive managers.

Our audit findings

AHS developed standardized contracts for its senior executives that explicitly define termination and post-termination benefits. These contracts will apply prospectively to newly hired executives. For executives who previously had termination benefits defined in their contract with a former regional health authority, AHS remains contractually bound to these terms unless the executive renegotiates their contract and agrees to revised termination benefits.

For continuing employees who do not have termination benefits pre-defined in their contract, AHS has implemented guidelines to ensure consistent termination payments. The guidelines recommend the amount of termination benefits. These guidelines are based on the same factors the law takes into consideration, such as length of service and employee age. In addition to the guidelines, termination payment recommendations are reviewed and approved through AHS's human resources department. We tested a sample of 36 termination payments and found that the guidelines were applied consistently and approved according to the process defined in the guidelines. Since the process is now administered by human resources and not an external party, we found sufficient documentation supporting termination decisions.

AHS implemented the last part of our recommendation by describing the benefits that would become payable to existing executives in the event of termination. This information is disclosed in the footnotes to Schedule 2 of the consolidated financial statements for each executive. In the case of the Chief Executive Officer, AHS has also published his complete contract including termination benefits on the AHS website.

Budget approval—implemented

Background

In our *October 2009 Report* (no. 30—page 267), we recommended that Alberta Health Services prepare an annual business plan and financial plan and have them approved by the Board.

Our audit findings

Management completed a financial plan for fiscal 2009–2010 which was approved by the AHS Board on August 8, 2009. Based on this plan, management has monitored the organization's performance. AHS also prepared a business plan which outlines its strategic direction for 2009–2012. The plan communicates the entity's strategies, goals and direction required to achieve its goals.

Compliance with investment policy—implemented

Background

In our *October 2009 Report* (page 280), we recommended that Alberta Health Services communicate its investment policy to its asset manager and monitor its investment portfolio on a regular basis to ensure compliance with its investment policy.

Our audit findings

In the current year, AHS communicated its investment policy in writing to both the various asset managers previously serving the former regional health authorities, as well as, the new asset manager taking over AHS's whole investment portfolio during the year. AHS's internal audit group reviews compliance with the policy and reports to the Audit and Finance Committee of the Board quarterly. Any instances of non-compliance are followed up by AHS's treasury staff with the asset manager for remediation.

Monitoring service provider compliance and performance—implemented

Background

In our *2006 October Report* (no. 36—page 128), we recommended that a predecessor to Alberta Health Services monitor the performance of a contractor using service-level standards and reporting timelines agreed to between the contractor and former Calgary Health Region. The authority had outsourced significant human resource processes to the contractor, including payroll.

Our audit findings

AHS negotiated 24 service level agreements (SLAs) with the contractor, covering processes such as payroll and the HR support centre. Each of the SLAs include key performance indicators to measure the contractor's performance. The contractor reports monthly to AHS on these performance measures. We found that management implemented a process to review these reports and follow up with contractor on targets not met. Periodically, management also requests data supporting the performance measure results to validate them on a sample basis.

Financial statements

The Ministry's consolidated financial statements include the accounts of the Department, Alberta Health Services, Health Quality Council of Alberta, Alberta Cancer Foundation, and Calgary Health Trust.

Our auditor's opinions on the Ministry and Department financial statements for the years ended March 31, 2010 and 2009, were unqualified.

We issued unqualified auditor's opinions on the financial statements for the years ended March 31, 2010 and 2009, of the following entities:
- Alberta Cancer Foundation
- Alberta Health Services
- Calgary Laboratory Services Ltd., Carewest, and Capital Care Group Inc.—wholly owned subsidiaries of Alberta Health Services
- Health Quality Council of Alberta

Performance measures

The Ministry engaged us to review selected performance measures in the Ministry's 2009–2010 Annual Report. We issued an unqualified review engagement report on these measures.

Housing and Urban Affairs

Summary of our recommendations

For outstanding recommendations previously made to the organizations that form the Ministry, please see our outstanding recommendations list on page 203.

Financial statements

Our auditor's opinions on the financial statements of the Ministry, Department and Alberta Social Housing Corporation for the years ended March 31, 2010 and 2009, were unqualified.

Performance measures

The Ministry engaged us to review selected performance measures in the Ministry's 2009–2010 Annual Report. We issued an unqualified review engagement report on these measures.

Infrastructure

Summary of our recommendations

The Department implemented our 2009 recommendation to improve application password controls—see below.

For outstanding recommendations previously made to the organizations that form the Ministry, please see our outstanding recommendations list on page 203.

Findings and recommendations

Password controls—implemented

Background

In our *October 2009 Report* (page 288), we recommended that the Department of Infrastructure improve application password controls or implement effective compensating controls. Password controls are an integral part of data security. Passwords are needed to make sure that only people who are authorized to do so can access the network or the business's critical applications.

Our audit findings

The recommendation has been implemented. The Department has changed its process for logging into the applications. The users now have to log into the applications using their network username and password. The network username and passwords are managed by Service Alberta and are configured to enforce strong passwords.

Financial statements

Our auditor's opinions on the financial statements of the Ministry for the years ended March 31, 2010 and 2009, were unqualified.

Performance measures

The Ministry engaged us to review selected performance measures in the Ministry's 2009–2010 Annual Report. We issued an unqualified review engagement report on these measures.

International and Intergovernmental Relations

For outstanding recommendations previously made to the organizations that form the Ministry, please see our outstanding recommendations list on page 203.

Financial statements

Our auditor’s opinions on the financial statements of the Ministry of International and Intergovernmental Relations for the years ended March 31, 2010 and 2009, were unqualified.

Justice and Attorney General

Summary of our recommendations

The Department has implemented our October 2007 recommendation to improve controls over the Civil and Sheriff Entry System—see below.

The Office of the Public Trustee should improve controls for:

- inputting new vendors in its Public Trustee Information System (PTIS)—see below
- issuing and stopping recurring payments—see page 180

For outstanding recommendations previously made to the organizations that form the Ministry, please see our outstanding recommendations list on page 203.

Findings and recommendations

Department of Justice and Attorney General

Judicial information technology security—implemented

Background

In our *October 2007 Report* (vol. 2—page 131), we recommended the Department of Justice improve controls over the Civil and Sheriff Entry System (CASES) by developing, documenting and implementing IT security policies consistent with the guidance in the *Blueprint for Security of Judicial Information*.[1]

Our audit findings

The Department implemented this recommendation by:

- Documenting its procedures for creating and terminating users in CASES.
- Developing an enterprise risk management framework to provide direction to all business areas, including the courts, on how to identify, analyze and mitigate risks.
- Developing an online training package to provide all Department employees, including courts staff, with IT security awareness and training.
- Creating a number of automated checks that look for security events such as expired users or invalid passwords. If there is a security event on the network or CASES, the system generates a report. Management reviews these reports.
- Developing change management procedures for CASES.

Office of the Public Trustee

Creating new vendors in Public Trustee Information System

Background

The Office of the Public Trustee operates under the authority of the *Public Trustee Act*, to protect the financial interests of vulnerable Albertans by administering the estates of represented adults, decedents and minors. In doing so, the Office of the Public Trustee issues payments on behalf of their clients.

To issue a payment from a client's account, the vendor must first be set up in PTIS. The trust officer completes a form requesting a new vendor to be created in PTIS. The vendor is then set up in PTIS by data entry staff.

To issue a payment to a vendor, the trust officer completes a transaction request form which is forwarded to data entry staff for payment. A cheque is then issued. The Office of the Public Trustee has a policy that payments over $4,000 must be authorized by a senior trust officer.

1 *Blueprint for the Security of Judicial Information*, Canadian Judicial Council, Second edition, 2006

Recommendation: new vendor set-up

RECOMMENDATION NO. 24

We recommend that the Office of the Public Trustee improve controls for inputting new vendors in its Public Trustee Information System

Criteria: the standards for our audit

Adequate controls should exist to input new vendors prior to processing payments to those vendors.

Our audit findings

Prior to setting up a new vendor in PTIS, there is no requirement to review the validity of the vendor. The trust officer provides the name and address of the vendor to another employee for input into PTIS. In some cases, a vendor may provide cleaning or transportation services for a represented adult client. However, there is no requirement to provide supporting documentation such as a letter, invoice or other correspondence to confirm the validity of the vendor or amounts paid.

Once a vendor is set up, the trust officer can initiate payments to the vendor. For payments under $4,000, there is no requirement for another employee to authorize the payment. Therefore, the trust officer can initiate and authorize both the set-up of a vendor, and initiate and authorize payments to the vendor, without having another employee authorize the payment.

Implications and risks if recommendation not implemented

Without adequate controls over setting up new vendors, there is a risk that fraudulent payments may be made.

Recurring payments

Background

A recurring payment can also be set up in PTIS. For example, a recurring payment can be set up to pay utilities or pay for monthly services provided to the client. These disbursements will be made each month until they are stopped by the trust officer. The process for initiating a recurring payment is the same as the process for issuing one-time disbursements.

Recommendation: recurring payments

RECOMMENDATION

We recommend that the Office of the Public Trustee improve its controls for issuing and stopping recurring payments.

Criteria: the standards for our audit

Adequate controls over setting up new vendors should exist and be followed.

Our audit findings

Recurring payments under $4,000 do not require authorization by another employee or supporting documentation prior to being set up in PTIS. However, over time a recurring payment can add up to an amount in excess of the $4,000 payment approval threshold established by management.

Recurring payments will occur indefinitely on active files until the trust officer initiates a form to stop the payment. During our sampling, we did not find any inappropriate recurring payments. However, we did not find evidence of a process to periodically review recurring payments to determine if the amount continues to be valid and correct.

Implications and risks if recommendation not implemented

Inaccurate or inappropriate payments may be made.

Financial statements

Our auditor's opinions on the financial statements of the Ministry and the Department of Justice and Attorney General for the years ended March 31, 2010 and 2009, were unqualified.

Our auditor's opinions on the financial statements of the Office of the Public Trustee for the years ended March 31, 2010 and 2009, were unqualified.

Performance measures

The Ministry engaged us to review selected performance measures in the Ministry's 2009–2010 Annual Report. We issued an unqualified review engagement report on these measures.

Legislative Assembly

Financial statements

We issued unqualified auditor's opinions on the financial statements of the following Offices of the Legislative Assembly for the years ended March 31, 2010 and 2009:

- Legislative Assembly Office
- Office of the Chief Electoral Officer
- Office of the Ethics Commissioner
- Office of the Information and Privacy Commissioner
- Office of the Ombudsman

A private sector firm of chartered accountants appointed by the Standing Committee on Legislative Offices audited our financial statements.

Municipal Affairs

Summary of our recommendations

The Department should improve its procedures for granting and removing user access to its business applications and ensure the procedures are followed—see below.

The Department has implemented our recommendation to enhance controls over information technology—see page 184.

The Department has made satisfactory progress in implementing improvements to its management of the disaster recovery program. However, it still needs to improve estimating processes and issue its draft guidelines that include project completion timelines—see page 184.

For outstanding recommendations previously made to the organizations that form the Ministry, please see our outstanding recommendations list on page 203.

Findings and Recommendations

User access management

Background

Good user access management is one of the core components in information security management. The systems included in our audit contain critical information that has an impact on the financial statements. For example, the Grant Management System (GMAS) is used for tracking provincial grants for land units and grants in lieu of taxes on property held by the Alberta government. The Municipal Debenture Interest Rebate Program (MDIRP) is used for tracking debentures payment to municipalities. Therefore, to ensure that only authorized users access the Department's information systems, it is critical to enforce strong user access management procedures. Such procedures help ensure that access permissions to information systems are properly assigned and authorized, and removed when no longer required.

Recommendation: user access to information systems

RECOMMENDATION

We recommend that the Department of Municipal Affairs improve its procedures for granting and removing user access to its business applications and, ensure those procedures are followed.

Criteria: the standards for our audit

The Department should have a documented user access management process and ensure that it is always followed. Levels of access to business applications, including user, administrator, and privileged access, should be requested, approved, granted, reviewed regularly, and terminated when no longer needed.

Our audit findings

We reviewed the current user access management process for MDIRP, GMAS and Municipal Sustainability Initiative (MSI) applications and noted the following control weaknesses:

- There is a lack of segregation of duties in the overall access administration process. The requestor, approver and implementer could be the same person in some cases. For example, the whole process for granting access to MDIRP and MSI could involve only one individual.
- User access requests to the business applications are not standardized. The requests can be made in an access request form, by email or verbally.
- User access privileges are not removed promptly. In October 2009, we identified one instance where an employee, who left the Department in April 2009, still had user access privileges including remote access. The Department terminated this user's access after we communicated this matter to them in October 2009.
- The Department does not conduct a periodic access review of the business applications to ensure user access privileges are appropriate.

Implications and risks if recommendation not implemented

Without proper and effective user access management policies and procedures, the Department is at risk of allowing unauthorized access to its information, which could result in significant impact to the confidentiality, availability or integrity of the data in its information systems.

IT management controls—implemented

Background

In our *October 2004 Report* (page 265), we recommended that the Department of Municipal Affairs enhance controls over information technology by:

- implementing a risk assessment framework to continuously manage IT risks
- enhancing the current security policies and procedures, and ensuring these policies and procedures are communicated and consistently applied in the computing environment
- obtaining independent control assurance on its outsource service provider

Our audit findings

The Department has obtained an independent control assurance report (*Canadian Institute of Chartered Accounts Handbook,* Section 5970—Auditor's report on controls at a service organization) on its application management service provider.

The Alberta government, under the Ministry of Service Alberta's leadership, is in the process of implementing a risk assessment framework, as well as security policies and procedures across all government ministries. The Ministry has decided to follow the Ministry of Service Alberta's lead by adopting the above methodologies and directives. We will follow up on management's adoption of these methodologies as part of a future audit at the Ministry of Service Alberta.

Disaster recovery program—satisfactory progress

Background

In our *October 2009 Report* (page 301), we recommended that the Department improve its management of the disaster recovery program by:

- setting timelines for key steps that must be performed before federal government funding can be received
- periodically assessing and adjusting costs and recovery estimates based on current information

Our audit findings

The Department took the following steps towards implementing this recommendation:

- established processes for ensuring written requests for federal disaster assistance are submitted on a timely basis—The Department initiates a request for federal assistance once a disaster has been declared as being eligible for assistance by a Government of Alberta Order in Council. This request is followed up with an application. For the new disasters in 2009–2010, we observed that this process was followed and the Department submitted the application before the deadline.
- received notification from the federal government that the late application for the 2008 disaster, estimated at $3 million in federal assistance was approved—In 2009, discussions were ongoing with the federal government to reconsider its application.
- established a process for reviewing estimated costs to determine if the accrued liabilities on the financial statement accurately reflect expected project outcomes—For disasters that have occurred in prior years, the Department made adjustments, based on updated forecasts, to their accrued liability balance on the financial statements. As a result accrued liabilities were reduced by $16.2 million and recorded as a prior year expenditure refund.
- requested a final federal government audit of the 2004 and 2005 disasters

To fully implement this recommendation, the Department still needs to:

- ensure that it is using the most current information when assessing its estimates of recovery
- finalize its municipal disaster recovery guidelines that include timelines for project completion

Financial statements

Our auditor's opinions on the financial statements of the Ministry and Department of Municipal Affairs for the years ended March 31, 2010 and 2009, were unqualified.

Performance measures

The Ministry engaged us to review selected performance measures in the Ministry's 2009–2010 Annual Report. We issued an unqualified review engagement report on these measures.

Seniors and Community Supports

Summary of our recommendations

Our Seniors Care and Programs chapter (starting on page 69) reports the results of our follow-up of two recommendations on the Alberta Seniors Benefit Program.

For outstanding recommendations previously made to the organizations that form the Ministry, please see our outstanding recommendations list on page 203.

Financial statements

Our auditor's opinions on the financial statements of the Ministry and Department of Seniors and Community Supports, and the following six provincial agencies for the years ending March 31, 2010 and 2009, were unqualified:

- Persons with Developmental Disabilities Northwest Region Community Board
- Persons with Developmental Disabilities Northeast Region Community Board
- Persons with Developmental Disabilities Edmonton Region Community Board
- Persons with Developmental Disabilities Central Region Community Board
- Persons with Developmental Disabilities Calgary Region Community Board
- Persons with Developmental Disabilities South Region Community Board

Performance measures

The Ministry engaged us to review selected performance measures in the Ministry's 2009–2010 Annual Report. We issued an unqualified review engagement report on these measures.

Service Alberta

Summary of our recommendations

The Ministry of Service Alberta should strengthen its control over granting user access to the Motor Vehicles System—see below.

The Ministry has implemented our October 2006 recommendation related to computer security administration—see below.

For outstanding recommendations previously made to the organizations that form the Ministry, please see our outstanding recommendations list on page 203.

Findings and recommendations

Motor vehicle registration

Background

The Motor Vehicles System (MOVES) keeps Albertans' motor vehicle information. Only approved entities can access the system. To obtain access, an entity must have a contract with Service Alberta. Through its data access and contract management unit, Service Alberta verifies that access requests for individuals are from approved entities before it grants the requests.

Recommendation: access to motor vehicle registration data

RECOMMENDATION

We recommend that the Ministry of Service Alberta strengthen its control over granting user access to its motor vehicles system.

Criteria: the standards for our audit

Service Alberta should grant access to MOVES to eligible individuals only.

Our audit findings

Key Point

Inconsistent reference to designated contact list for granting access requests

Service Alberta's data access and contract management unit is not always involved if the access request comes from entities that have an ongoing business relationship with Service Alberta. When granting access for individuals to MOVES upon requests from these entities, management does not always refer to a list of designated contacts from the entities to make sure that the requests are from valid sources within those entities.

Implications and risks if recommendation not implemented

Without a clear and consistent process to confirm that access requests are from designated contacts only, Service Alberta may grant unauthorized access to Albertans' motor vehicles information.

Security administration—implemented

Background

In our *October 2006 Report* (vol. 2—page 165), we recommended that the Ministry of Service Alberta ensure the systems it administers comply with the Government of Alberta's authentication standards for computer security. Service Alberta maintains and authenticates passwords throughout the government and is the system administrator for other government entities' applications and data.

Our audit findings

Key Point

Strong password controls are in place to ensure sensitive information protection

Service Alberta has developed a set of information security management directives that addressed security concerns within the government. *Directive 6—Access Control* specifically identifies the authentication requirements and implementation expectations for access to government information and information technology systems. We tested the government's domain password policy configuration and concluded that Service Alberta has implemented our recommendation by enforcing strong password controls to ensure adequate protection of sensitive information.

Financial statements

Our auditor's opinions on the Ministry financial statements for the years ended March 31, 2010 and 2009, were unqualified.

Performance measures

The Ministry engaged us to review selected performance measures in the Ministry's 2009–2010 Annual Report. We issued an unqualified review engagement report on these measures.

Solicitor General and Public Security

Summary of our recommendations

The Alberta Gaming and Liquor Commission delayed planned security assessments of its high risk systems and a policy requiring regular independent security assessments has not been documented—see below.

For outstanding recommendations previously made to the organizations that form the Ministry, please see our outstanding recommendations list on page 203.

Findings and recommendations

Alberta Gaming and Liquor Commission

Information technology (IT) security controls—independent security assessment

Background

In a complex IT environment like the one at the Commission, many different computer systems, applications and networking devices are interconnected. A security weakness in one of these components can affect other systems, causing an operational failure or security exposure for the Commission. For this reason, it is important to regularly have an independent security expert review system and network security configurations, perform a network perimeter penetration test and provide an expert opinion on the effectiveness of the security controls, to make sure that critical components of the IT environment are not exposed to unnecessary risks. It is common industry practice to use an independent vendor to perform the assessment, to provide an independent opinion on the strength of IT security controls.

Our audit findings

Key Points

- Planned security assessments were delayed
- Policy for regular independent security assessments not documented

During each of our reviews of IT general controls in 2008 and 2009, management stated that it intended to obtain an independent security assessment on key systems in its IT environment, before the end of those fiscal years. When we returned in fiscal 2010 to conduct our annual review, we found that the Commission had not engaged anyone to perform the planned security assessments nor had they a documented policy for this. Management told us that the reviews were not performed because of budget and staff constraints.

After we completed our current review and advised management of this finding, they hired an independent contractor to perform a penetration test/vulnerability assessment on a number of the Commission's websites. At our interim audit exit conference with management on April 12, 2010, management provided us with evidence that the network vulnerability assessment was completed, but the final report was not yet available for our review. On May 12, 2010, we received a copy of the final report, which detailed network and website security testing the contractor had performed.

Although the Commission did eventually perform the network vulnerability testing, it still does not have a documented policy requiring a regular, independent security assessment and identifying the scope of the independent security assessments.

Financial statements

Our auditor's opinions on the financial statements of the Ministry, Department, Victims of Crime Fund, Alberta Gaming and Liquor Commission and Alberta Lottery Fund for the years ended March 31, 2010 and 2009, were unqualified.

Performance measures

The Ministry engaged us to review selected performance measures in the Ministry's 2009–2010 Annual Report. We issued an unqualified review engagement report on these measures.

Sustainable Resource Development

Summary of our recommendations

The Department has made satisfactory progress implementing our recommendations to:

- review its revenue systems and put processes in place to allow significant revenues currently recorded when cash is received to be recorded when revenue is due to the Crown—see below
- improve IT policies and processes in its information technology control environment—see page 194

For outstanding recommendations previously made to the organizations that form the Ministry, please see our outstanding recommendations list on page 203.

Findings and recommendations

Department of Sustainable Resource Development

Controls over revenue—satisfactory progress

Background

In our *October 2008 Report* (no. 39—page 355), we recommended the Department review its revenue systems and put processes in place to allow significant revenues that were recorded when cash was received, to be recorded when revenue was due to the Crown.

In the accrual basis of accounting, revenues and expenses are reflected in the determination of results for the period in which they are considered to have been earned and incurred, respectively, whether or not such transactions have been settled finally by the receipt or payment of cash or its equivalent.

In the cash basis of accounting, revenue is recorded when cash is received.

The Department provides companies with rights to use land known as dispositions. There are different fees associated with each type of disposition.

In 2008 and 2009 the Department used the cash basis of accounting for:

- sand and gravel royalties
- land disturbance fees for oil sands, coal mines, in-situ and quarries
- timber damage assessment fees

We also reported in 2008 that the Department was at least one year behind in billing companies for land disturbance fees. In the case of the largest mine, the Department needed to review documentation with the company back to 1990 and was unable to provide an estimate of how much money was owed by the company. We indicated that, as a result of the Department being so far behind in billing the companies, there was a risk the Department would not be able to fully collect the revenue earned because the limitation period for enforcement as per the *Limitations Act* may have expired.

Criteria: the standards for our audit

Controls over revenue should ensure revenue is completely and accurately recorded.

Our audit findings

Key Points

- Change to accrual basis from cash basis resulted in $24.9 million being added to net assets
- Department relies on self-reporting by companies to estimate revenue under the accrual basis
- Department needs a process to confirm amounts reported by companies are accurate

- The Department changed its accounting policy for revenue recognition for the 2010 financial statements to the accrual basis for all revenues that were previously reported on a cash basis. An adjustment of $24.9 million was added to the 2010 net assets before operating results.
- The Department prepared the estimate of the revenue owing on an accrual basis by:
  - asking a sample of companies to report the amount of sand and gravel fees owing and then using the results to estimate the results for the total population of companies owing fees, and

    - asking all of the companies having the same type of disposition to report the amounts owing for land disturbance fees and timber damage assessment fees.
- The Department has not yet implemented processes to check whether the amounts reported by the companies are complete and accurate.

To fully implement this recommendation, the Department needs to put processes in place to validate the amounts reported.

IT Control Framework—satisfactory progress

Background

In our *October 2009 Report* (page 323), we recommended the Department improve IT policies and processes in its information technology control environment.

Criteria: the standards for our audit

The Department should have documented policies and processes for the IT general computer control environment, to help ensure that security and continuity of critical systems and data are maintained.

Our audit findings

Key Points

- Department has implemented controls over most of the IT areas including documentation of access policies
- The Department needs to maintain evidence of access approvals and ensure all terminated employees have application access removed

The Department has:

- implemented an information technology security policy
- improved its IT security awareness training
- improved its business resumption capability—the Department updated the disaster recovery plan and the business continuity plan in 2009 and tested the recovery procedures for critical systems and servers
- improved their data centre environmental controls—a relative humidity sensor was installed and connected to the protection services alarm system. In addition, the card-access control system was installed on both the front and rear data centre doors.

The Department also established documented user access policies. However, to fully implement this recommendation the Department needs to maintain evidence of access approvals and implement a periodic user access review process to ensure that application access has been removed for all terminated employees.

Financial statements

Our auditor's opinions on the financial statements of the Ministry, the Department and the Environmental Protection and Enhancement Fund for the years ending March 31, 2010 and 2009, were unqualified.

Our auditor's opinions on the financial statements of the Natural Resources Conservation Board for the years ending March 31, 2010 and 2009, were unqualified.

Performance measures

The Ministry engaged us to review selected performance measures in the Ministry's 2009–2010 Annual Report. We issued an unqualified review engagement report on these measures.

Tourism, Parks and Recreation

For outstanding recommendations previously made to the organizations that form the Ministry, please see our outstanding recommendations list on page 203.

Financial statements

Our auditor’s opinions on the financial statements of the Ministry, Department and the Alberta Sport, Recreation, Parks and Wildlife Foundation for the years ending March 31, 2010 and 2009, were unqualified.

Our auditor’s opinion on the financial statements for the year ended March 31, 2010 for Travel Alberta was unqualified. This was the Corporation’s first year of operations.

Performance measures

The Ministry engaged us to review selected performance measures in the Ministry’s 2009–2010 Annual Report. We issued an unqualified review engagement report on these measures.

Transportation

Summary of our recommendations

The Department should improve its processes to value donated assets in its financial statements—see below.

The Department has implemented our November 2006 recommendation to implement a risk based system to ensure compliance with grant conditions—see page 198.

For outstanding recommendations previously made to the organizations that form the Ministry, please see our outstanding recommendations list on page 203.

Findings and recommendations

Donation of Capital Assets

Background

The Department entered into an agreement, effective April 1, 2008, with Suncor Energy Inc. whereby Suncor agreed to build an interchange over Highway 63 and transfer it to the Minister of Transportation to own and operate.

Recommendation: Improve processes to value donated assets in the Department financial statements

RECOMMENDATION

We recommend that the Department of Transportation:

- enter into agreements with donors that:
  - provide the Department of Transportation with assurance on the fair value of the donated assets
  - specify whether donation receipts will be issued
- document its support for the valuation reported in its financial statements, including the procedures performed, assumptions made and source documents reviewed

Criteria: the standards for our audit

The Department's agreements with donors should provide it with assurance on the fair value of the donated assets, and the Department should document its processes to validate that information.

Our audit findings

The Department recorded a capital asset and donation revenue in the amount of $56.7 million in its financial statements for the year ended March 31, 2010. The Department valued the asset and corresponding donation based on an email from an engineer under contract to Suncor.

The Department told us that they considered the valuation reasonable because:

- the Department's professional engineer responsible for managing the terms of the agreement with the donor advised Finance that the valuation amount provided by the donor was reasonable
- the valuation of $56.7 million was close to the $55 million that was communicated by the donor when the agreement was signed and publicly announced

The agreement between the Department and Suncor Energy Inc., did not provide the Department with access to Suncor's financial records, directly or through an independent person, to verify the fair value. The Department did not specify what tax or other benefit, the donor was eligible to claim and whether the Department would provide tax receipts or other confirmation on the donation.

The Department did not require the donor to provide access to records or verification by a person independent to the project, to enable it to accurately value the asset in its financial records. The Department did not document the procedures it followed to conclude that the valuation provided by the donor was accurate.

Implications and risks if recommendation not implemented

There is a risk that the value recognized for the donated assets may not be accurate and appropriate.

Compliance with grant conditions—implemented

Background

In our *November 2006 Report* (no. 5—page 23), we reviewed the Street Improvement Program (SIP) and Rural Transportation Grant (RTG) program at the (then) Department of Infrastructure and Transportation.

We concluded that the Department did not have adequate systems to monitor compliance with these grants and recommended that they implement a risk-based system to ensure recipients comply with the terms and conditions of the grants.[1]

In this report, we follow up the recommendation to develop a risk-based system to ensure compliance with the terms and conditions of grants.

Our audit findings

The Department has integrated 10 risk factors into the processing of grant documentation. The goal is to mitigate risk before funds are released by improving the approval processes.

The Department has developed and activated grant management software. Applicants for municipal grants can now submit their grant application information and updates over the internet. This improves the consistency of information in the grant application and reporting process and provides access to up-to-date grant and project information.

The files we tested showed that processes are working as designed and grant money is being distributed to eligible recipients.

The Department places primary assurance on the certification provided by municipal or county officials (e.g., Senior Financial Officer or Chief Administrative Officer) and submitted on their annual statement of funding and expenditures. The provided certification notes compliance with the terms of the grant program agreement between the Department and the municipality or county.

Also, the Department monitors the risk of projects not being completed as required by using MGMA[2] to coordinate the observation of recipient activity. This includes examining various SIP and RTG grant-supported projects while department staff is in a municipality or county examining larger projects. MGMA is updated to indicate the project has been observed; updates to MGMA may include photos, inspector's notes, media articles, engineer's certificate of completion. A new status entry is now in MGMA to record that the project has been observed. Over time, accumulated information can be analyzed for trends, to refine a risk focus.

Financial statements

Our auditor's opinions on the financial statements of the Ministry and Department, for the years ended March 31, 2010 and 2009, were unqualified.

Performance measures

The Ministry engaged us to review selected performance measures in the Ministry's 2009–2010 Annual Report. We issued an unqualified review engagement report on these measures.

1 Our *November 2006 Report*—page 24.

2 A Department-supported electronic information system.

Treasury Board

Summary of our recommendations

The government implemented our recommendation by including universities, public colleges, technical institutes, regional health authorities and school boards in the province's consolidated financial statements—see below.

For outstanding recommendations previously made to the organizations that form the Ministry, please see our outstanding recommendations list on page 203.

Corporate government accounting policies—implemented

Background

In our *October 2003 Report* (pages 40–41), we repeated our recommendation that the Department of Finance change the corporate accounting policies to improve accountability. In particular, we reported that universities, public colleges, technical institutes, regional health authorities and school boards should be included in the province's consolidated financial statements. The Ministry of Treasury Board is now responsible for corporate accounting policies.

Our audit findings

The government included these entities in the Province's March 31, 2010 and 2009 (restated) consolidated financial statements on a line-by-line basis. We consider this recommendation to be implemented.

Our *April 2010 Report* (page 145), and the province's *2009–2010 Annual Report*, provide further discussion of the line-by-line consolidation of these entities.

Financial statements

Our auditor's opinions on the Ministry of Treasury Board financial statements for the years ended March 31, 2010 and 2009, were unqualified.

Performance measures

The Ministry engaged us to review selected performance measures in the Ministry's 2009–2010 Annual Report. We issued an unqualified review engagement report on these measures.

Past Recommendations

Report of the Auditor General of Alberta—October 2010

Outstanding Recommendations

This is a complete list of past recommendations that are not yet implemented.

We currently have 278 outstanding recommendations—135 are numbered and 143 are unnumbered. We have identified the recommendations that have been repeated one or more times.

Of the numbered recommendations, 43 are more than three years old. We use three years as a performance measure for when we expect management to implement our numbered recommendations. We recognize some recommendations will take longer to fully implement than others, but we encourage full implementation within three years. This list also contains recommendations that have been the subject of interim audit work, which concluded that implementation had not yet been achieved—and are, therefore, still outstanding.

This list is organized alphabetically by ministry. Each section includes all outstanding recommendations for the ministry and the entities that report to it. We have separated each section based on whether or not management has asserted the recommendations are implemented—the recommendations asserted as implemented appear last. As soon as possible, we will conduct a follow-up audit to confirm those assertions.

The reports that contain these recommendations are on our web site at www.oag.ab.ca.

Aboriginal Relations

There are no outstanding recommendations for this entity.

Advanced Education and Technology

Department

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

Non-credit programs: Monitoring—April 2008, #2, p. 23

We recommend that the Department of Advanced Education and Technology implement effective processes to:

- monitor whether Institutions report information consistent with its expectations.
- investigate and resolve cases where Institutions' program delivery is inconsistent with its standards and expectations.

IT control policies and processes—April 2008, #8, p. 195

We recommend that the Department of Advanced Education and Technology (through the Campus Alberta Strategic Directions Committee) give guidance to public post-secondary Institutions on using an IT control framework to develop control processes that are well-designed, efficient, and effective.

Cross-Institution recommendations—Enterprise risk management—April 2010, #17, p. 158

We recommend that the Department of Advanced Education and Technology (through the Campus Alberta Strategic Directions Committee) work with post-secondary institutions to identify best practices and develop guidance for them to implement effective enterprise risk management systems.

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

Non-credit programs: Standards and expectations—April 2008, #1, p. 22

We recommend that the Department of Advanced Education and Technology:

- clarify its standards and expectations for non-credit programs and clearly communicate them to public post-secondary Institutions.
- work with Institutions to improve the consistency of information that Institutions report to the Department.

Monitoring vocational programs offered by private institutions—April 2008, p. 42

We recommend that the Department of Advanced Education and Technology:

- develop a risk-based strategic audit plan of new and follow-up audits, including timelines and resources to audit private institutions.
- issue Orders and information on deficiencies within a reasonable time after completing the audit.

Outstanding Recommendations

Alberta College of Art and Design

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

IT internal controls—October 2007, vol. 2, p. 21
We recommend that the Alberta College of Art and Design strengthen internal controls for computer system access and server backups. We further recommend that the College develop a computer use policy.

Preserving endowment assets—April 2009, p. 78
We recommend that Alberta College of Art and Design (ACAD) define its goals for the use, and preservation of the economic value of endowment assets (inflation proofing).

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

Periodic financial reporting—April 2010, p. 160
(repeated once since April 2008)
We again recommend that Alberta College of Art and Design improve its processes and controls to increase efficiency, completeness and accuracy of financial reporting.

Bookstore operations—April 2010, p. 181
We recommend that Alberta College of Art and Design maintain an effective system of internal controls to enhance the integrity of its bookstore operations.

Journal entries—April 2010, p. 183
We recommend that Alberta College of Art and Design:

- ensure journal entries entered into the financial system are independently reviewed and approved
- develop a policy that defines the process for recording and approving journal entries and the documentation required to support the entry

Grande Prairie Regional College

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

Preserving endowment assets—April 2009, p. 78
We recommend that Grande Prairie Regional College define its goals for the use, and preservation of the economic value of endowment assets (inflation proofing).

Grant MacEwan University

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

Construction management—November 2006, #9, p. 35
We recommend Grant MacEwan University ensure that signed contracts (interim or final) for construction projects are in place before projects start.

Capital assets—April 2009, p. 85
We recommend that Grant MacEwan University 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.

Systems over costs for internal working sessions and hosting guests—April 2010, p. 165
We recommend that Grant MacEwan University:

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

Preserve endowment assets—April 2010, p. 170
We recommend that Grant MacEwan University improve its endowment and related investment policies and procedures by:

- establishing and regularly reviewing a spending policy for endowments
- improving its processes to review its endowment related investments
- improving its reporting of investments and endowments to the audit and finance committee

Improve and implement University policies—April 2010, #18, p. 174
We recommend that Grant MacEwan University improve its control environment by implementing or improving:

- a code of conduct and ethics policy and a process for staff to acknowledge they will adhere to its policies
- a process for staff to annually disclose potential conflicts of interest in writing so the University can manage them proactively
- a safe disclosure policy and procedure to allow staff to report incidents of suspected or actual frauds or irregularities
- a responsibility statement in its annual report to acknowledge management's role in maintaining an effective control environment

Adhere to signing authority limits—April 2010, p. 176
We recommend that Grant MacEwan University improve its processes to ensure appropriate staff with proper signing authority approve contracts and purchases.

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

Computer control environment—October 2005, p. 104
We recommend that Grant MacEwan University resolve identified deficiencies and strengthen the overall control framework in the Information Technology (IT) environment.

Donations—November 2006, #10, p. 37
We recommend that Grant MacEwan University establish a policy clearly indicating it will not solicit or accept donations with participating vendors during a tendering process.

Bookstore operations—April 2008, p. 186
We recommend that Grant MacEwan University improve its systems to:
- manage and report inventories
- monitor and account for the use of petty cash

Parking services fees—April 2009, p. 82
We recommend that Grant MacEwan University improve its systems to control, collect, and account for parking services fees.

Periodic financial reporting—April 2010, p. 160
We recommend that Grant MacEwan University improve its financial reporting to the Board's Audit and Finance Committee and senior management by providing—at least quarterly—complete financial statements of financial position and actual year-to-date operating results.

Lakeland College

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

Improve payroll controls—April 2009, p. 91
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.

Lethbridge College

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

Preserving endowment assets—April 2009, p. 78
We recommend that Lethbridge College define its goals for the use, and preservation of the economic value of endowment assets (inflation proofing).

Medicine Hat College

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

Periodic reporting to the Board—April 2010, p. 160
(repeated once since April 2009)
We again recommend that Medicine Hat College improve its financial reporting to the Board by including—at least quarterly—complete statements of the College's operations, financial position and changes in net assets.

Preserving endowment assets—April 2009, p. 78
We recommend that Medicine Hat College define its goals for the use, and preservation of the economic value of endowment assets (inflation proofing).

Mount Royal University

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

Preserving endowment assets—April 2009, p. 78
We recommend that Mount Royal University define its goals for the use, and preservation of the economic value of endowment assets (inflation proofing).

NorQuest College

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

Procurement cards—Compliance with procedure card policy—April 2009, p. 89
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.

Bookstore services—Segregation of duties in the bookstore—April 2010, p. 186
We recommend that NorQuest College implement proper segregation of duties within its bookstore services.

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

Procurement cards—Discrepancy log—April 2009, p. 88
We recommend that NorQuest College improve controls to ensure that procurement cardholders comply with its procurement card policy.

Northern Alberta Institute of Technology (NAIT)

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

Purchasing guidelines—April 2010, p. 187
We recommend that NAIT implement processes to ensure:

- guidance exists on the steps required to evaluate potential vendors and the documents required to evidence that a review occurred
- compliance with its purchasing guidelines
- all purchasing decisions are properly justified

Olds College

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

Preserving endowment assets—April 2009, p. 78
We recommend that the Olds College define its goals for the use, and preservation of the economic value of endowment assets (inflation proofing).

Improve bookstore sales and inventory control—April 2010, p. 184
We recommend that Olds College improve internal controls in the bookstore relating to sales and inventories.

Portage College

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

Periodic financial reporting—April 2010, p. 160
We recommend that Portage College improve its financial reporting to the Board and senior management by providing—at least quarterly—complete financial statements of financial position and actual year-to-date operating results.

Red Deer College

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

Systems over costs for internal working sessions and hosting guests—April 2010, p. 167
We recommend that Red Deer College:

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

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

Control over payroll processes—April 2010, p. 185
We recommend that Red Deer College improve its controls over payroll.

Southern Alberta Institute of Technology (SAIT)

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

Preserve endowment assets—April 2010, p. 170
We recommend that SAIT clarify its expectations for preserving the economic value of its endowment assets and document an endowment policy for managing endowment earnings.

University of Alberta

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

Systems over costs for internal working sessions and hosting guests—April 2010, p. 167
We recommend that the University of Alberta follow its policies and processes for employee expense claims and corporate credit cards.

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

Strategic planning for Research—October 2004, p. 252
We recommend that the University of Alberta improve the integration of research into its strategic business plan by ensuring that:

- key performance measures and targets are identified with each strategy indicated in the plan
- the costs of achieving these targets are considered when making budget allocation decisions
- the faculty and other research administrative unit plans set out in clear, consistent terms the extent to which faculties and units are planning to contribute to the achievement of these targets

University of Calgary

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

Planning for research capacity—October 2004, #26, p. 255
We recommend that the University of Calgary improve human resource and space plans and develop a system to quantify and budget for the indirect costs of research.

Research roles and responsibilities—October 2005, #18, p. 90
We recommend that the University of Calgary define research management roles and responsibilities.

Research policies—October 2005, p. 91
We recommend that the University of Calgary:
- ensure all research policies are current and comprehensive.
- monitor compliance with ethics and intellectual property policies.

Research project management—October 2005, p. 93
We recommend that the University of Calgary and its faculties:
- ensure researchers comply with sponsors' terms and conditions, and
- use project management tools for large, complex projects to ensure research is cost-effective.

IT governance and control framework—October 2007, #18, vol. 2, p. 10
We recommend that the University of Calgary implement an Information Technology governance and control framework.

Improving the control environment—October 2008, #21, p. 213
We recommend that the University of Calgary improve the effectiveness of its control environment by:
- assessing whether the current mix of centralized and decentralized controls is appropriate to meet its business needs.
- defining clear roles, responsibilities and accountabilities for control systems' design, implementation, and monitoring.
- documenting its decentralized control environment and implementing training programs to ensure those responsible for business processes have adequate knowledge to perform their duties.
- monitoring decentralized controls to ensure processes operate effectively.

Controls over payroll—October 2009, p. 153
(repeated twice since October 2007)
We again recommend that the University of Calgary improve controls over payroll functions.

PeopleSoft security—October 2009, #19, p. 155
(repeated three times since October 2006)
We again recommend that the University of Calgary improve controls in its PeopleSoft system by:
- finalizing and implementing the security policy and security design document
- ensuring that user access privileges are consistent with the user's business requirements and the security policy.

Systems over costs for internal working sessions and hosting guests—April 2010, p. 166
We recommend that the University of Calgary:
- implement policies and guidance on appropriate expenses for internal working sessions and hosting guests
- follow its policies and processes for employee expense claims and corporate credit cards

University of Lethbridge

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

IT internal control framework—October 2007, #21, vol. 2, p. 23
We recommend that the University of Lethbridge implement an information technology control framework.

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

Financial research roles and responsibilities—October 2008, p. 225
We recommend that the University of Lethbridge clearly define and communicate the financial research-management roles and responsibilities of Research Services, Financial Services, and Deans.

Clear and complete research policies—October 2008, p. 227
We recommend that the University of Lethbridge improve systems to ensure that:
- financial research policies are current and comprehensive.
- proper documentation is maintained for approving research accounts.
- researchers, research administrators and Financial Services staff are aware of changes to financial policies and are properly trained to comply with the policies.

Processes for investing in research projects—April 2009, #1, p. 26
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.

Agriculture and Rural Development

Department

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

Evaluating program success: grant management—October 2005, #20, p. 113
(repeated once since October 2001)
We again recommend that the Department of Agriculture, Food and Rural Development evaluate the performance of its grant programs in meeting Ministry goals. This includes evaluating the grant programs themselves, as well as individual grants under the programs.

Food Safety: Alberta Agriculture's surveillance program—October 2006, #9, vol. 1, p. 88
We recommend that the Department of Agriculture, Food and Rural Development improve the administration of its food safety surveillance program. This includes:
- Documenting its prioritization processes;
- Involving partners in the prioritization of projects;
- Ensuring conditions for the approval of specific projects are met and final approval recorded;
- Capturing costs for large projects;
- Monitoring the impact of surveillance projects;
- Considering whether regulatory support for the program is required.

Food Safety: Alberta Agriculture's food safety information systems—October 2006, vol. 1, p. 94
We recommend that the Department of Agriculture, Food and Rural Development improve its food safety information systems. This includes:
- Improving security and access controls;
- Ensuring complete, timely, and consistent data collection; and
- Ensuring data gets onto the computerized data base.

Monitoring IT security policy—October 2006, vol. 2, p. 40
We recommend that the Department of Agriculture, Food and Rural Development:
- document, approve, and communicate to employees and contractors its information technology security policies and standards.
- implement a process to monitor compliance by employees and contractors with information technology security policies and standards.

Reporting and dealing with allegations of employee misconduct—November 2006, #12, p. 46
We recommend that the Department of Agriculture, Food and Rural Development improve its systems for reporting and dealing with allegations of employee misconduct.

The Departments of Agriculture and Rural Development and Health and Wellness

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

Food Safety: Integrated food safety planning and activities—October 2009, #11 , p. 107
(repeated once since October 2006)
We again recommend that the Departments of Health and Wellness and Agriculture and Rural Development, in cooperation with Alberta Health Services and federal regulators, improve planning and coordination of food safety activities and initiatives. This includes:
- improving day-to-day coordination of provincial food safety activities
- improving cooperation and working relationships among provincial and federal partners such as the First Nations and Inuit Health Branch and the Canadian Food Inspection Agency

Food Safety: Eliminating gaps in food safety inspection coverage—October 2009, #12, p. 111
(repeated once since October 2006)
We again recommend that Alberta Health Services and the Departments of Health and Wellness and Agriculture and Rural Development, working with federal regulators, eliminate the existing gaps in food safety coverage in Alberta. Gaps include:
- mobile butchers
- consistently administering the *Meat Facility Standard*
- coordinating inspections in the "non-federally registered" sector

Food Safety: Accountability—October 2009, #13, p. 114
(repeated once since October 2006)
We again recommend that the Departments of Health and Wellness and Agriculture and Rural Development improve reporting on food safety in Alberta.

Agriculture Financial Services Corporation

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

Loan loss processes—October 2007, vol. 2, p. 32
We recommend that the Agriculture Financial Services Corporation improve its loan loss methodology and processes by:
- developing guidelines to assess which loans are impaired
- incorporating historical loan loss experience
- periodically updating data used in the methodology

IT risk assessment and control framework—October 2009, p. 168
We recommend that Agriculture Financial Services Corporation:
- complete an Information Technology (IT) risk assessment to identify and rank the risks within its computing environment, linking to business objectives; and
- design and implement IT controls to mitigate the risks it identifies.

Children and Youth Services

Department

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

Accreditation systems for service providers—October 2007, #7, vol. 1, p. 82
We recommend that the Department of Children's Services evaluate the cost-effectiveness of accreditation systems and the assurance they provide.

Department compliance monitoring—October 2007, #8, vol. 1, p. 83
We recommend that the Department of Children's Services improve compliance monitoring processes by:
- incorporating risk-based testing in case-file reviews.
- providing feedback to caseworkers on monitoring results of case-file reviews.
- obtaining and analyzing information on Authorities' monitoring of service providers.

Child and Family Services Authorities

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

Authorities compliance monitoring processes—October 2007, vol. 1, p. 86
We recommend that the Child and Family Services Authorities improve compliance monitoring processes by providing caseworkers with:
- training on file preparation and maintenance.
- feedback from the monitoring results of case-file reviews.

Authorities monitoring of service providers—October 2007, vol. 1, p. 88
We recommend that the Child and Family Services Authorities improve the evaluation of service providers by coordinating monitoring activities and sharing the results with the Department.

Culture and Community Spirit and Tourism, Parks and Recreation

Ministry

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

Computer control environment—October 2007, vol. 2, p. 172
We recommend that the Ministry of Tourism, Parks, Recreation and Culture work with Service Alberta to:
- document the services that Service Alberta is to provide and its control environment for information technology
- implement a process to ensure that Service Alberta consistently meets service level and security requirements
- provide evidence that control activities maintained by Service Alberta are operating effectively

Education

Ministry and Department

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

School board budget process—October 2006, #25, vol. 2, p. 65

We recommend that Alberta Education improve the school board budget process by:

- Providing school boards as early as possible with the information needed to prepare their budgets (e.g. estimates of operating grant increases and new grant funding, and comments on financial condition evident from their latest audited financial statements).
- Requiring school boards to use realistic assumptions for planned activities and their costs and to disclose key budget assumptions to their trustees and the Ministry.
- Establishing a date for each school board to give the Ministry a trustee-approved revised budget based on actual enrolment and prior year actual results.
- Re-assessing when and how the Ministry should take action to prevent a school board from incurring an accumulated operating deficit.

School board interim reporting—October 2006, #26, vol. 2, p. 68

We recommend that Alberta Education work with key stakeholder associations to set minimum standards for the financial monitoring information provided to school board trustees.

We also recommend that Alberta Education work with the key stakeholder associations to provide information to trustees about:

- the characteristics of a strong budgetary control system
- best practices for fulfilling financial monitoring responsibilities

Business cases—October 2007, vol. 2, p. 45

We recommend that the Department of Education establish a policy for developing business cases.

Employment and Immigration

Department

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

Approving and renewing training programs—October 2008, p. 249

We recommend that the Department of Employment and Immigration improve its systems for approving and renewing programs by:

- clearly defining criteria for approving each program.
- developing clear performance expectations for each program and training provider.
- using its monitoring results to decide whether to renew a program.

Fraud investigation processes—October 2009, p. 186

We recommend that the Department of Employment and Immigration improve the processes of its investigation units by:

- defining clear objectives for investigation units
- establishing guidelines for determining when they should undertake a fraud investigation
- providing fraud-specific training for investigation unit staff

Promoting and enforcing compliance—April 2010, #3, p. 39

We recommend that the Department of Employment and Immigration enforce compliance with the Occupational Health and *Safety Act* by employers and workers who persistently fail to comply.

Work Safe Alberta planning and reporting—April 2010, p. 43

We recommend that the Department of Employment and Immigration improve its planning and reporting systems for occupational health and safety by:

- obtaining data on chronic injuries and diseases to identify potential occupational health and safety risks
- completing the current update of the *Work Safe Alberta Strategic Plan*
- measuring and reporting performance of occupational health and safety programs and initiatives that support key themes of the *Plan*

Occupational Health and Safety inspection systems—April 2010, p. 46

We recommend that the Department of Employment and Immigration strengthen its proactive inspection program by improving risk focus and coordinating employer selection methods for its inspection initiatives.

Certificate of Recognition—April 2010, p. 48
We recommend that the Department of Employment and Immigration improve its systems to issue Certificates of Recognition by:
- obtaining assurance on work done by Certificate of Recognition auditors
- consistently following-up on recommendations made to certifying partners

Legislated permit and certificate programs—April 2010, p. 50
We recommend that the Department of Employment and Immigration strengthen the legislated permit and certificate programs by improving:
- control over issued asbestos certificates
- processes for approval and monitoring of external training agencies

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

Monitoring and enforcement of training providers—October 2008, #24, p. 245
We recommend that the Department of Employment and Immigration improve its monitoring of tuition-based training providers by:
- assessing whether performance expectations are being met.
- quantifying tuition refunds that may be owing to the Department.
- implementing policies and procedures that outline steps and timelines for dealing with non-compliance problems.

Improving the use of information systems—October 2008, p. 251
We recommend that the Department of Employment and Immigration improve the use of its information systems by:
- integrating its payment-processing system with other learner databases to ensure that tuition fee payments are accurate.
- implementing adequate controls to ensure all key learner data is promptly updated in the system.
- using exception reports to detect potential non-compliance problems.

Internal audits and home visits—October 2009, p. 189
We recommend that the Department of Employment and Immigration improve its processes by developing:
- timelines and strategies to respond to findings arising from internal audits
- a risk-based approach to augment the random sample selection method currently used for internal audits and home visits

Workers' Compensation Board

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

Access and security monitoring—October 2009, p. 192
We recommend that WCB formalize its security monitoring procedures to ensure that security threats to critical information systems are detected in a timely manner.

Energy

Department

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

Improving processes to prepare financial information—October 2009, p. 197
We recommend that the Department of Energy improve:
- internal communication processes between the Finance branch and program staff
- quality control processes for the preparation of working papers and financial statements
- the timely completion of accurate financial information

Sustaining the continued accuracy of the revenue forecast system—October 2009, #21, p. 199
We recommend that the Department of Energy improve the controls and documentation supporting the revenue forecast model to help ensure the continued accuracy of the forecast system.

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

Assurance on well and production data—October 2006, #27, vol. 2, p. 76
(repeated once since October 2005)
We again recommend the Department of Energy:
- complete its risk assessment and evaluate the assurance obtained from the Petroleum Registry System and the Department's controls over well and production data;
- communicate to the Alberta Energy and Utilities Board how much assurance, if any, the Department needs over the completeness and accuracy of well and production data.

Royalty regime objectives and targets—October 2007, #9, vol. 1, p. 115
We recommend that the Ministry of Energy clearly describe and publicly state the objectives and targets of Alberta's royalty regimes.

Royalty planning, coverage and internal reporting—October 2007, #10, vol. 1, p. 119
We recommend that the Department of Energy improve the planning, coverage, and internal reporting of its royalty review work.

Royalty—improving annual performance measures—October 2007, #11, vol. 1, p. 124
We recommend that the Department of Energy improve its annual performance measures that indicate royalty regime results.

Royalty—periodic public information—October 2007, #12, vol. 1, p. 126
We recommend that the Department of Energy periodically report on the province's royalty regimes. Periodic public reports should use the methods and tools of technical review to:
- Provide information to owners, MLAs, and stakeholders about the performance and issues for Alberta's royalty regimes;
- Demonstrate the Department's capacity and methodology to analyze its royalty regimes.

Royalty—enhancing controls—October 2007, #13, vol. 1, p. 129
We recommend that the Department of Energy enhance controls for its monitoring and technical review work.

Documenting potential conflicts of interest—April 2008, p. 57
We recommend that the Department of Energy follow its own policies and processes by ensuring discussions, conclusions, and actions taken—including the risk-mitigation strategy—when an employee has declared a potential conflict of interest are clearly documented and retained.

Alberta's Bioenergy Programs—October 2008, #25, p. 255
We recommend that the Department of Energy:
- undertake and document its analysis to quantify the environmental benefits of potential bioenergy technologies to be supported in Alberta.
- establish adherence to the *Nine Point Bioenergy Plan* as a criterion within its bioenergy project review protocol, and require grant applications to indicate the projected environmental benefits of proposed projects.
- prior to awarding grants in support of plant construction, require successful applicants to quantify—with a life cycle assessment—the positive environmental impact relative to comparable non-renewable energy products.

Energy Resources Conservation Board

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

Liability management for suspension, abandonment and reclamation activities—October 2005, #30, p. 173
We recommend that the Alberta Energy and Utilities Board improve its systems by monitoring the timeliness in which industry restores wells, facilities and pipelines to a safe and stable condition after permanent dismantling.

IT control framework—October 2007, #24, vol. 2, p. 71
We recommend that the Alberta Energy and Utilities Board (EUB) implement an IT control framework to mitigate identified risks to the organization.

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

Assurance systems for volumetric accuracy—October 2005, #29, p. 169
We recommend that the Alberta Energy and Utilities Board explore ways to strengthen controls for verifying the accuracy and completeness of oil and natural gas volumetric data and for enforcing measurement standards.

Environment

Department

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

Drinking Water: Approvals and registrations—October 2006, #1, vol. 1, p. 37
We recommend that the Department of Environment make its system to issue approvals and registrations more effective 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.

Drinking Water: Inspection system—October 2006, #2, vol. 1, p. 43
We recommend 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 concluding on each inspection.

Drinking Water: Communicating with partners—October 2006, vol. 1, p. 48
We recommend that the Department of Environment at the district level expand its communication with partners involved in drinking water matters.

Drinking Water: Information systems—October 2006, #4, vol. 1, p. 52
We recommend that the Department of Environment improve the information systems used to manage its drinking water businesses by:
- Updating EMS forms and improving reporting capacity,
- Coordinating regional, district, and personal information systems to avoid overlap and encourage best practice, and
- Using data to improve program effectiveness and efficiency.

Drinking Water: Supporting drinking water goals—October 2006, #5, vol. 1, p. 55
We recommend that the Department of Environment ensure that its legislation, programs, and practices support its new drinking water goals. This includes:
- Clarifying how approvals will move facilities towards current standards;
- Delivering central initiatives that enhance the drinking water program;
- Determining how the Department should promote policy initiatives such as regionalization, including the financing of those initiatives;
- Establishing how the Department can partner with others while mitigating the risks inherent in partnering; and
- Reinforcing a “beyond compliance” mindset with Department staff.

Water Well Drilling—October 2006, #28, vol. 2, p. 84
We recommend that the Department of Environment improve its system to regulate water well drilling by:
- Ensuring that drillers and drilling companies meet approval requirements;
- Implementing controls to ensure that water well drilling reports are:
    - received on time,
    - complete and accurate, and
    - accurately entered into the Groundwater Information System;
- Obtaining assurance that water well drilling activities in the field meet legislated standards.

Climate change: Planning—October 2008, #9, p. 97
We recommend that the Ministry of Environment improve Alberta’s response to climate change by:
- establishing overall criteria for selecting climate-change actions.
- creating and maintaining a master implementation plan for the actions necessary to meet the emissions-intensity target for 2020 and the emissions-reduction target for 2050.
- corroborating—through modeling or other analysis—that the actions chosen by the Ministry result in Alberta being on track for achieving its targets for 2020 and 2050.

Climate change: Monitoring processes—October 2008, #10, p. 100
We recommend that for each major action in the 2008 Climate Change Strategy, the Ministry of Environment evaluate the action’s effect in achieving Alberta’s climate change goals.

Climate change: Public reporting—October 2008, #11, p. 101
We recommend that the Ministry of Environment improve the reliability, comparability and relevance of its public reporting on Alberta’s success and costs incurred in meeting climate-change targets.

Climate change: Data quality—October 2009, p. 40
We recommend that the Department of Environment strengthen its guidance for baseline and compliance reporting by:
- clarifying when uncertainty calculations must be done
- prescribing the minimum required quality standards for data in terms of minimum required frequency of measurement and connection to the period being reported on
- describing the types of data controls that facilities should have in place

Outstanding Recommendations

Climate change: Guidance to verifiers of facility baseline and compliance reports—October 2009, #3, p. 42
We recommend that the Department of Environment strengthen its baseline and compliance guidance for verifiers by improving the description of the requirements for:
- the nature and extent of testing required
- the content of verification reports
- assurance competencies

Climate change: Technical review—October 2009, p. 45
We recommend that the Department of Environment strengthen its technical review processes by:
- requiring facilities to provide a process map with their compliance reporting and
- ensuring staff document their follow-up activity and decisions in the Department's regulatory database

Climate change: Use of offsets to meet compliance obligations—October 2009, #4, p. 46
We recommend that the Department of Environment:
- strengthen its offset protocols to have sufficient assurance that offsets used for compliance are valid
- assess the risk of offsets applied in Alberta having been used elsewhere in the world

Climate change: Outsourced service providers—October 2009, p. 49
We recommend that the Department of Environment develop controls to gain assurance that data hosted or processed by third parties is complete, accurate and secure.

We also recommend that the Department of Environment formalize its agreement with its service provider for the Alberta Emissions Offset Registry.

Climate change: Error correction threshold—October 2009, p. 50
We recommend the Department of Environment establish an error correction threshold that considers not only the percentages of emissions or production, but also the dollar impact on the Climate Change and Emissions Management Fund.

Climate change: Cost-effectiveness of regulatory processes—October 2009, #5, p. 51
We recommend that the Department of Environment assess the cost-effectiveness of the *Specified Gas Emitters Regulation*.

Financial security for land disturbances—October 2009, #23, p. 207
(repeated two times since October 1999)
We again recommend that the Department of Environment implement a system for obtaining sufficient financial security to ensure parties complete the conservation and reclamation activity that the Department regulates.

Backlog of Water Act applications—April 2010, #4, p. 65
We recommend that the Department of Environment minimize the backlog of outstanding applications for *Water Act* licences and approvals.

Assessing compliance with the Water Act—April 2010, #5, p. 68
We recommend that the Department of Environment ensure its controls provide adequate assurance that performance in the field by licence and approval holders as well as others complies with the *Water Act*.

Wetland compensation—April 2010, #6, p. 71
We recommend that the Department of Environment formalize its wetland compensation relationships and control procedures.

WPAC grants and contracts—April 2010, #7, p. 73
We recommend that the Department of Environment strengthen its control of grants and contracts with Watershed Planning and Advisory Councils.

Executive Council

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

CEO: Guidance—October 2008, #1, p. 27
We recommend that the Deputy Minister of Executive Council through the Agency Governance Secretariat assist agencies and departments by providing guidance in the areas of CEO selection, evaluation and compensation.

Agency Governance Secretariat: CEO Accountability—October 2008, #2, p. 29
We recommend the Agency Governance Secretariat, on behalf of Ministers, annually obtain information from agencies on CEO evaluation and compensation processes to assess if good practices are being consistently followed. The results of these systems assessments should be reported to Ministers, who should then hold boards of directors accountable for their decisions.

Public agencies: Executive Compensation Practices—October 2009, #1, p. 23
We recommend that the Deputy Minister of Executive Council, through the Agency Governance Secretariat, assist public agencies and departments by providing guidance on executive compensation practices for all public agency senior executives.

Finance and Enterprise

Department

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

Public reporting of revenue forecasts—October 2007, #16, vol. 1, p. 149
We recommend that the Department of Finance enhance the public reporting of revenue forecasts by:
- explaining the difference between the government's non-renewable resource revenue forecast and those of other private sector forecasters.
- disclosing investment income sensitivity to changes in rate of return earned on equity investments.
- explaining the expected range for the government's total revenue forecast including the reasonability of previous forecasts.

Obtaining assurance on third party service providers—October 2007, vol. 2, p. 87
We recommend that the Tax and Revenue Administration Division of the Ministry of Finance ensure that controls over Ministry information assets hosted or administered by third party service providers are documented and operating effectively.

Improve accountability—April 2010, #12, p. 96
We recommend that the Department of Finance and Enterprise clarify its business objectives for Alberta Treasury Branches, within their Memorandum of Understanding, in relation to the level of risk the Department expects Alberta Treasury Branches to take.

Implementation plan for regulatory and supervisory frameworks—April 2010, #13, p. 97
We recommend that the Department of Finance and Enterprise develop an implementation plan for its approach to regulating and supervising regulated financial institutions.

Completion of risk assessments—April 2010, p. 100
We recommend that the Department of Finance and Enterprise complete risk assessments and evaluate the quality of the regulated entities' risk management practices.

Monitoring legislative compliance—April 2010, #14, p. 101
We recommend that the Department of Finance and Enterprise strengthen its processes to ensure identified legislative non-compliance matters are remediated.

Improve transparency—April 2010, p. 102
We recommend that the Department of Finance and Enterprise:
- clearly identify which guidelines and supervisory rules are applicable for the regulated entities
- develop processes to monitor compliance with the guidelines
- assess how risks are mitigated for those guidelines and supervisory rules that are not applicable

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

Rates of return used to forecast investment income—October 2007, vol. 1, p. 142
We recommend that the Department of Finance incorporate the return from active management of the Alberta Heritage Savings Trust Fund in the forecast of investment income.

Personal income tax forecast—October 2007, vol. 1, p. 143
We recommend that the Department of Finance improve its method for estimating historical personal income growth used to forecast personal income tax revenues.

Corporate income tax forecast—October 2007, #14, vol. 1, p. 145
We recommend that the Department of Finance improve its model for estimating corporate taxable income.

User access—October 2008, p. 272
We recommend that the Department of Finance and Enterprise review all user access to business data to ensure that unauthorized changes are prevented and appropriate incident monitoring exists to ensure systems issues are promptly resolved.

Quality control process over review of information in the annual report—October 2009, p. 214
We recommend that the Department of Finance and Enterprise improve its quality control review process over the financial statements information in the Ministry annual report.

Contract agreements—October 2009, p. 216
We recommend that the Department of Finance and Enterprise have signed contract agreements in place before goods or services are supplied.

Alberta Capital Finance Authority

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

Additional skilled resources required—April 2009, p. 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.

Alberta Investment Management Corporation (AIMCo)

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

Coordination with the Department of Finance and Enterprise—October 2009, p. 235
We recommend that AIMCo work with the Department of Finance and Enterprise to:
- record all financial statement accounting adjustments in the investments general ledger on a timely basis
- coordinate the timing of private investment valuations so that valuation updates to the investments general ledger are entered before the Department performs its quarterly write-down analysis

Internal control certification—October 2008, #32, p. 282
We recommend that Alberta Investment Management Corporation introduce a process to prepare to internal control certification by:
- ensuring that its strategic plan includes internal control certification
- developing a top-down, risk-based process for internal control design
- selecting an appropriate internal control risk-assessment framework
- considering sub-certification processes, with direct reports to the Chief Executive Officer and Chief Financial Officer providing formal certification on their areas of responsibility
- ensuring that management compensation systems incorporate the requirement for good internal control
- using a phased approach to assess the design and operating effectiveness of internal controls

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

Access and change management controls—October 2007, vol. 2, p. 93
We recommend that Alberta Investment Management establish access and change management controls for its investment-related computer information systems.

AIMCo financial statements—October 2009, p. 236
We recommend that AIMCo improve its processes and internal controls to achieve completeness, accuracy and increased efficiency in financial reporting.

Alberta Treasury Branches (ATB)

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

Treasury management: Interest rate risk controls—October 2008, p. 136
We recommend that Alberta Treasury Branches put in place controls necessary to ensure consistent measurement of interest rate risk.

Treasury management: Role and use of middle office—October 2008, p. 137
We recommend that Alberta Treasury Branches expand the role of its middle office[1] to include responsibilities for monitoring interest rate risk. We also recommend that management ensure the middle office has the necessary resources to monitor foreign exchange activities and fulfill its other responsibilities.

Treasury management: Treasury information systems—October 2008, p. 138
We recommend that Alberta Treasury Branches:
- evaluate its current treasury information systems against its business requirements
- develop and implement a treasury information technology plan to upgrade its tools

Fair-value calculations of investments—October 2008, p. 274
We recommend that Alberta Treasury Branches improve controls over fair-value calculations of its investments and derivatives by:
- implementing a peer-review-and-approval process for inputs and assumptions used in the valuation models.
- using a benchmarking process—as an alternative process for derivatives—to assess reasonability of its calculated fair values.
- documenting the results of this work consistently.

1 The Middle Office monitors market risk, values securities and derivatives, and ensures compliance with certain treasury limits/policies

Derivative credit limits in report—October 2008, p. 276
We recommend that Alberta Treasury Branches promptly update the derivative credit limits disclosed on the daily derivative credit exposure report.

Internal control weaknesses—October 2008, #29, p. 278
We recommend that Alberta Treasury Branches validate and approve business processes and internal control documentation developed by its internal control group and implement plans to resolve identified internal control weaknesses.

Securitization policy and business rules—October 2008, #31, p. 280
We recommend that Alberta Treasury Branches develop and implement a securitization policy and securitization business rules.

Internal controls—October 2009, p. 221
We recommend that the Alberta Treasury Branches Strategic Steering Committee receive the appropriate assurance from the project leadership team that the organization's control objectives have been satisfied before the user acceptance testing phase of the project is complete.

Organization-wide information technology oversight—October 2009, #24, p. 222
We recommend that Alberta Treasury Branches improve the efficiency and effectiveness of its computing environment by developing a process to ensure all ATB Business Units adopt and follow an organization-wide Information Technology governance and control framework.

Service auditor reports—user control considerations—October 2009, p. 227
We recommend that Alberta Treasury Branches improve its processes related to service providers by ensuring its business areas:
- receive service provider audit reports
- review service provider audit reports and assess the impact of identified internal control weaknesses
- put end-user controls in place to complement service provider controls

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

Risk management—October 2003, #16, p. 121
(repeated once since October 2002)
We again recommend that Alberta Treasury Branches implement an enterprise risk management framework to assist in managing significant risks.

Treasury management: Business rules and operating procedures—October 2008, #12, p. 118
We recommend that Alberta Treasury Branches develop and document the business rules and operating procedures required to implement the improved investment policy being developed.

Treasury management: Performance targets—October 2008, p. 123
We recommend that Alberta Treasury Branches improve its process for establishing Global Financial Market's performance targets by discussing the targets with the senior Asset Liability Committee (ALCO) and maintaining evidence that supports decisions made.

Treasury management: Variable pay program—October 2008, p. 125
We recommend that Alberta Treasury Branches complete its business rules on how variable pay is calculated for Global Financial Markets' staff by clarifying how to deal with:
- revenue not collected
- investment losses

Treasury management: Liquidity reporting—October 2008, p. 127
We recommend that Alberta Treasury Branches agree internally on a consistent measure of liquidity and report that measurement to the Board and to the Department of Alberta Finance and Enterprise to provide regular and fair reporting.

Treasury management: Liquidity simulations—October 2008, p. 128
We recommend that Alberta Treasury Branches further expand its use of liquidity simulations as a forward looking liquidity risk measurement tool. We also recommend that ALCO and the Board oversight committee consider whether the results of liquidity simulations indicate a need to modify its business plan.

Treasury management: Liquidity contingency plan—October 2008, #13, p. 129
We recommend that Alberta Treasury Branches develop a comprehensive liquidity contingency plan to be better prepared for a liquidity crisis and to fully comply with Alberta Finance and Enterprise's Liquidity Guideline. The plan should be updated and approved regularly.

Outstanding Recommendations

Treasury management: Interest rate risk reporting—October 2008, #14, p. 131
We recommend that Alberta Treasury Branches provide better—more qualitative and quantitative—reporting to senior management and the Board on its interest rate risk management.

Treasury management: Interest rate risk model assumptions—October 2008, p. 132
We recommend that Alberta Treasury Branches improve processes for creating, applying and validating assumptions used in its interest rate risk models.

Treasury management: Interest rate risk modeling and stress testing—October 2008, p. 134
We recommend that Alberta Treasury Branches define its significant interest rate risk exposures and model those significant exposures to assess the effects on future financial results.

Treasury management: Treasury policies—October 2008, p. 139
We recommend that Alberta Treasury Branches implement the updated investment and derivatives policies for changes arising from its recent review of those policies. We also recommend that ATB review the financial risk management policy.

Treasury management: Role of ALCO—October 2008, #15, p. 142
We recommend that Alberta Treasury Branches review the role of the Asset Liability Committee (ALCO) and consider restructuring it into two tiers.

Treasury management: Internal audit program—October 2008, p. 143
We recommend that Alberta Treasury Branches internal audit department regularly examine all types of Alberta Treasury Branches' derivative activities to:
- promptly identify and rectify internal control weaknesses
- fully comply with the *Alberta Finance and Enterprise Derivatives Best Practices Guideline*

Health and Wellness

Department

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

Accountability of the health regions to the Minister of Health and Wellness—October 2004, #23, p. 197
We again recommend that the Department of Health and Wellness improve accountability of the Health Regions to the Minister by:
- ensuring performance expectations for the Health Regions are explicit and accepted by the Health Regions,
- reviewing and providing feedback to the Health Regions on the Health Regions' progress towards meeting expectations, and
- taking follow up actions, including rewards and sanctions, to improve the future performance of the Health Regions.

Accountability for health care costs—Ministry annual report results analysis—October 2006, #31, vol. 2, p. 116
We recommend that the Ministry of Health and Wellness explain and quantify annually—in its annual report—key factors affecting health care costs.

Accountability for health care costs—Performance measures—October 2006, #32, vol. 2, p. 118
We recommend that the Ministry of Health and Wellness link health costs to outputs for the Ministry as a whole—in its annual report.

Analysis of physician billing information—October 2006, #33, vol. 2, p. 120
(repeated once since October 2001)
We recommend that the Department of Health and Wellness strengthen its processes to analyze and investigate anomalies in physician billing information.

Information technology control environment—October 2006, #34, vol. 2, p. 123
(repeated twice since October 2002)
We again recommend that the Department of Health and Wellness carry out a comprehensive risk assessment of its IT environment, and develop and implement an IT disaster recovery plan.

Unauthorized network connections—October 2007, vol. 2, p. 105
We recommend that the Department of Health and Wellness improve its procedures to enforce and monitor compliance with its *Information Security Policy*.

Provincial Mental Health Plan—The accountability framework—April 2008, #4, p. 77
We recommend that the Department of Health and Wellness ensure there is a complete accountability framework for the *Provincial Mental Health Plan* and mental health services in Alberta.

Compliance monitoring activities—October 2008, #35, p. 300
We recommend that the Department of Health and Wellness complete a comprehensive risk assessment and develop a risk based plan to improve the effectiveness of its compliance-monitoring activities.

Electronic Health Records: Project management—October 2009, #7, p. 75
We recommend the Department of Health and Wellness execute publicly funded electronic health record projects and initiatives in accordance with established project management standards.

Electronic Health Records: Monitoring the EHR—October 2009, #8, p. 78
We recommend the Department of Health and Wellness proactively monitor access to the portal (Netcare), through which the electronic health records can be viewed, reviewing it for potential attacks, breaches and system anomalies.

Electronic Health Records: User access management—October 2009, p. 80
We recommend that the Department of Health and Wellness ensure that its user access management policies are followed and that user access to health information is removed when access privileges are no longer required.

Monitoring infection prevention and control processes (compliance monitoring activities)—October 2009, p. 248
We recommend that the Department of Health and Wellness examine and clarify the role of its Compliance Assurance Branch in the implementation and execution of infection prevention and control compliance monitoring in Alberta.

Accountability for conditional grants—October 2009, p. 252
(repeated twice since October 2002)
We again recommend that the Department of Health and Wellness improve its control processes to ensure accountability for conditional grants.

The Departments of Health and Wellness and Agriculture and Rural Development

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

Food Safety: Integrated food safety planning and activities—October 2009, #11, p. 107
(repeated once since October 2006)
We again recommend that the Departments of Health and Wellness and Agriculture and Rural Development, in cooperation with Alberta Health Services and federal regulators, improve planning and coordination of food safety activities and initiatives. This includes:
- improving day-to-day coordination of provincial food safety activities
- improving cooperation and working relationships among provincial and federal partners such as the First Nations and Inuit Health Branch and the Canadian Food Inspection Agency

Food Safety: Eliminating gaps in food safety inspection coverage—October 2009, #12, p. 111
(repeated once since October 2006)
We again recommend that Alberta Health Services and the Departments of Health and Wellness and Agriculture and Rural Development, working with federal regulators, eliminate the existing gaps in food safety coverage in Alberta. Gaps include:
- mobile butchers
- consistently administering the Meat Facility Standard
- coordinating inspections in the “non-federally registered” sector

Food Safety: Accountability—October 2009, #13, p. 114
(repeated once since October 2006)
We again recommend that the Departments of Health and Wellness and Agriculture and Rural Development improve reporting on food safety in Alberta.

The Departments of Health and Wellness and Alberta Health Services

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

Seniors Care: Effectiveness of services in long-term care facilities—October 2005, #7, p. 59
We recommend that the Department of Health and Wellness and the Regional Health Authorities, working with the Department of Seniors and Community Supports, assess the effectiveness of services in long-term care facilities.

Seniors Care: Effectiveness of services in long-term care facilities—October 2005, #8, p. 59
We recommend that the Department of Health and Wellness, working with the Department of Seniors and Community Supports, collect sufficient information about facility costs from the Regional Health Authorities and long-term care facilities to make accommodation rate and funding decisions.

Mental Health: Provincial Mental Health Plan: Implementation systems—April 2008, #3, p. 72
We recommend that the Alberta Mental Health Board and the Department of Health and Wellness, working with other mental health participants, strengthen implementation of the *Provincial Mental Health Plan* by improving:
- implementation planning,
- the monitoring and reporting of implementation activities against implementation plans, and
- the system to adjust the *Plan* and implementation initiatives in response to changing circumstances.

Mental Health: Standards—October 2008, #16, p. 162
We recommend that the Department of Health and Wellness and Alberta Health Services create provincial standards for mental health services in Alberta.

Mental Health: Funding, planning, and reporting—October 2008, p. 186
We recommend that the Department of Health and Wellness and Alberta Health Services ensure the funding, planning, and reporting of mental health services supports the transformation outlined in the *Provincial Mental Health Plan* as well as system accountability.

Mental Health: Aboriginal and suicide priorities—October 2008, p. 190
We recommend that the Department of Health and Wellness and Alberta Health Services consider whether the implementation priority for aboriginal and suicide issues is appropriate for the next provincial strategic mental health plan.

Electronic Health Records: Oversight and accountability for electronic health records (EHR)—October 2009, #6, p. 73
We recommend that the Department of Health and Wellness and Alberta Health Services, working with the EHR Governance Committee, improve the oversight of electronic health record systems by:
- maintaining an integrated delivery plan that aligns with the strategic plan
- improving systems to regularly report costs, timelines, progress and outcomes

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

Seniors Care: Compliance with Basic Service Standards—October 2005, #6, p. 58
We recommend that the Department of Health and Wellness and the Regional Health Authorities, working with the Department of Seniors and Community Supports, improve the systems for monitoring the compliance of long-term care facilities with the Basic Service Standards.

Seniors Care: Information to monitor compliance with legislation—October 2005, p. 61
We recommend that the Department of Health and Wellness, working with the Regional Health Authorities and the Department of Seniors and Community Supports, identify the information required from long-term care facilities to enable the Departments and Authorities to monitor their compliance with legislation.

Seniors Care: Determining future needs for services in long-term care facilities—October 2005, #9, p. 62
We recommend that the Department of Health and Wellness, working with Regional Health Authorities and the Department of Seniors and Community Supports, develop a long-term plan to meet future needs for services in long-term care facilities. We also recommend that the Departments publicly report on progress made towards goals in the plan.

Seniors Care: Determining future needs for services in long-term care facilities—October 2005, p. 62
We recommend that the Department of Health and Wellness require Regional Health Authorities to periodically update and report on progress implementing their Ten–Year Continuing Care Strategic Service Plans.

Food Safety: Tools to promote and enforce food safety—October 2006, vol. 1, p. 83
We recommend that the regional health authorities and the Department of Health and Wellness consider a wider range of tools to promote and enforce food safety.

Alberta Health Services

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

Calgary: Inappropriate user access—October 2007, #29, vol. 2, p. 113
We recommend that the Calgary Health Region regularly review all user accounts and roles assigned within systems and applications for inappropriate access privileges.

Cancer Board: Controls over access to computer applications—October 2007, vol. 2, p. 115
We recommend that the Alberta Cancer Board promptly end network and application access for terminated employees.

AADAC General computer controls—2006–07, vol. 2, p. 116
We recommend that the Alberta Alcohol and Drug Abuse Commission document and follow a comprehensive information technology control framework.

Mental Health: Housing and supportive living—October 2008, #17, p. 164
We recommend that Alberta Health Services encourage mental health housing development and provide supportive living programs so mental health clients can recover in the community.

Mental Health: Concurrent disorders—October 2008, #18, p. 168
We recommend that Alberta Health Services strengthen integrated treatment for clients with severe concurrent disorders (mental health issues combined with addiction issues).

Mental Health: Not-for-profit organizations—October 2008, p. 169
We recommend that Alberta Health Services improve relationships with not-for-profit organizations to provide better coordinated service delivery.

Mental Health: Gaps in service—October 2008, #19, p. 171
We recommend that Alberta Health Services reduce gaps in mental health delivery services by enhancing:
- Mental health professionals at points of entry to the system;
- Coordinated intake;
- Specialized programs in medium-sized cities;
- Transition management between hospital and community care.
-

Mental Health: Provincial coordination—October 2008, p. 176
We recommend that Alberta Health Services coordinate mental health service delivery across the province better by:
- Strengthening inter-regional coordination.
- Implementing standard information systems and data sets for mental health.
- Implementing common operating procedures.
- Collecting and analyzing data for evidence-based evaluation of mental health programs.

Mental Health: Community-based service delivery—October 2008, p. 181
We recommend that Alberta Health Services strengthen service delivery for mental health clients at regional clinics by improving:
- Wait time management.
- Treatment plans, agreed with the client.
- Progress notes.
- Case conferencing.
- File closure.
- Timely data capture on information systems.
- Client follow up and analysis of recovery.

Calgary: IT user access management controls—October 2008, p. 307
We recommend that the Alberta Health Services—Calgary Health Region update its user access management policies and procedures, follow them and implement monitoring controls to ensure they are complied with.

Capital: IT security controls—October 2008, p. 308
We recommend that Alberta Health Services—Capital Health improve its information technology security controls over user-access administration, privileged user accounts, security violations, and passwords.

Peace Country: Expense claims and corporate credit cards controls—October 2008, p. 311
We recommend that Alberta Health Services—Peace Country Health strengthen and follow its policies and processes for employee expense claims and corporate credit cards. We also recommend that Peace Country Health develop and implement policies and guidance on appropriate expenses for hosting and working sessions.

Peace Country: IT user access—October 2008, p. 313
We recommend that Alberta Health Services—Peace Country Health establish a process to periodically review computer system user-access rights to ensure they are appropriate.

Food Safety: Inspection programs—October 2009, #9, p. 93
(repeated once since October 2006)
We again recommend that Alberta Health Services improve their food establishment inspection programs. Specifically, AHS should:
- inspect food establishments following generally accepted inspection frequency standards
- ensure that inspections are consistently administered and documented
- follow up critical violations promptly to ensure that food establishments have corrected those violations

Outstanding Recommendations

Food Safety: Information systems—October 2009, #10, p. 99
(repeated once since October 2006)
We again recommend that Alberta Health Services, supported by the Department of Health and Wellness, improve their automated food safety information systems. This includes:
- enhancing system management, security, and access control
- ensuring data consistency
- ensuring that service level agreements are in place
- developing reporting capacity for management and, accountability purposes

Food Safety: Eliminating gaps in food safety inspection coverage—October 2009, #12, p. 111
(repeated once since October 2006)
We again recommend that Alberta Health Services and the Departments of Health and Wellness and Agriculture and Rural Development, working with federal regulators, eliminate the existing gaps in food safety coverage in Alberta. Gaps include:
- mobile butchers
- consistently administering the Meat Facility Standard
- coordinating inspections in the "non-federally registered" sector

Supplementary retirement plans—October 2009, #28, p. 260
We recommend that Alberta Health Services review existing supplementary retirement plans and:
- understand the terms and conditions for each plan
- develop clear and consistent policies and processes for administering them
- obtain actuarial valuations, using appropriate and consistent assumptions, for the plans
- understand the impact of funding options
- ensure sufficient funds are available to meet plan obligations

Information technology control policies and processes—October 2009, #29, p. 262
We recommend that Alberta Health Services:
- develop an information technology control framework, including appropriate risk management processes and controls, for the management of its information technology resources
- monitor compliance with security policies, implementing effective change management processes and improving passwords controls

Capital project funding and approval—October 2009, #31, p. 269
We recommend that Alberta Health Services:
- obtain appropriate approval from the Minister of Health and Wellness and secure adequate capital funding before starting capital projects that are internally funded or debt financed
- ensure budgets include the estimated future operating costs associated with new capital

Capital project monitoring systems—October 2009, #32, p. 271
We recommend that Alberta Health Services improve the efficiency and effectiveness of its financial capital project monitoring and reporting systems and processes by:
- implementing common systems, policies and procedures to track and monitor key financial information
- providing relevant, timely and accurate information to Executive Management and the Audit and Finance Committee

Year-end financial reporting processes—October 2009, p. 274
We recommend that Alberta Health Services improve its year-end financial reporting processes by:
- clearly defining roles, responsibilities and decision making authorities for financial reporting
- improving processes to identify and resolve key accounting risks and reporting issues on a timely basis

Expenditure policies and approvals—October 2009, p. 277
We recommend that Alberta Health Services improve the efficiency and effectiveness of its expense approval controls by:
- developing and implementing a clear and comprehensive expenditure approval policy
- automating the expenditure controls within the purchasing system

Approval of drug purchases—October 2009, p. 278
We recommend that Alberta Health Services improve controls for drug purchases by ensuring they are properly approved and duties are appropriately segregated.

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

Calgary and Capital: Performance measures for surgical services—October 2001, p. 135
We recommend the Calgary Health Region and Capital Health Authority establish a comprehensive set of outcome-based performance measures for surgical facility services and incorporate these standards of performance into ongoing monitoring of contracted facilities.

AADAC Contracting Practices: Internal controls—November 2006, #1, p. 14
We recommend that management improve controls over contracting by:
- ensuring adequate segregation of duties exists over the contracting process
- monitoring and verifying contractors' compliance with contract terms and conditions

AADAC Contracting Practices: Board governance—November 2006, #3, p. 17
We recommend that the Board, at least annually, receive reports from management on the design and effectiveness of AADAC's internal controls.

Calgary: IT change management controls—October 2008, p. 306
We recommend that Alberta Health Services—Calgary Health Region improve its change management policies and procedures, follow them and implement monitoring controls to ensure they are complied with.

Capital: IT change management controls—October 2008, p. 309
We recommend that Alberta Health Services—Capital Health improve its information technology change-management controls over testing, categorizing, and reviewing changes.

Peace Country: Contract documentation—October 2008, p. 312
We recommend that Alberta Health Services—Peace Country Health develop and implement a sole-sourcing policy for contracts and ensure that sole-sourcing is clearly documented and justified. We also recommend Alberta Health Services—Peace Country Health ensure contract amendments, including changes to deliverables, are documented and agreed to by both parties.

Physician recruitment incentives—October 2009, p. 279
We recommend that Alberta Health Services improve controls for physician recruitment incentives by developing and implementing a policy that identifies:
- criteria and approvals required for granting loans, income guarantees and relocation allowances
- monitoring and collection procedures for physician loans

Housing and Urban Affairs

Department

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

Direct rent supplement program payments—October 2009, p. 283
We recommend that the Department of Housing and Urban Affairs improve its monitoring processes of direct rent supplement payments issued by management bodies, by requiring periodic reviews of these payments.

Infrastructure

Department

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

IT risk—October 2009, p. 287
We recommend that the Ministry of Infrastructure develop and implement an information technology risk management framework.

The Departments of Infrastructure and Treasury Board

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

Challenging and supporting assumptions—April 2010, #1, p. 22
We recommend that the Departments of Treasury Board and Infrastructure improve processes, including sensitivity analysis, to challenge and support maintenance costs and risk valuations.

Transparency—April 2010, #2, p. 24
We recommend that the Departments of Treasury Board and Infrastructure follow their own guidance to publish a Value for Money Report upon entering into a Public Private Partnership (P3) agreement.

International and Intergovernmental Affairs

Ministry

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

Evaluating international offices' performance—October 2008, p. 324
We recommend that the Ministry of International and Intergovernmental Relations improve the processes management uses to evaluate the performance of each international office.

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

Ensuring effective information-system controls—October 2008, p. 326
We recommend that the Ministry of International and Intergovernmental Relations obtain assurance that information-system controls are effective at the international offices and that relevant Government of Alberta IT policies and standards are being met.

Justice and Attorney General

Department

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

Access controls—October 2009, p. 295
We recommend that the Department of Justice obtain assurance that organizations provided access to the Justice On-line Information Network are following the Department's policies and procedures for granting user access.

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

Motor vehicle accident program—Clarifying collection steps—October 2009, #33, p. 293
We recommend that the Department of Justice clarify the collection steps for judgments assigned to it under the Motor Vehicle Accident program.

Municipal Affairs

Department

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

Disaster Recovery Program—October 2009, #34, p. 301
We recommend that the Department of Municipal Affairs improve its management of the disaster recovery program by:
- setting timelines for key steps that must be performed before federal government funding can be received
- periodically assessing and adjusting costs and recovery estimates based on current information

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

ME first! Program—October 2008, #37, p. 335
We recommend that the Department of Municipal Affairs assess the effect on greenhouse gas emissions of the energy savings that resulted from the projects funded by the Department's ME first! Program and that the Department report the lessons learned from this program to the Departments involved in creating climate change programs.

Seniors and Community Supports

Department

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

Seniors Care: Effectiveness of Seniors Lodge Program—October 2005, #12, p. 66
We recommend that the Department of Seniors and Community Supports:
1. improve the measures it uses to assess the effectiveness of the Seniors Lodge Program.
2. obtain sufficient information periodically to set the minimum disposable income of seniors used as a basis for seniors lodge rent charges.

Seniors Care: Determining future needs for Alberta Seniors Lodge Program—October 2005, p. 67
We recommend that the Department of Seniors and Community Supports improve its processes for identifying the increasing care needs of lodge residents and consider this information in its plans for the Seniors Lodge Program.

General computer controls—October 2007, vol. 2, p. 143
We recommend that the Ministry of Seniors and Community Supports improve general computer controls by:
- identifying and protecting data based on its sensitivity,
- following change management procedures,
- reviewing database logs, and
- reviewing user access to applications.

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

Seniors Care: Compliance with Basic Service Standards—October 2005, #6, p. 58
We recommend that the Department of Health and Wellness and the Regional Health Authorities, working with the Department of Seniors and Community Supports, improve the systems for monitoring the compliance of long-term care facilities with the *Basic Service Standards*.

Persons with Developmental Disabilities Boards

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

Contract monitoring and evaluation—October 2004, #9, p. 111
We recommend that the Persons with Developmental Disabilities Provincial Board work with the six Community Boards to strengthen the monitoring and evaluation of the performance of service providers by:

- requiring individual funding service providers to provide adequate financial reporting;
- obtaining annual financial statements to evaluate the financial sustainability of critical service providers;
- implementing a sustainable, risk-based internal audit plan;
- developing and implementing standard procedures to be followed when Community Board staff are in contact with service providers; and
- implementing a method to evaluate service provider performance.

Service Alberta

Ministry and Department

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

Contracting policies and procedures—October 2004, #20, p. 177
We recommend that the Alberta Corporate Service Centre:

- develop comprehensive contracting policies and procedures
- train staff on how to follow the policies and procedures
- monitor staff compliance with the policies and procedures

IT project management—October 2006, #22, vol. 1, p. 174
We recommend that the Deputy Minister of Restructuring and Government Efficiency provide guidance to Deputy Ministers and their Chief Information Officers on their responsibilities for overseeing information technology projects.

IT Service level agreements between Service Alberta and its client ministries—October 2007, #32, vol. 2, p. 146
We recommend that the Ministry of Service Alberta, working with its client ministries, revise their information technology service level agreements to:

- ensure that the agreements are current
- clarify the level of services provided in each service category
- define the roles and responsibilities of each party

Guidance to implement IT control frameworks—April 2008, #7, p. 170
We recommend that the Ministry of Service Alberta, in conjunction with all ministries and through CIO Council, develop and promote:

- a comprehensive IT control framework, and accompanying implementation guidance, and
- well-designed and cost-effective IT control processes and activities.

Central Security Office—October 2008, #4, p. 53[2]
To secure the Government of Alberta's information, we recommend that Executive Council ensures that a central security office is immediately established to oversee (develop, communicate, implement, monitor and enforce) all aspects of information security for organizations using the government's shared information–technology infrastructure.

Physical security—October 2008, #8, p. 87
We recommend that the Ministry of Service Alberta work with the Ministry of Infrastructure, in conjunction with all ministries and through the Chief Information Officer (CIO) Council, to improve:

- physical security controls at data facilities.
- logging of access to data facilities by implementing effective controls to track access.

Service Alberta's as a central processor of transactions—October 2008, #38, p. 345
We recommend that the Ministry of Service Alberta consider providing internal control assurance to its client ministries on its centralized processing of transactions.

Access- and security-monitoring of application systems—October 2008, p. 346
We recommend that the Ministry of Service Alberta ensure adequate logging and monitoring processes are in place in all application systems that host or support financial information and Albertans' personal information.

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2 Recommendation originally made to Executive Council. Both entities agreed that Service Alberta would assume responsibility for implementation.

Outstanding Recommendations

System-conversion process—October 2008, p. 349
We recommend that the Ministry of Service Alberta document its review of actual system-conversion activities to ensure that they comply with the approved test plan for system conversion and data migration.

Information technology resumption plan—October 2009, #35, p. 311
We recommend that the Ministry of Service Alberta complete and test an information technology resumption plan.

Payroll review processes—October 2009, p. 312
We recommend that the Ministry of Service Alberta improve its process to provide timely supporting documentation on payroll information that it maintains for itself and its client ministries.

Analyzing land titles data—April 2010, p. 110
We recommend that the Department of Service Alberta improve its ability to detect fraudulent transactions and mitigate the risk of property fraud by:
- conducting regular analysis of land title data for suspicious transactions
- using the results of data analysis to focus investigations and prosecutions
- providing information about suspicious activities to Department staff to assist them in the exercise of their new legislative authority

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

Develop standards and policies to ensure web applications are built to required standards—October 2008, #5, p. 66
We recommend that the Ministry of Service Alberta, in conjunction with all ministries and through the Chief Information Officer (CIO) Council, develop and implement well-designed and effective controls to ensure all Government of Alberta web applications consistently meet all security standards and requirements.

Review and improve the GoA's shared computing infrastructure policies, procedures, and standards—October 2008, #6, p. 68
We recommend that the Ministry of Service Alberta work with all ministries and through the Chief Information Officer (CIO) Council, to develop and implement policies, procedures, standards, and well-designed control activities for the Government of Alberta's shared computing network.

Wireless policies and standards—October 2008, p. 75
We recommend that the Ministry of Service Alberta, in conjunction with all ministries and through the Chief Information Officer (CIO) Council, update its existing Wireless LAN Access Security Policy to provide clearer guidance to Ministries in deploying and securing wireless-network-access points.

Device configurations—October 2008, p. 76
We recommend that the Ministry of Service Alberta, in conjunction with all ministries and through the Chief Information Officer (CIO) Council, review the configuration of laptops, and approve policies to prevent laptops from inadvertently exposing the government environment.

Ongoing monitoring and surveillance—October 2008, #7, p. 77
We recommend the Ministry of Service Alberta, in conjunction with all ministries and through the Chief Information Officer (CIO) Council, update network surveillance methods to detect and investigate the presence of unauthorized wireless access points within the Government of Alberta.

Backup power supplies—October 2008, p. 85
We recommend that the Ministry of Service Alberta, work in conjunction with all ministries and through the Chief Information Officer (CIO) Council, to ensure that ministries that use data facilities ensure that connected computer equipment has a sufficient redundant power supply.

Environmental security—October 2008, p. 89
We recommend that Ministry of Service Alberta work with ministries to improve the environmental security controls at shared data facilities.

Solicitor General and Public Security

Department

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

Follow-up of compliance audit report recommendations—April 2010, #15, p. 120
We recommend that the Department of Solicitor General and Public Security improve its processes to monitor and ensure employers implement its compliance audit recommendations by:
- developing, maintaining and monitoring a database of the implementation status of all audit recommendations
- requiring timely written confirmation of compliance from employers
- ensuring files on employers are properly maintained
- taking necessary and timely action against non-compliant employers

Processes to conduct compliance audits—April 2010, p. 122
We recommend that the Department of Solicitor General and Public Security:
- use a risk-based approach in future audit cycles for selecting on-site employer compliance audits
- better document compliance audit files, including documenting audit findings, identifying auditors performing the work and demonstrating sufficient oversight

Monitoring employers' investigations of peace officers—April 2010, #16, p. 125
We recommend that the Department of Solicitor General and Public Security improve monitoring of employers' investigations of complaints made against peace officers by:
- following current policy and best practices, including managerial approval of concluded files, and implementing proper filing procedures
- providing written notification to an employer when closing a file
- better maintaining its databases

Sustainable Resource Development

Department

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

Reforestation: Monitoring and enforcement—October 2006, #15, vol. 1, p. 122
We recommend that the Department of Sustainable Resource Development strengthen its monitoring of reforestation activities by:
- bringing more rigour to the review of forestry operator plans
- making its field inspection program more effective
- promptly identifying and correcting non-compliance with legislation

Leases and sales—October 2007, vol. 2, p. 161
We recommend that the Department develop a guideline for lease and sale of land indicating when and with whom to consult.

Requests for proposals—October 2007, #33, vol. 2, p. 163
We recommend that the Department of Sustainable Resource Development evaluate whether government objectives could be met by introducing requests for proposals from all interested parties whenever an entity applies to put substantial improvements on public land.

Controls over revenue—October 2008, #39, p. 355
We recommend that the Department of Sustainable Resource Development put processes in place to allow significant revenues currently recorded when cash is received to be recorded when revenue is due to the Crown.

Sand and Gravel: Enforcement of reclamation obligations—October 2008, #40, p. 360
We recommend that the Department of Sustainable Resource Development improve processes for inspecting aggregate holdings on public land and enforcing land reclamation requirements.

Sand and Gravel: Flat fee security deposit—October 2008, #41, p. 362
We recommend that the Department of Sustainable Resource Development assess the sufficiency of security deposits collected under agreements to complete reclamation requirements.

Sand and Gravel: Quantity of aggregate removed—October 2008, p. 364
We recommend that the Department of Sustainable Resource Development develop systems to verify quantities of aggregate reported as removed by industry from public lands so that all revenue due to the Crown can be assessed and recorded in the financial statements.

Sand and Gravel: Information management—October 2008, p. 366
We recommend that the Department of Sustainable Resource Development capture and consolidate information throughout the life of an aggregate holding and use it to test compliance with legal obligations.

Reforestation: Performance information—April 2009, #2, p. 52
(repeated once since October 2006)
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.

IT control framework—October 2009, p. 323
We recommend the Department of Sustainable Resource Development improve policies and processes in its information technology control environment.

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

Contracting—October 2003, p. 277
We recommend that the Department of Sustainable Resource Development follow the government's best practice guidelines for contracted services and grants when undertaking major capital or long-term lease projects.

Reforestation: Seed inventory—October 2006, vol. 1, p. 129
We recommend that the Department of Sustainable Resource Development improve controls over the seed supply used for reforestation by:
- strengthening processes to ensure that the integrity of the seed zone is maintained
- assessing whether seed is available to meet reforestation requirements.

Land sale agreements—October 2007, vol. 2, p. 162
We recommend that the Department establish a guideline to not sell public land until the lessee is in compliance with key lease requirements.

Project management—October 2007, vol. 2, p. 165
We recommend that the Department show clearly throughout a project that repeated contracting with the same contractor is a cost effective way to achieve that project's desired outcome.

Natural Resources Conservation Board

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

Compliance and enforcement (Confined feeding operations)—October 2007, #34, vol. 2, p. 167
(repeated once since October 2004)
We again recommend that the Natural Resources Conservation Board rank its compliance and enforcement activities based on risk. To do so, the Board must:
- define through research the environmental risks applicable to CFOs and their impact
- categorize CFOs by priority levels of environmental risk at different locations
- conduct appropriate sampling and testing to confirm the validity of assigned risk levels
- select and deliver appropriate compliance and enforcement action

Tourism, Parks and Recreation and Culture and Community Spirit

Ministry

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

Computer control environment—October 2007, vol. 2, p. 172
We recommend that the Ministry of Tourism, Parks, Recreation and Culture work with Service Alberta to:
- document the services that Service Alberta is to provide and its control environment for information technology
- implement a process to ensure that Service Alberta consistently meets service level and security requirements
- provide evidence that control activities maintained by Service Alberta are operating effectively

Transportation

Department

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

Commercial vehicle safety: Inspection tools and vehicle selection—October 2009, p. 124
We recommend that the Department of Transportation improve its inspection capability by incorporating risk analysis into the selection of vehicles for roadside inspection and increasing the amount of information available at roadside.

Commercial vehicle safety: Progressive sanctions—October 2009, #14, p. 127
We recommend that the Department of Transportation strengthen enforcement processes relating to, or arising from, roadside inspections.

Commercial vehicle safety: Analysis and measurement—October 2009, #15, p. 129
We recommend that the Department of Transportation further develop and improve its data analysis practices for use in program delivery and performance measure reporting.

IT risk assessment—October 2009, p. 329
We recommend that the Department of Transportation develop and implement an Information Technology risk assessment framework.

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

Commercial and motor vehicle inspection programs—October 2004, #29, p. 301
We recommend that the Ministry of Transportation strengthen its monitoring processes for Commercial Vehicle Inspection Program and Motor Vehicle Inspection Program by:
- documenting policies, procedures and management's expectations of the Vehicle Safety Investigators to ensure that they perform their functions appropriately and consistently;
- developing a reporting process to allow senior management to enhance the assessment of the effectiveness of the programs.

Licensing inspection facilities and technicians—October 2004, #30, p. 303
We recommend that the Ministry of Transportation improve the process to license inspection facilities and technicians.

Treasury Board

Ministry and Department

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

Infrastructure needs: Maintenance and life-cycle costs—October 2007, #2, vol. 1, p. 49
We recommend that the Department of Treasury Board, in consultation with departments, develop objectives, timelines, and targets for reducing deferred maintenance, and include information on reducing deferred maintenance in the province's Capital Plan.

Infrastructure needs: Deferred maintenance and life-cycle costs—October 2007, #3, vol. 1, p. 54
We recommend that the Department of Treasury Board:
- require life-cycle costing information for proposed infrastructure projects, and
- establish a process to ensure public infrastructure assets are properly maintained over their life.

Government credit cards—October 2007, #17, vol. 1, p. 174
We recommend that the Department of Treasury Board, working with all other Departments, further improve controls for the use of government credit cards by:
1. communicating responsibilities to all cardholders.
2. clarifying the support required to confirm both the nature and purpose of transactions.
3. providing guidance to senior financial officers and accounting staff on dealing with significant non-compliance.

Inconsistent budgeting and accounting for grants—October 2007, vol. 2, p. 178
We recommend that the Ministry of Treasury Board, working with other departments, provide guidance to ensure consistent accounting treatment of grants throughout government.

CEO compensation disclosure—October 2008, #3, p. 32
We recommend that the Treasury Board consider applying the new private-sector compensation-disclosure requirement to the Alberta public sector.

Salary and benefits disclosure—October 2008, p. 371
We recommend that the Ministry of Treasury Board, through the *Salaries and Benefits Disclosure Directive*, clarify what form of disclosure, under what circumstances, is required of the salary and benefits of an individual in an organization's senior decision making/management group who is compensated directly by a third party.

Report on selected payments to MLAs—Content—October 2008, p. 375[3]
We recommend that the Department of Treasury Board reaffirm what should be contained within the *Report of Selected Payments to Members and Former Members of the Legislative Assembly and Persons Directly Associated with Members of the Legislative Assembly* to ensure it continues to be relevant.

Report on selected payments to MLAs—Efficiency—October 2008, p. 376
We recommend that the Department of Treasury Board use current technology to regularly and efficiently compile the material for public reporting.

3 The Ministry of Treasury Board has informed the Office of the Auditor General that it does not consider itself responsible for implementing this recommendation.

Public agencies: Disclosure of termination benefits paid—October 2009, #2, p. 29
We recommend that the Ministry of Treasury Board increase transparency of termination benefits by adopting disclosure practices for Alberta public agencies that disclose termination benefits paid.

Government of Alberta and Ministry Annual Reports: Analysis and review of performance measures—October 2009, #16, p. 136
We recommend the Ministry of Treasury Board work with Ministries to improve processes at the ministry level relating to analysis and review of performance measures. We also recommend the Ministry of Treasury Board establish a protocol with ministries whereby it is informed of proposed changes by ministries to performance measures methodology in a timely manner.

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

Infrastructure needs: Process to prioritize projects—October 2007, #4, vol. 1, p. 57
We recommend that the Department of Treasury Board improve the process to evaluate proposed infrastructure projects that ministries submit.

Infrastructure needs: Improving current information—October 2007, #5, vol. 1, p. 59
We recommend that the Department of Treasury Board, working with the Treasury Capital Planning Committee, examine how the current information provided to Treasury Board can be improved.

Report on selected payments to MLAs—Timely—October 2008, p. 377
We recommend that the President of Treasury Board arrange for all final reviews of the Report to take place within six months of the year end so that the Report can be ready for tabling in the Legislative Assembly.

The Departments of Treasury Board and Infrastructure

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

Challenging and supporting assumptions—April 2010, #1, p. 22
We recommend that the Departments of Treasury Board and Infrastructure improve processes, including sensitivity analysis, to challenge and support maintenance costs and risk valuations.

Transparency—April 2010, #2, p. 24
We recommend that the Departments of Treasury Board and Infrastructure follow their own guidance to publish a Value for Money Report upon entering into a Public Private Partnership (P3) agreement.

Reference

Report of the Auditor General of Alberta—October 2010

Glossary

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

Accountability

Responsibility for the consequences of actions. In this report, accountability requires ministries, departments and other entities to:
- 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 cases

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.

COBIT

Abbreviation for "Control Objectives for Information and Related Technology." COBIT was developed by the Information Systems Audit and Control Foundation and the IT Governance Institute. COBIT provides good practices for managing IT processes to meet the needs of enterprise management. It bridges the gaps between business risks, technical issues, control needs, and performance measurement requirements.

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 contributions

See "Restricted contributions".

Glossary

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.
ERP	Abbreviation for Enterprise Resource Planning. ERPs integrate and automate all data and processes of an organization into one comprehensive system. A typical ERP has multiple modules within a computer software application, standardized hardware, and a centralized database used by all modules to achieve this integration. Although an ERP can be as small as an accounting and payroll application, the term ERP is usually associated with larger systems that perform many functions within an organization. Examples of modules in an ERP, which formerly would have been stand-alone applications, include: Financials (General Ledger, Accounts Payable, and Accounts Receivable), Payroll, Human Resources, Purchasing and Supply Chain, Project Management, Asset Management, Student Administration Systems and Decision Support Systems. Some of the more common ERPs are PeopleSoft, SAP, Great Plains, and Oracle Applications.
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.
IFRS	International Financial Reporting Standards (IFRS) are global accounting standards, adopted by the Accounting Standards Board of the Canadian Institute of Chartered Accountants. They are required for government business enterprises for fiscal years beginning on or after January 1, 2011.
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	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: • 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	Our letter to the management of an entity that we have audited. In the letter, we explain: 1. our work 2. our findings 3. our recommendation of what the entity should improve 4. the risks if the entity does not implement the recommendation We also ask the entity to explain specifically how and when it will implement the recommendation.
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.
Outputs	The goods and services an organization actually delivers to achieve outcomes. They show “how much” or “how many.”

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.
Restricted contributions	Restricted contributions are monetary receipts or gifts-in-kind provided with stipulations specified by the donor or grantor on how those resources are to be used by the recipient organization. Generally accepted accounting principles for not-for-profit organizations require externally restricted contributions to be accounted for by including the value of contributions in revenue only after the stipulations are met. This results in "deferred contributions" on the balance sheet. These deferred contributions represent the value of contributions received but for which the stipulations have not yet been met by the recipient organization. Alternatively, generally accepted accounting principles allow restricted contributions to be recognized in revenue when received if they are separately classified by the nature of their restrictions on the face of the financial statements. These two accounting methods, known as the deferral method and restricted fund method, are thought to provide useful information to readers of the financial statements about how management has used resources provided to them and whether or not they have complied with stipulations imposed by donors.
Review	Reviews are different from audits in that the scope of a review is less than that of an audit and therefore the level of assurance is lower. A review consists primarily of enquiry, analytical procedures and discussion related to information supplied to the reviewer with the objective of assessing whether the information being reported on is plausible in relation to the criteria.
Risk	Anything that impairs an organization's ability to achieve its goals.
Risk management	Identifying and then minimizing or eliminating risk and its effects.
Sample	A sample is a portion of a population. We use sampling to select items from a population. We perform audit tests on the sample items to obtain evidence and form a conclusion about the population as a whole. We use either statistical or judgmental selection of sample items, and we base our sample size, sample selection, and evaluation of sample results, on our judgment of risk, the nature of the items in the population, and the specific audit objectives for which sampling is being used.
Standards for systems audits	Systems audits are conducted in accordance with the assurance and value-for-money auditing standards established by the Canadian Institute of Chartered Accountants.
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.

Glossary

Systems audit

To help improve the use of public resources, we audit and recommend improvements to systems designed to ensure value for money.

Paragraphs (d) and (e) of subsection 19(2) of the Auditor General Act require us to report every case in which we observe that:

- 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.

To meet this requirement, we do systems audits. Systems audits are conducted in accordance with the auditing standards established by the Canadian Institute of Chartered Accountants.

First, we develop criteria (the standards) 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. 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. For example, if we have five criteria and a system meets three of them, the two unmet criteria lead to the recommendation.

A systems audit should not be confused with assessing systems with a view to relying on them in an audit of financial statements.

Unqualified auditor's opinion

An auditor's opinion that information audited meet the criteria that apply to them.

Unqualified review engagement report

Although sufficient audit evidence has not been obtained to enable us to express an auditor's opinion, nothing has come to our attention that causes us to believe that the information being reported on is not, in all material respects, in accordance with appropriate criteria.

Value for money

The concept underlying a systems audit is value for money. 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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