



# Alberta Advanced Education

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November 2018

## Summary

- 14 Total Recommendations
- 1 New Recommendation
- 13 Outstanding Recommendations
- 4 Outstanding Recommendations Older than 3 Years
- 3 **READY** for Follow-up Audit
- 11 **NOT READY** for Follow-up Audit

We issued unqualified independent auditor's reports on the 2017–2018 financial statements for the Ministry of Advanced Education, the Department of Advanced Education and Access to the Future Fund. The ministry consolidated financial statements required a restatement of the comparative figures due to a material prior period error identified at the University of Calgary.

Included in the ministry consolidated financial statements are the department, Access to the Future Fund, 21 public post-secondary institutions, Keyano College Land Trust, MacEwan Downtown Corporation, Olds College Trust, PanGlobal Training Systems Ltd. and West Campus Development Corporation.

There are no new recommendations to the department in this report. The department has six outstanding recommendations, two of which have been outstanding for more than three years.

### Post-secondary Institutions

We issued unqualified auditor's reports on the financial statements of the universities of Alberta, Athabasca, Calgary and Lethbridge.

The financial statements of the University of Calgary reflect a restatement of the comparative figures due to management's identifying during the year a \$120 million prior period error relating to funding revenue recognition.

We made one new recommendation to the University of Calgary on improving their internal controls program to mitigate key financial risk.

Post-secondary institutions in total have eight recommendations, two of which have been outstanding for more than three years.

### Post-secondary Institutions Report Card

This report includes an update on the report card on four universities' internal controls over financial reporting, together with comparative assessments from our 2017 and 2016 audits. Our February 2018 report included the results of our audits at the colleges, technical institutions, MacEwan University and Mount Royal University.

To govern effectively, boards need accurate and timely financial information throughout the year, not just at year end. To manage effectively, management needs the same information. We see a direct correlation between a strong year-end process to prepare financial statements and the ability to prepare quality financial information throughout the year. Strong, sustainable processes improve management's decision-making ability and provide opportunities to use results analysis to communicate to Albertans the institution's performance and accountability for results. The Minister of Advanced

Education, through the department, must ensure the boards of governors of post-secondary institutions hold management accountable for sustaining strong internal control environments and improving identified control weaknesses in a reasonable period of time.

Consistent with our prior report cards, we evaluated the following key indicators of sustainable effective financial processes and internal controls:

- the time it took institutions to prepare complete and accurate year-end financial statements
- the quality of draft financial statements we received, including the number of errors our audit found
- the number and type of current and outstanding recommendations

A university could have a yellow or red status yet still receive an unqualified opinion on its financial statements, as management can correct errors and disclosure deficiencies during the audit process. The number of errors and disclosure deficiencies we find in the draft financial statements indicates how effective financial controls are for preparing accurate financial statements. We occasionally make observations to management at the end of our financial statement audit of less significant control weaknesses which do not require immediate remediation like recommendations do. We would note a caution in the report card; however if numerous observations are being identified at a particular institution. Numerous observations would be a strong indication the institution's overall financial processes and internal controls may not be sustainable.

Our conclusion on the status of recommendations considers not just the number but also the age and nature of the recommendations. A summary of recommendations by institution is on page 22. Two of the eight recommendations to institutions are older than three years.

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

## The Report Card

- ◆ Significant improvement is required.
- ▲ Improvement is required, but not to the same extent as the red items. Yellow items may or may not be associated with a management letter recommendation. They represent areas where an institution can improve, as opposed to areas that require significant, immediate attention.
- We have not identified significant weaknesses in the control environment.

Institution	Financial Statements Preparation		Recommendations
	Accuracy	Timeliness	
<b>Athabasca University</b>			
2018	●	●	▲
2017	●	●	◆
2016	●	●	◆
<b>University of Calgary</b>			
2018	●	●	▲
2017	●	●	●
2016	●	●	●
<b>University of Lethbridge</b>			
2018	▲	●	●
2017	▲	●	●
2016	●	●	●
<b>University of Alberta</b>			
2018	●	●	●
2017	●	●	●
2016	●	●	●

Note: *The Report of the Auditor General of Alberta—February 2018*, page 28, included the fiscal 2017 report card of colleges, technical institutions, MacEwan University and Mount Royal University.

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

### Financial Statements Preparation

All four universities continue to focus on maintaining strong financial reporting processes and controls. Sustaining strong financial reporting systems increases opportunities to use results analyses to better communicate the universities' performance and accountability for results. University management must continuously improve financial reporting systems to identify and mitigate emerging risks and risks created from periodic changes made to the universities' operations.

We continue to provide process observations to the University of Lethbridge which, suggests the overall financial reporting processes and controls may not be sustainable. We encourage the board of governors to ensure management improves processes to enable management to assess if there are gaps in its existing controls, emerging risks or when changes to its operations introduce new risks. Proactive remediation of these processes now can sufficiently reduce the risk of a future breakdown in controls resulting in a material error.

We issued unqualified audit opinions on the financial statements of all four universities.

### Recommendations

All four universities that we examine in this report generally have effective financial reporting processes and controls.

We issued a new recommendation to the University of Calgary to improve the design and effectiveness of its internal controls program to mitigate key financial risks. We found the program does not include all key financial business processes nor does it include processes to test the operating effectiveness of its key internal controls and report results. An inadequate or ineffective internal controls program increases the university's exposure to financial errors, financial loss and reputational damage.

Athabasca University has implemented our recommendation to improve IT resumption capabilities, a significant process given the online nature of the university. University management continues to work towards implementing our recommendation to improve procedures for monitoring and reporting IT access and security violations.

## Findings

### University of Calgary

#### Improve internal controls program to mitigate key financial risks

##### Context

An effective and efficient internal controls program that mitigates key financial risks is an essential part of any organization. The program ensures reliable financial reporting, effective and efficient operations and compliance with laws and regulations.

Management is responsible for designing, implementing and monitoring its internal controls program. The board of governors and its audit committee play a critical role in overseeing the program. Board members need sufficient information from management on the internal controls program so they can ask appropriate oversight questions and signal where change in preferred behaviour may be required.

For an internal controls program to be efficient and effective in mitigating key financial risks, it must include clear roles and responsibilities as well as structured and integrated processes to:

- assess financial risks
- determine the processes and controls that are within the scope of the program
- evaluate internal control design and implementation
- monitor and report on the operating effectiveness of the internal controls

In an environment where risks are continually changing and emerging, such as information technology, organizations must be nimble. A structured program for internal controls can assist an organization in identifying, assessing and responding, where appropriate, to this changing environment.

To mitigate the risk of financial error or financial loss, organizations often use three lines of defense. Management internal controls are the first line of defense, a controls compliance oversight function established by management, is the second line of defense and independent assurance from internal audit is the third line of defense. Reliance on a single line of defense can often prove inadequate. Management and the board need to evaluate risk when assessing the lines of defense needed.

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

The University of Calgary's internal controls program should have processes and controls to mitigate key financial risks. An internal controls program should include clear roles and responsibilities and structured and integrated processes to:

- identify and assess key financial risks
- assess if controls are adequately designed and implemented to mitigate key financial risks
- monitor and report on the adequacy and operating effectiveness of its internal controls

#### **Our audit findings**

##### **Key Finding**

The University of Calgary's internal controls program is incomplete. The program does not include all key financial business processes, nor does it include processes to test the operating effectiveness of its key internal controls and report results.

The university has an Internal Controls and Compliance Reporting group that is responsible for ensuring that the university has an internal controls program that is effective and mitigates key financial risks. The group identifies and assesses financial risks, documents financial business processes, identifies key internal controls within these processes and performs walkthroughs to verify the existence of the controls.

While the university has elements of an adequately designed internal controls program, it does not have all elements required for an internal controls program to be effective. For example, we could not find evidence that the Internal Controls and Compliance Reporting group:

- assesses the scope of the internal controls program and ensures all key financial statement business processes and controls are included within the program. For example, the group has not identified or assessed the financial risks or documented the controls for key financial statement processes such as portfolio investments, deferred revenue or debt
- has defined control owners for each of its control activities and communicated their responsibilities
- tests and monitors the operating effectiveness of its key internal controls or reports this information to management or the audit committee. For example, the university relies on its expenditure accrual processes and controls to ensure its financial statements are accurate and complete. We found that management has not tested if these processes and controls are operating as it expects

During the year, management identified a significant error in its prior years financial statements related to deferred revenue. Because the university's internal controls program was not working as effectively as it should, management did not identify the error promptly. Management investigated the error and identified that there were gaps in its deferred revenue internal controls and in some instances, the university had internal controls but they did not operate effectively. Management has developed a plan to improve its deferred revenue processes and controls as well as implement processes for monitoring the operating effectiveness of these controls.

While management needs to implement these deferred revenue process and control improvements, this is only one of many key financial business processes that the university relies on. Management needs to consider a more holistic, integrated and continuous approach to its internal controls program. The approach should ensure that all key financial business processes and controls are included within the scope of the internal controls program, responsibilities for internal controls are defined, communicated and understood and there is continuous monitoring and reporting on the operating effectiveness of the university's key internal controls.

An enhanced internal controls program would enable management to assess if there are key financial risks in its business processes that it has not mitigated, if the controls it has are adequately designed to mitigate key financial risks and if its internal controls are operating as expected.

**RECOMMENDATION:****Improve internal controls program to mitigate key financial risks**

We recommend that the University of Calgary improve the design and effectiveness of its internal controls program to mitigate key financial risks.

**Consequences of not taking action**

An inadequate or ineffective internal controls program increases the university's exposure to financial errors, financial loss and reputational damage.

**Athabasca University****Establish information technology (IT) resumption capabilities  
—recommendation implemented****Context**

In 2010<sup>1</sup> we recommended that Athabasca University:

- assess the risks and take the necessary steps to establish appropriate offsite recovery facilities 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

We repeated our recommendation in 2013 and 2016, as updating and testing of the plan was incomplete.

**Our follow-up audit findings**

The university implemented our recommendation by:

- identifying its critical applications
- establishing an off-site recovery site which has the infrastructure, data replications and backup systems to recover its critical systems
- completing and testing its IT resumption plan and documenting lessons learned for its identified critical applications

We examined the university's IT resumption plan, including the critical systems management identified, recovery strategy, roles and responsibilities of the IT recovery team and the recovery procedures and found them to be adequate. We confirmed that the university has established appropriate off-site recovery facilities and procedures to provide continuity of the critical IT systems it identified.

We also examined the results of the university's successful testing of its IT resumption plan.

<sup>1</sup> *Report of the Auditor General of Alberta—October 2010*, no. 10, page 111. Repeated *October 2013*, no. 9, p. 96 and *October 2016*, no. 9, 66.



## Keyano College

The following repeated recommendations for Keyano College were finalized at the completion of our 2017 financial statement audit, which was subsequent to the release of our February 2018 report.

The February 2018 report included an update on the report card on internal controls over financial reporting from our 2017 audits of colleges, technical institutes, MacEwan University and Mount Royal University. As noted on page 30 of our February 2018 report, our conclusion on the sustainability of financial reporting internal controls and processes at the college reflected our expectation of repeating our recommendation on improving financial reporting processes.

### Improve financial reporting processes—recommendation repeated

#### Context

The college's management are responsible for preparing financial statements and accompanying notes in accordance with Canadian public sector accounting standards and ensuring effective internal controls over financial reporting. Effective financial reporting processes provide timely and reliable financial information to management and the board. Effective processes should include members of the finance group documenting and understanding the accounting processes, financial reporting, and changes in accounting standards impacting the college.

In 2016<sup>2</sup> we recommended the college improve its financial reporting processes due to material adjustments to the draft financial statements required as a result of our audit. We repeat this recommendation because we continue to identify significant weaknesses in the financial reporting processes.

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

The college should have effective systems to produce timely and accurate year-end financial statements and supporting documentation.

#### Our follow-up audit findings

##### Key Finding

Material adjustments were required to the college's draft 2017 financial statements.

College management was unable to prepare prompt, accurate financial statements for fiscal 2017. We found improvements in some processes, such as reconciliation of clearing accounts, recording of pension liabilities, and supporting analysis preparation. However, significant adjustments were required in areas including recognition and reconciliation of deferred revenue, recording of debt financing, and vacation liability, along with multiple deficiencies in presentation and disclosures.

<sup>2</sup> Report of the Auditor General of Alberta—February 2016, no. 13, page 102

**RECOMMENDATION:****Improve financial reporting processes—recommendation repeated**

We again recommend that Keyano College improve its financial processes by:

- training staff on Canadian public sector accounting standards
- improving its monitoring and reviewing process to ensure that financial information is accurate

**Consequences of not taking action**

Without effective controls over its financial reporting processes, management and the board will not have reliable financial information on which to base their decisions.

**Improve systems to ensure compliance with legislation—recommendation repeated****Context**

Boards of governors must ensure that their institutions comply with all relevant laws. Otherwise, institutions could expose themselves to significant financial, operational, legal, and reputational risks. Post-secondary institutions must follow a wide range of federal and provincial laws, such as the *Post-secondary Learning Act* and the federal *Income Tax Act*, *Occupational Health and Safety Act*, and *Controlled Goods Regulations*. Some laws also affect academic and student services.

Enterprise risk management ensures that an organization complies with legislation. Managing risks successfully requires a continuous, proactive process to understand, manage, and communicate risks from an organization-wide perspective.

In 2013<sup>3</sup> we recommended the college improve its systems to ensure compliance with legislation. We repeat our recommendation because the college has yet to fully implement adequate processes.

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

A post-secondary institution should have effective systems to:

- understand what legislation applies to it
- develop appropriate policies, procedures, and controls to ensure that it complies with legislation
- monitor compliance and report non-compliance to senior management and the board's audit committee

**Our follow-up audit findings****Key Finding**

The college is still developing policies and procedures to identify, document, monitor, and communicate legislative compliance risks. During 2017 the college failed to identify a material financial transaction did not comply with the *Post-secondary Learning Act*.

<sup>3</sup> Report of the Auditor General of Alberta—February 2013, no. 7, page 60

In 2015, management developed a Legislative Compliance Framework and has since been working on its implementation. Management identified a list of legislation that is applicable to the college and is currently developing policies and procedures to identify, document, monitor, and communicate risks.

We found that during 2017 management obtained a line of credit without getting adequate legislative approval under the requirements of the *Post-secondary Learning Act*. We were unable to find sufficient evidence that management performed proper analyses or evaluated for compliance with legislation in accordance with the college’s framework before entering into this transaction.

**RECOMMENDATION:**  
 Improve systems to ensure compliance with legislation—**recommendation repeated**

We again recommend that Keyano College implement systems to:

- understand what legislation it must comply with
- develop appropriate policies, procedures, and controls to ensure compliance with legislation
- monitor and report non-compliance to senior management and the audit committee

**Consequences of not taking action**

Without a clear process to ensure it complies with legislation, an institution faces significant financial, operational, legal, and reputational risks.

## Recommendations

WHAT	WHEN	STATUS
<p>DEPARTMENT  <b>COLLABORATIVE INITIATIVES AMONG POST-SECONDARY INSTITUTIONS:</b>  <b>Develop strategic plan and accountability framework</b></p> <p>We again recommend that the Department of Advanced Education, working with institutions:</p> <ul style="list-style-type: none"> <li>• develop and communicate a strategic plan that clearly defines the minister’s expected outcomes for Campus Alberta, initiatives to achieve those outcomes, the resources required and sources of funding</li> <li>• develop relevant performance measures and targets to assess if the outcomes are being achieved</li> <li>• publicly report results and the costs associated with collaborative initiatives</li> <li>• review and clarify the accountability structure for governing collaborative initiatives</li> </ul>	<p>Repeated October 2017, Performance Auditing, p. 37</p> <p>Originally reported July 2013, no. 6, p. 48</p>	<p><b>NOT READY</b></p>

WHAT	WHEN	STATUS
<p>DEPARTMENT COLLABORATIVE INITIATIVES AMONG POST-SECONDARY INSTITUTIONS: <b>Develop processes and guidance to plan, implement and govern collaborative projects</b></p> <p>We again recommend that the Department of Advanced Education, working with institutions, develop systems and guidance for institutions to follow effective project management processes for collaborative initiatives.</p>	<p>Repeated October 2017, Performance Auditing, p. 40</p> <p>Originally reported July 2013, no. 7, p. 51</p>	<p>NOT READY</p>
<p>DEPARTMENT ENTERPRISE RISK-MANAGEMENT FRAMEWORK: <b>Implement enterprise risk management framework</b></p> <p>We again recommend that the Department of Advanced Education implement an integrated enterprise risk management framework to identify and mitigate relevant risks.</p>	<p>Repeated October 2017, Financial Statement Auditing, p. 13</p> <p>Originally reported October 2015, no. 15, p. 124</p>	<p>NOT READY</p>
<p>DEPARTMENT TRAVEL, MEAL, AND HOSPITALITY EXPENSES OF THE PREMIER, MINISTERS, ASSOCIATE MINISTERS, AND THEIR STAFF: <b>Improve review of travel, meal and hospitality expenses</b></p> <p>We recommend that the Department of Advanced Education improve its review processes for travel, meal and hospitality expenses.</p>	<p>May 2017, no. 4, p. 56</p>	<p>READY</p>
<p>DEPARTMENT FOR-PROFIT AND COST RECOVERY VENTURES AT POST-SECONDARY INSTITUTIONS: <b>Document and communicate expectations and guidelines</b></p> <p>We recommend that the Department of Advanced Education:</p> <ul style="list-style-type: none"> <li>document its expectations in terms of desired results and risk management for institutions participating in for-profit and cost recovery ventures</li> <li>establish approved guidelines for cost recovery ventures, to support best practices and align with the department's expectations</li> <li>update and approve for-profit venture guidelines to support best practices and align with the department's expectations</li> <li>develop a process to communicate the department's expectations and guidelines to all institutions</li> </ul>	<p>October 2015, no. 1, p. 25</p>	<p>NOT READY</p>
<p>DEPARTMENT FOR-PROFIT AND COST RECOVERY VENTURES AT POST-SECONDARY INSTITUTIONS: <b>Improve department's oversight of institution's risk assessment of ventures</b></p> <p>We recommend that the Department of Advanced Education improve its oversight processes to ensure that boards of governors oversee management's assessment of the risks associated with for-profit and cost recovery ventures by:</p> <ul style="list-style-type: none"> <li>tailoring board training to examine these ventures</li> <li>maintaining relevant documentation of the institution's risk assessment and venture approval requests</li> <li>requiring the institution to comply with the department's expectations and guidelines</li> <li>requiring the institution to report on venture results on an ongoing basis</li> <li>providing effective feedback and ongoing guidance to the boards</li> </ul>	<p>October 2015, no. 2, p. 27</p>	<p>NOT READY</p>

## Post-secondary Institutions: Summary of Recommendations

Institution	More than 3 Years <sup>1</sup>	Less than 3 Years	Total	Ready / Not Ready
Alberta College of Art + Design	–	1	1	1 / 0
Athabasca University	1	–	1	1 / 0
Bow Valley College	–	–	–	0 / 0
Grande Prairie Regional College	–	–	–	0 / 0
Keyano College <sup>2</sup>	1	1	2	0 / 2
Lakeland College	–	–	–	0 / 0
Lethbridge College	–	–	–	0 / 0
MacEwan University	–	1	1	0 / 1
Medicine Hat College	–	–	–	0 / 0
Mount Royal University	–	–	–	0 / 0
NorQuest College	–	–	–	0 / 0
Northern Alberta Institute of Technology	–	–	–	0 / 0
Northern Lakes College	–	1	1	0 / 1
Olds College	–	1	1	0 / 1
Portage College	–	–	–	0 / 0
Red Deer College	–	–	–	0 / 0
Southern Alberta Institute of Technology	–	–	–	0 / 0
University of Alberta	–	–	–	0 / 0
University of Calgary	–	1	1	0 / 1
University of Lethbridge	–	–	–	0 / 0
<b>Total</b>	<b>2</b>	<b>6</b>	<b>8</b>	
Ready for Follow-up Audit <sup>3</sup>	1	1	2	
Not Ready for Follow-up Audit	1	5	6	
<b>Total</b>	<b>2</b>	<b>6</b>	<b>8</b>	

**Notes:**<sup>1</sup> Originally issued in the March 2015 and earlier reports<sup>2</sup> Includes recommendation to improve financial reporting processes<sup>3</sup> Based on management representations to August 31, 2018

	WHAT	WHEN	STATUS
Alberta College of Art + Design	<p><b>REPORT ON POST-SECONDARY INSTITUTIONS:</b>  <b>Consistently enforce purchasing procedures</b></p> <p>We recommend that the Alberta College of Art + Design enforce consistent compliance with its purchasing procedures.</p>	February 2018, p. 33	READY
Athabasca University	<p><b>POST-SECONDARY INSTITUTIONS REPORT CARD:</b>  <b>Improve procedures to monitor and report access and security violations</b></p> <p>We again recommend that Athabasca University formalize its access and security monitoring procedures to:</p> <ul style="list-style-type: none"> <li>• detect and assess security threats to critical information systems</li> <li>• report access and security violations to senior management</li> <li>• identify and resolve the root causes of security threats and violations</li> </ul>	<p>Repeated October 2016, no. 10, p. 67</p> <p>Originally reported October 2013, no. 8, p. 95.</p>	READY
Keyano College	<p><b>POST-SECONDARY INSTITUTIONS REPORT CARD:</b>  <b>Improve financial reporting processes</b></p> <p>We again recommend that Keyano College improve its financial reporting by:</p> <ul style="list-style-type: none"> <li>• training staff on Canadian Public Sector Accounting Standards</li> <li>• improving its monitoring and reviewing process to ensure that financial information is accurate</li> </ul>	<p>Repeated November 2018, Financial Statement Auditing, p. 19</p> <p>Originally reported February 2016, no. 13, p. 102</p>	NOT READY
Keyano College	<p><b>POST-SECONDARY INSTITUTIONS REPORT CARD:</b>  <b>Improve systems to ensure compliance with legislation†</b></p> <p>We again recommend that Keyano College implement systems to:</p> <ul style="list-style-type: none"> <li>• understand what legislation they must comply with</li> <li>• develop appropriate policies, procedures and controls to ensure compliance with legislation</li> <li>• monitor and report non-compliance to senior management and the audit committee</li> </ul> <p>†As a result of our assessment, we made this common recommendation to all colleges and universities as part of our original audit in February 2013, and then followed up in October 2013, February 2014, February 2016, October 2016, and May 2017.</p>	<p>Repeated November 2018, Financial Statement Auditing, p. 20</p> <p>Repeated May 2017, no. 8, p. 86</p> <p>Originally reported February 2013, no. 7, p. 60</p>	NOT READY
MacEwan University	<p><b>REPORT ON POST-SECONDARY INSTITUTIONS:</b>  <b>Strengthen controls supporting key financial and business processes</b></p> <p>We recommend that MacEwan University improve its processes for management to regularly communicate to the board of governors and its committees the adequacy and operating effectiveness of the university's internal control environment.</p>	February 2018, p. 36	NOT READY
Northern Lakes College	<p><b>REPORT ON POST-SECONDARY INSTITUTIONS:</b>  <b>Promptly remove system user access of terminated employees</b></p> <p>We recommend that Northern Lakes College consistently apply procedures to promptly remove terminated employees' system user access.</p>	February 2018, p. 37	NOT READY

	WHAT	WHEN	STATUS
Olds College	<p><b>REPORT ON POST-SECONDARY INSTITUTIONS:</b>  <b>Improve access controls to information systems</b></p> <p>We recommend that Olds College strengthen its information systems access controls, to ensure it:</p> <ul style="list-style-type: none"> <li>• promptly removes system access privileges when staff or contractors leave the college</li> <li>• discontinues the practice of leaving accounts open for email access after staff are terminated</li> </ul>	February 2016, no. 15, p. 105	NOT READY
University of Calgary	<p><b>REPORT ON POST-SECONDARY INSTITUTIONS:</b>  <b>Improve internal controls program to mitigate key financial risks</b></p> <p>We recommend that the University of Calgary improve the design and effectiveness of its internal controls program to mitigate key financial risks.</p>	November 2018, Financial Statement Auditing, p. 17	NEW