

Enterprise and Advanced Education— Post-secondary Institutions, Alberta Innovates Corporations and Alberta Enterprise Corporation

Summary

Update—Our *March 2012 Report* said that boards and audit committees must hold management accountable for implementing and maintaining effective processes and internal controls. We also issued a report card on universities' internal controls over financial reporting. This report includes the results from our March 31, 2012 financial statement audits and an update on the report card. Our next report will include the results of our audits at the colleges and technical institutions.

Athabasca University improved its processes to prepare accurate financial statements, but we make two new recommendations on enterprise risk management systems and conflicts of interest. For a University providing online learning, these new recommendations together with our five outstanding recommendations on information technology are critical to achieve its objectives cost-effectively. Thus, on the internal report card (see page 106), we concluded that Athabasca University needs to significantly improve its internal controls.

The University of Calgary considerably improved its internal control environment, and continues to implement an enterprise risk management system. It also improved its process to produce accurate financial statements. But these improvements delayed the preparation of complete and accurate financial statements.

The University of Alberta and **University of Lethbridge** continue to have effective processes to prepare accurate financial statements, and they continue to implement our recommendations.

This report is based on findings from our March 31, 2012 financial statements audits of the University of Alberta, University of Calgary, University of Lethbridge, Athabasca University, and the Alberta Innovates Corporations—Bio Solutions, Energy and Environment Solutions, Health Solutions and Technology Futures. We did not identify any recommendations for the Alberta Innovates Corporations and Alberta Enterprise Corporation.

Internal controls—a report card

To effectively govern, boards need accurate and timely financial information—throughout the year, not just at year-end. To effectively manage, 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. We evaluated the following key indicators of effective financial processes and internal controls:

- the time it took institutions to prepare complete and accurate year-end financial statements
- the quality and number of draft financial statements we received
- the number of errors our audit found
- the number and type of recommendations in our management letters and public reports

Internal controls—a report card

◆	Significant improvements needed.
▲	Improvement required, but not to the same extent as the red items. Yellow items may be associated with a management letter recommendation. They are more representative of where an institution can improve as opposed to something that requires significant, immediate attention.
●	No significant weaknesses found in the control environment.

Institution	Financial statement preparation		Outstanding recommendations
	Accuracy*	Timeliness	
Athabasca University 2012	●	●	◆
2011	▲	●	▲
University of Alberta 2012	●	●	▲
2011	●	●	▲
University of Calgary 2012	●	▲	▲
2011	▲	●	◆
University of Lethbridge 2012	●	●	●
2011	●	●	●

* We issued unqualified audit opinions on the financial statements of all 4 universities. Accuracy refers to the completeness and accuracy of the draft financial statements that management gives us at the start of the audit. An institution could have a yellow or red ranking, yet still receive an unqualified opinion as errors and disclosure deficiencies can be corrected in the audit process. The number of errors and disclosures deficiencies we find in the draft financial statements (which management needs to correct) indicates how effective financial controls are to prepare accurate financial statements.

Recommendations to individual institutions

Athabasca University

Summary

Athabasca University should:

- implement effective risk management systems
- implement a process for staff to annually disclose potential conflicts of interest in writing so the University can manage them proactively

The University has implemented our *October 2009 Report* (page 162) recommendation to improve its information technology control framework by formalizing its IT risk and control framework.

Enterprise risk management

Background

Boards are responsible for overseeing an institution's risk management systems. Often, the board's audit committee plays a role in providing the oversight. To do so, the board must assess and monitor management's processes that identify and manage the institution's risks. Senior management is responsible to implement effective risk management systems and report to the board on the institution's key risks and mitigating strategies. Risks are generally categorized as strategic, financial, operational, reporting, compliance and reputational risks.

Recommendation: Implement enterprise risk management systems

18 RECOMMENDATION

We recommend that Athabasca University implement an effective risk management system.

Criteria: the standards we used for our audit

The board should clearly identify whether the entire board or a specific board committee is responsible for enterprise risk management.

Management should:

- clearly define roles and responsibilities for risk management
- implement processes to identify and assess the risks associated with achieving the entity's objectives
- implement programs or procedures to manage the risks
- monitor and evaluate risks and the programs or procedures to manage them
- report the risks and actions to senior management and the board

Our audit findings

Key findings

The University:

- has approved a risk management framework
- does not continuously identify, rank, manage and report on enterprise risk in a systematic way

The University's Audit Committee's terms of reference include oversight of risk management by assessing the effectiveness of management's systems to identify, understand, monitor and control major risk exposures affecting the University. The terms of reference also state the Audit Committee must ensure management uses appropriate certification processes to regularly verify compliance with key risk management policies. The University has several processes such as strategic planning, review and approval for new programs and degrees, and processes for information technology risk assessment where risks are identified and managed.

The University developed and approved a risk management framework in May 2012. The framework requires management to define risks and rank their likelihood and impact. It also requires management to identify strategies for managing high-level risk, and decide who is accountable for managing those risks.

The University has not implemented the underlying structures and processes needed to apply the framework throughout the University and to ensure its enterprise risk management systems operate throughout the year. Nor has it integrated its IT risk management systems with its enterprise risk management systems. This includes:

- establishing risk management governance, including clear roles and responsibilities for risk management through the entire University
- defining risk tolerance levels that the University is willing to take, and communicating this to staff—In defining risk tolerance, the University should also consider incorporating not just risk management, but also identifying opportunities for improvements to programs, policies and processes.
- implementing processes to identify and regularly update risks associated with achieving the University's objectives
- monitoring and evaluating risks and the programs or procedures to manage them

- setting measures and targets for risk mitigation strategies
- regularly reporting the risks and actions to senior management and the board—The University can use the measures and targets to determine if it needs to change the mitigation strategies.

Implications and risks if recommendation not implemented

Athabasca University may not identify and manage risk efficiently and effectively, and the board and its audit committee might not effectively oversee the University's risk management systems.

Conflict of interest policies

Background

A conflict of interest policy defines and clearly sets out an organization's expectation that employees disclose and avoid potential conflicts of interest. It also provides guidance to employees for identifying possible conflicts of interest. The University has a policy that defines possible conflicts and requires staff to declare those conflicts to the president when they arise.

Recommendation: Improve conflict of interest procedures

19 RECOMMENDATION

We recommend that Athabasca University update its policy and procedures, and implement a process for staff to annually disclose potential conflicts of interest in writing so the University can manage the conflicts proactively.

Criteria: the standards we used for our audit

The University should have effective policies and processes to manage conflicts of interest. These policies should define acceptable business practices and standards of behaviour to guide employees and influence the tone of its control environment.

Our audit findings

Key findings

- Conflict of interest policy exists but is outdated.
- Staff required to raise potential conflicts when they arise, but the University has no procedures on how and who should manage declared conflicts.
- Staff not required to annually declare potential conflicts to allow proactive management of conflicts.

The University developed its conflict of interest policy in 1999 and updated it in 2001. It requires employees to disclose any conflicts of interest, real or perceived, in writing to the president. However, it does not reflect the University's current business practices as staff may also declare conflicts of interest during meetings where certain decisions are made. The University also does not have clear procedures on how and who will manage potential conflicts of interest. For example, some situations may arise where a conflict exists, but can be managed with appropriate monitoring and reporting. The policy also does not require employees to declare annually and in writing any potential conflicts of interest. Although continuous disclosure is still essential, annual declarations would allow the University to recognize potential conflicts of interest and manage them proactively and appropriately. For example, some Alberta post-secondary institutions require staff who are authorized to sign contracts, buy goods and services, or who have signing authority over budget funds, to annually

declare their own and their immediate family members' interest or position in a company that is a proprietorship, partnership or corporation. This allows the University to proactively manage real or perceived conflicts of interest.

Implications and risks if recommendation not implemented

The University may be unable to properly manage the financial, business and legal risks of real or perceived conflicts of interest.

Information technology resumption plan—progress report

Background

In our *October 2010 Report* (No. 10, page 11), we recommended that Athabasca University improve its information technology resumption “system recovery” planning and capability. In 2010, the University performed a risk assessment on its IT resumption capability. The assessment confirmed the University would not be able to recover its critical student IT services from a catastrophic failure at their data centre in Athabasca. In 2011, the University initiated a project to update its recovery plans and capabilities.

Management's actions

Athabasca University has not established a disaster recovery plan and capability for its main data centre. The University deferred the disaster recovery project by directing the required funding and IT resources for an offsite recovery facility to the new Administrative Systems Renewal Project.

To mitigate some of the risks for this delay, the University:

- improved its current systems to strengthen system availability and capacity—The University has improved its network to provide redundant services and improved systems monitoring, and has installed a new high capacity UPS (uninterrupted power supply) service. It is also installing desktop virtualization to enhance backup and recovery services.
- planned to reduce its dependency on internal systems through the use of external systems providers
- continued to plan and negotiate with SAIT to provide a second data centre site for its core systems
- entered into a consortium with several other Alberta institutions to evaluate alternatives to hosting core IT services

The University continues to evaluate alternatives to establishing a system recovery capability and is trying to improve the stability of its systems. However, the risk of not being able to recover from a catastrophic failure at its data centre in Athabasca remains high until this recommendation is implemented.

Implications and risks if recommendation not implemented

Without a functional disaster recovery plan, facilities and equipment, the University may not be able to systematically recover data or resume critical business and student services within required timeframes.

IT risk and control framework

Our audit findings

Athabasca University has implemented our *October 2009 Report* (page 162) recommendation to improve its information technology control framework by formalizing its IT risk and control framework. The University updated its risk assessment details and framework documentation using the CoBIT¹ control procedure references as mitigations for high-risk areas such as IT security, change management and user access.

The IT control framework has four main documents:

- risk framework project report—provides details on IT and business scope for assessment, assessment process and business area participants, initial assessment results and risk mitigation details
- risk assessment report—defines assessment methodology, sets risk priority and reports revised risk assessment results, residual risks and additional mitigations, accountabilities and links to the University's business plan
- risk registry—summarizes risk assessment results and includes CoBIT control objective and procedure references
- IT policies and control procedures—designed and implemented for high-risk IT services at the University, following CoBIT controls standards

The University continues to participate in the sector-wide information technology management control framework project sponsored by the Department of Enterprise and Advanced Education and the Alberta Association in Higher Education for Information Technology. It will consider any further guidance to further enhance and improve IT controls through its internal information technology management project.

University of Alberta Summary

The University of Alberta should improve its bookstore inventory policies and processes to identify obsolete inventory and regularly review cost of goods it holds in inventory.

Bookstore controls and inventory management

Background

The University of Alberta is responsible for buying, selling, managing inventories and keeping records at its bookstores. The University has several bookstores on and off campus. The bookstores generate revenues of \$25 million annually.

Recommendation: Improve controls over bookstore inventory

20 RECOMMENDATION

We recommend that the University of Alberta:

- improve its controls to value the bookstore's inventory
- develop policies and processes to identify obsolete inventory in its bookstores and in storage
- develop processes to regularly review the cost of goods it holds in inventory

Criteria: the standards we used for our audit

The University should have effective processes for managing bookstore sales, purchases and inventory.

¹ CoBIT – Control objectives for information and related technology framework,—provided by the ISACA (information system audit and control association).

Our audit findings

Key findings

University wrote off \$8.8 million of inventory because:

- its computer system had incorrect costs for inventory items
- management had not previously identified obsolete inventory

During their annual inventory count in 2012, bookstore management identified that their records overvalued the bookstores' inventory by \$8.8 million, for two reasons:

- The inventory records listed incorrect costs for some items. This resulted from ineffective processes to identify incorrect coding of adjustments in the system and from invoice entry processes not being followed. The errors had been accumulating for a number of years.
- The University had not written off obsolete inventory in prior years. The University does not have effective processes to identify obsolete inventory in its bookstores or at their offsite storage location.

The University's internal auditor also issued a report in February 2012, highlighting control improvements needed to manage its inventory.

Implications and risks if recommendation not implemented

Ineffective processes and controls over inventory could result in undetected fraud and error in the bookstore's operations, as well as missing refunds for returning books to suppliers. Also, inaccurate inventory data and valuations could lead to ineffective oversight and management of the bookstore.

University of Calgary Summary

We identified one new internal control matter at the University during our current year's audit, related to timely termination of users' access privileges.

The University of Calgary has implemented the following recommendations from prior years' audits to improve:

- the University's control environment
- policies on costs for hosting guests and staff working sessions
- the employee expense claims process
- processes to comply with legislation

Timely termination of users' access privileges

Background

The University uses the PeopleSoft computer system to manage everything from student registrations to finances. This system has an automated process to remove employees' and contractors' computer access when they leave their jobs at the University. When the human resources department enters a person's termination date into the system, it automatically removes their user rights within PeopleSoft.

However, the system will automatically remove only those user rights that it assigned in the first place. Any roles that were added manually to a user's profile must also be removed manually. This includes any roles that would have been assigned before the University implemented an identity and access management application. Information Technology staff must also manually disable a user's access to the University's finance and supply chain management application. The user's profile in the human resources module stays active, by design, until the University has manually removed all access rights.

The University's active directory system uses light directory access protocol to authenticate users to University systems, including the PeopleSoft application. This protocol is configured to disable employee accounts 45 days after human resources staff enter the termination record in PeopleSoft.

Recommendation: Remove users' access privileges promptly

21 RECOMMENDATION

We recommend that the University of Calgary:

- define an acceptable timeframe to disable or remove users from the application and the network
- document, communicate and consistently follow a process to deactivate users from the University's information technology systems within the defined timeframe

Criteria: the standards for our audit

The University should have effective controls to ensure that:

- terminations and removal of access are completed within a reasonable timeframe
- the formal process to deactivate users from the University's information technology systems is documented, communicated and consistently followed

Our audit findings

Key findings

- The acceptable timeframe to deactivate users from the University's information technology systems is not documented and communicated.
- Some staff who left the university still had access to the network and the Peoplesoft system for seven days or more.

We found that the University had a process in place to deactivate users from the University's information technology systems. However, the University did not document and communicate an acceptable timeframe for deactivating users. As a result, we found that supervisors of staff who have left the University did not notify the human resources and information technology departments promptly to allow them to remove users from PeopleSoft and the University's network. Based on our sample of users who left the university, we found users who still had access to the system, while access for other users was removed seven or more days after termination. These users had access levels that allowed them to update or change information and to process transactions.

Implications and risks if recommendation not implemented

Unauthorized people may gain access to the University's systems or make changes to sensitive information or restricted transactions.

Improving the University's control environment—implemented

Our audit findings

The University of Calgary implemented our *October 2008 Report* (No. 21, page 213) recommendation to improve the effectiveness of its control environment. The University initiated the IS² project, which focused on implementing new accountabilities, authorities, processes and policies enabled by automated workflows, system controls and improved access to information. The University completed the main phases of this project in August 2011. Through this project, the University:

- assessed whether the current mix of centralized and decentralized controls is appropriate to meet its business needs—The University implemented an integrated service delivery team to provide more consistent ways of delivering human resources, information technologies and finance services across the University. The University also redesigned research responsibilities and controls, and improved its financial processes.

- defined clear goals, responsibilities and accountabilities for controls systems design, implementation and monitoring—During 2011, the University's Board of Governors approved the authority and accountability framework. This year, the University completed the delegation of authority policy and related matrices and communicated it to all PeopleSoft users. In addition, the University integrated this authority and accountability framework into the PeopleSoft system to require online approvals according to the framework. We did not identify any deficiencies in our review.
- documented its control environment and business processes and implemented training programs to ensure those responsible for business processes have adequate knowledge to perform their duties—It also developed online interactive simulations of the University's business processes that allow staff to determine how to perform the business processes through PeopleSoft.

The University is developing a plan to monitor controls to ensure processes in the central and decentralized areas operate effectively throughout the year. The University is still implementing monitoring controls. However, we consider the recommendation implemented as the University improved its overall control environment. We will review the University's monitoring controls in future audits to ensure they are well designed and operating effectively.

Policies on costs for hosting guests and staff working sessions—implemented

Our audit findings

The University of Calgary implemented our *April 2010 Report* (page 166) recommendation to introduce policies and guidance on appropriate expenses for events related to hosting guests and staff working sessions. The University implemented a new policy for hospitality and travel expenses. This policy is posted on the University website and has been implemented effective January 1, 2011.

The new policy provides specific guidance on hosting people external to the University, as well as for board meetings and internal working sessions. Moreover, the new policy provides specific guidance on allowable expenses, including the purchase of alcohol, and sets approval guidelines, claim submission guidelines and penalties for non-compliance. We tested the operating effectiveness relating to the key controls for the policy and noted no significant deficiencies in our sample.

Expense claims Improving employee expense claims process—implemented

Our audit findings

The University of Calgary implemented our *April 2010 Report* (page 166) recommendation to follow its policies and processes for employee expense claims and corporate credit cards. The University implemented a new hospitality and travel expenses policy along with detailed procedures to provide guidance on processing employee expense claims in 2011.

The new policy and procedures provide specific guidance on allowable employee expenses and sets approval guidelines and claim submission guidelines, including the requirement to submit itemized receipts. Furthermore, penalties for non-compliance are outlined within the new policy. We tested the operating effectiveness relating to the key controls for the hospitality and travel expenses policy and related procedures and noted no significant deficiencies in our sample.

The University also implemented a post-pay audit process in December 2011 to ensure compliance with the policies and procedures. This process identified that the supply chain management department did not receive supporting documentation for approximately one-third of the employee expense claims sampled for the period July to October 2011. In April 2012, the University's internal audit department made several recommendations to improve the post-pay audit process, such as timely identification, escalation, reporting and consequences of non-compliance with policies and procedures. We consider the University to have implemented our recommendation, as it has processes to monitor compliance with its policies and procedures.

Improving processes to comply with legislation

Our audit findings

The University of Calgary implemented our *April 2010 Report* (page 169) recommendation to improve its processes to comply with the legislative requirements for issuing gifts and awards to staff, and to implement clear policies and procedures for sponsoring events and making donations. The University implemented a new policy for gifts, donations and sponsorship. It sets specific guidelines on when providing gifts, making donations and sponsoring events are allowed, and has approval and expensing procedures and penalties for non-compliance. This policy is posted on the University website and has been implemented effective January 1, 2011.

The new policy refers to tax implications for the employee receiving the gift, including a direct link to relevant guidance by Canada Revenue Agency. Moreover, the policy includes specific prohibitions against political contributions and donations to non-registered charitable organizations. We tested the operating effectiveness relating to the key controls for the policy and noted no significant deficiencies in our sample.

University of Lethbridge Summary

The University of Lethbridge implemented our recommendation to improve its endowment policies.

Improve endowment policy—implemented

Our audit findings

The University of Lethbridge implemented our *October 2010 Report* (page 118) recommendation to improve its endowment policy and procedures. Last year, the Board of Governors approved a revised endowment management policy, which stated that any unspent investment earnings would be permanently recapitalized to the endowment principal. Further, if investment income did not cover the spending allocation, the University would encroach on the endowment principal with the expectation that the University would recover such amounts from future capitalized investment earnings. The Board also approved a motion to permanently endow the internally restricted endowments.

The University also implemented a process to regularly monitor the endowment growth against an inflation target to ensure that the real value of the endowment was preserved. We noted that management prepared a quarterly analysis for the Finance Committee and the Board that compared the endowment growth against the University's inflation target of the consumer price index. We have verified and reviewed these reports and are satisfied that the University has improved its endowment policies and procedures.