Enterprise and Advanced Education— Report on Post-secondary Institutions

SUMMARY

We continue our theme from previous reports, that boards and audit committees of Alberta's post-secondary institutions must hold management accountable for implementing and maintaining effective processes and internal controls. We make recommendations to Alberta's colleges, technical institutes, and Grant MacEwan and Mount Royal universities.[1] We also include a report card on their internal controls over financial reporting. Following are highlights from our work. This report does not include the University of Alberta, University of Calgary, University of Lethbridge or Athabasca University.

Grant MacEwan University significantly improved its internal controls through several initiatives. The University implemented financial reporting processes to close its financial records every month. After every month-end, the University made further improvements, which resulted in accurate and timely financial statements at year-end. The University also defined roles and responsibilities, trained staff and continues to resolve outstanding deficiencies in its enterprise resource planning system. It also implemented two of our prior years' recommendations. These improvements produced a better overall report card.

Lakeland College, Lethbridge College and Portage College improved their internal controls over financial reporting, which resulted in better overall report cards.

Alberta College of Art + Design, NorQuest College, Northern Lakes College and Olds College still need to significantly improve their processes and internal control environments. In the individual sections that follow, we explain the outstanding problems as well as new ones we found. A list of outstanding recommendations, in our *October 2012 Report* (pages 159–183), includes other recommendations these institutions have not yet implemented. Many of our recommendations relate to basic internal controls in areas such as financial reporting and risk management. The Minister should continue to hold boards accountable, who in turn must hold management accountable to implement effective internal controls.

Internal controls—a report card

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 the ability to prepare quality financial information throughout the year and a strong year-end process to prepare financial statements.

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

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[1] Based on our June 30, 2012 financial statement audits, we issued unqualified audit opinions on the financial statements of these entities, with the exception of Northern Lakes College which we have not yet completed.

- 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

Following are the results from this year's assessment, together with comparative assessments from 2011. An institution could have a yellow or red ranking, yet still receive an unqualified audit opinion, 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.

◆   Significant improvements are needed.
▲   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		Outstanding recommendations	Page reference
	Accuracy	Timeliness		
Northern Lakes College 2012 2011	n/a[2] ◆(red)	◆(red) ◆(red)	◆(red) ◆(red)	91
Alberta College of Art + Design 2012 2011	◆(red) ◆(red)	▲(yellow) ◆(red)	◆(red) ◆(red)	61
NorQuest College 2012 2011	◆(red) ◆(red)	▲(yellow) ◆(red)	◆(red) ◆(red)	83
Olds College 2012 2011	◆(red) ◆(red)	●(green) ▲(yellow)	◆(red) ◆(red)	94
Mount Royal University 2012 2011	▲(yellow) ▲(yellow)	▲(yellow) ▲(yellow)	▲(yellow) ●(green)	82
Keyano College 2012 2011	●(green) ●(green)	▲(yellow) ▲(yellow)	▲(yellow) ▲(yellow)	78
Bow Valley College 2012 2011	▲(yellow) ●(green)	●(green) ▲(yellow)	●(green) ●(green)	71

[2] We have not completed the 2011 and 2012 financial statement audits.

Institution	Financial statements preparation		Outstanding recommendations	Page reference
	Accuracy	Timeliness		
Grant MacEwan University 2012 2011	● ◆	● ◆	▲ ◆	72
Lethbridge College 2012 2011	● ▲	● ▲	▲ ●	80
Medicine Hat College 2012 2011	● ●	● ●	▲ ▲	81
Portage College 2012 2011	● ▲	● ▲	▲ ▲	97
Red Deer College 2012 2011	● ●	● ▲	▲ ●	99
Grande Prairie Regional College 2012 2011	● ●	● ●	● ●	71
Lakeland College 2012 2011	● ▲	● ▲	● ●	80
Northern Alberta Institute of Technology 2012 2011	● ●	● ●	● ●	91
Southern Alberta Institute of Technology 2012 2011	● ●	● ●	● ●	101

CROSS-INSTITUTION RECOMMENDATIONS

Systems to ensure compliance with legislation

Background

Post-secondary institutions must follow a wide range of federal and provincial laws, such as the *Post-secondary Learning Act*,[3] the federal *Income Tax Act*,[4] *Occupational Health and Safety Act*[5] and the *Controlled Goods Regulations*.[6] Some laws also affect academic and

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[3] http://www.qp.alberta.ca/1266.cfm?page=p19p5.cfm&leg_type=Acts&isbncln=9780779757435
[4] http://laws-lois.justice.gc.ca/PDF/I-3.3.pdf
[5] http://www.qp.alberta.ca/1266.cfm?page=O02.cfm&leg_type=Acts&isbncln=9780779756148
[6] http://laws-lois.justice.gc.ca/eng/regulations/SOR-2001-32/page-1.html

student services. 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.

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.

Previously, we have seen several legislative compliance problems in the sector, such as lack of policies restricting political contributions and a lack of required disclosure in institutions' financial statements (under the *Charitable Fundraising Regulation*[7]*).* That is why we decided to assess whether institutions have effective systems to identify applicable legislation, implement policies, processes and controls to ensure compliance with legislation and report to their boards.

As a result of our assessment, we made the following common recommendation to each of Alberta College of Art + Design, Bow Valley College, Grant MacEwan University, Keyano College, Lakeland College, Lethbridge College, Medicine Hat College, Mount Royal University, NAIT, Olds College, Portage College, Red Deer College and SAIT. We also made a similar recommendation to NorQuest College, except that its board already receives a report on compliance with legislation.

RECOMMENDATION 7: IMPROVE SYSTEMS TO ENSURE COMPLIANCE WITH LEGISLATION

We recommend that the post-secondary institutions[8] implement systems to:
- understand what legislation they must comply with
- develop appropriate policies, procedures and controls to ensure compliance with legislation
- monitor and report non-compliance to senior management and board audit committees

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Criteria: the standards for our audit

Institutions should have effective systems to:
- understand what legislation applies to their institution
- develop appropriate policies, procedures and controls, to ensure the institution complies with legislation
- monitor compliance and report non-compliance to senior management and the board's audit committee

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[7] http://www.qp.alberta.ca/1266.cfm?page=2000_108.cfm&leg_type=Regs&isbncln=9780779739103

[8] This does not include the University of Alberta, University of Calgary, University of Lethbridge, Athabasca University, Grande Prairie Regional College and Northern Lakes College.

KEY FINDINGS

- Boards generally do not receive reports on institutions' compliance with legislation.
- Institutions rely on managers in departments and business units to identify applicable legislation and ensure they comply with it.
- There is no overall report across the institution to report compliance.

NorQuest College's board receives reports on compliance with some, but not all, legislation the College must comply with. Most boards are limited in their ability to fulfill their oversight responsibilities to ensure compliance, because they do not receive the right reports from management. Most institutions rely on individual departments and business units to identify the legislation that applies to them and to ensure they comply with it.

Most institutions do not monitor or periodically report on legislative compliance to their boards and audit committees. Reports should be based on department managers' consideration of key federal, provincial and municipal laws and regulations that their area is primarily responsible for. Reports should summarize:

- the institution's compliance with legislation
- processes to prevent or mitigate the risk of non-compliance
- results of third-party inspections or government audits
- any risk or legislation that the board and audit committee should be made aware of

Implications and risks if recommendation not implemented

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

INDIVIDUAL INSTITUTION FINDINGS AND RECOMMENDATIONS

ALBERTA COLLEGE OF ART + DESIGN

Summary

In our *March 2012 Report* (page 18), we reported that Alberta College of Art + Design could not show that it has an effective control environment. Our report highlighted the need for management and the board to make effective controls a priority. Well-designed and effective internal controls are critical for ACAD to meet its goals, protect its assets, reduce the risk of fraud and error, and produce reliable financial information.

ACAD has made some progress implementing our recommendations. Its board asked management to commit to an implementation plan. But our routine audits at ACAD continue to find control deficiencies. In this report, we make seven new recommendations to ACAD. We also found three significant accounting errors, which in total would have resulted in ACAD's financial statements being materially misstated if the errors were not corrected. ACAD will not be able to run its operations cost-effectively or produce accurate and complete financial statements until it assesses its control environment and fixes the systemic control deficiencies.

This year, we recommend that ACAD:
- improve systems to ensure compliance with legislation—see page 60
- improve internal controls at its bookstore—see page 62
- improve contracting processes—see page 63
- implement a disaster recovery plan—see page 65
- strengthen controls over procurement card transactions—see page 66
- implement proper purchase controls—see page 67
- implement a change management policy and controls—see page 68

ACAD made satisfactory progress implementing our prior recommendations to improve:
- financial reporting and year-end processes—see page 69
- code of conduct, conflict of interest and fraud procedures—see page 70

ACAD implemented the following recommendations:
- preserve endowment assets—see page 70
- review and approve journal entries—see page 70
- improve controls over vendor master file set-up and maintenance—see page 71
- strengthen information technology internal controls for computer access and server backups, and computer use policy—see page 71

Bookstore internal controls

Background

ACAD's bookstore buys, sells and maintains an inventory of art supplies and textbooks. The inventory consists of many small, relatively low cost items. Most inventory is held in a warehouse not accessible to students. The director of facility and ancillary services manages the bookstore. ACAD records bookstore inventory balances in its financial statements.

RECOMMENDATION 8: IMPROVE INTERNAL CONTROLS AT THE BOOKSTORE

We recommend that Alberta College of Art + Design improve its internal control systems for its bookstore operations by:
- properly segregating incompatible job duties
- improving its inventory count procedures and investigating discrepancies between inventory counts and inventory records
- resolving software deficiencies in its inventory management computer application

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Criteria: the standards for our audit

ACAD should have effective internal controls systems at its bookstore. Specifically, it should:
- properly segregate responsibilities of employees, to avoid potential for undetected fraud or error
- apply basic procedures, including independent verification of counts, to accurately and completely account for inventory
- use operating software that provides reliable management information

KEY FINDINGS

- Duties of the director of facility and ancillary services are not properly segregated.
- Finance is not involved in independent counts of bookstore inventory.
- Inventory software has deficiencies.
- Management could not explain year-end inventory adjustments.

A range of internal control issues impair the bookstore's operations.

Segregation of duties is inadequate. A key feature of internal control is that no single transaction or chain of transactions should be in the hands of one person. Effective internal control practices include segregation of duties, proper authorization and procedural checks. The director of facility and ancillary services is the custodian of inventory and operates the software application. The director can also authorize a transaction (purchase or sale), process the transaction, perform reconciliations, and approve write-offs for discrepancies between the counts and the balances in the inventory system.

The bookstore performs annual inventory counts to confirm the reliability of balances in its inventory system and the amounts reported in ACAD's year-end financial statements. But there are no independent checks on the reliability of counts and costing of inventory at the bookstore. We attended the inventory counts and observed that finance staff do not perform independent inventory test counts and are not involved in the bookstore's annual inventory count process. Our independent spot checking of inventory quantities and costs found discrepancies in the values (quantities and costs) reported, compared to counts of the bookstore staff.

Year-end adjustments are made in the general ledger for differences between inventory count balances and those reported in the software application. Management could not explain the differences, nor does any documentation show how management investigated the discrepancies and identified the root causes. The tracking system for bookstore inventory has many limitations. For example, management is not able to print key reports, such as exception reports and count sheets, for its inventory process. Because the reports are not readily available, management cannot provide an audit trail to explain adjustments or changes made to its inventory records during the year. Bookstore management has limited functional knowledge of the software and was unable to confirm if it was operating reliably. Lastly, the software had not been properly tested and assessed to ensure that it meets ACAD's business needs.

Implications and risks if recommendation not implemented

Without good controls over inventory counts, reliable software and investigative processes for differences in inventory counts, the risk of undetected fraud and error increases and ACAD may misstate inventory balances in its financial statements.

Contracting processes

Background

ACAD departments routinely sign contracts with third parties for supplies and services. Basic contract management includes monitoring contracts to maximize financial and operational performance, minimize risks and ensure value for money. Typically,

organizations manage risk with proper contract procedures and oversight processes, including adequate legal reviews.

ACAD's signing authority procedure delegates signing authority for contracts to various College officers. Its policy imposes authority limits based on the value of the contract.

RECOMMENDATION 9: IMPROVE CONTROLS OVER CONTRACTS

We recommend that Alberta College of Art + Design improve controls over contracts by:
- developing, documenting and enforcing contract procedures
- standardizing contracts with templates that ACAD's legal counsel approves
- developing systems to track and monitor all contracts prepared by all its departments

Criteria: the standards for our audit

ACAD should have effective controls over contracts, including:
- well-defined contract procedures, including approval procedures
- uniform contract templates approved by legal counsel
- centralized systems to track and monitor contracts

KEY FINDINGS

- ACAD has no formal procedures to sign, track or monitor contracts.
- It does not use contract templates approved by legal counsel.
- Management lacks complete information on contracts because each department signs its own contracts and keeps them on site—there's no central tracking system.
- Contracts are not monitored to ensure that terms are followed and proper approvals by the appropriate signing authorities are in place.

ACAD lacks formally documented procedures to guide departments on entering into contracts. It also lacks contract templates vetted by its legal counsel to guide departments on acceptable and required terms and conditions that should be reflected in all contracts. So it is exposed to all the risks that poor contracts entail.

Each department prepares its own contracts. There is no system to inform finance of the number and value of contracts ACAD has signed. ACAD does not maintain an inventory of contracts and there is no formal process to track and monitor contracts. Contracts are not independently verified to ensure they have been through the proper approval process in accordance with ACAD's procedures.

ACAD's finance department is not aware of a contract until accounts payable receives a purchase requisition or an invoice. Because contracts are kept in various locations, the finance department cannot assess contractual obligations when it prepares financial information for management and the board.

Implications and risks if recommendation not implemented

Without effective systems to manage contracts:

- ACAD risks incurring obligations without proper contract approvals and entering into contracts that do not offer value for money
- management may not completely understand ACAD's commitments—In addition, this limitation can impair management's ability to adequately manage its budget. ACAD's financial statements may be unreliable if the finance department is unaware of contractual obligations.

Disaster recovery plan

Background

Disaster recovery planning is the part of business continuity planning that focuses on making sure an organization can quickly resume using its computing systems after a disaster occurs. A business continuity plan includes non-IT topics, such as key personnel, facilities, crisis communication and reputation protection. It should also include a disaster recovery plan for IT-related infrastructure recovery and continuity. Disaster recovery relies on policies, processes and controls to ensure an organization can recover important systems, and their data, when needed.

A well-designed and regularly tested DRP can help ensure, and show, that an organization can recover important systems and data when needed, within an agreed to period of time.

RECOMMENDATION 10: IMPLEMENT A DISASTER RECOVERY PLAN

We recommend that Alberta College of Art + Design implement and test a disaster recovery plan.

Criteria: the standards we used for our audit

ACAD should have:

- an up-to-date and approved DRP, based on risk assessment and business requirements, that supports its business continuity plan
- effective plans to test the DRP regularly
- effective procedures to assess the adequacy of the DRP and resolve any problems with it

KEY FINDING

ACAD has not implemented a disaster recovery plan.

ACAD does not have a plan to resume its computer systems in a disaster (caused by nature or humans). So it cannot show that it can reduce the impact of a major disruption on key business functions and processes.

Although ACAD implemented our prior recommendation for backup and recovery processes, it does not have a defined IT continuity or DRP to ensure that it can restore systems and data within a business continuity plan. Thus, ACAD does not know and cannot show:

- which critical systems and applications need to be restored first
- what timeframe these systems and applications need to be restored in
- whether it can restore needed systems and data within set timeframes after a disaster

Implications and risks if recommendation not implemented

If ACAD cannot show it can recover its systems and data, it risks being unable to resume critical business functions and to provide services to students and staff within set timeframes.

Controls over procurement card transactions

Background

ACAD issues procurement cards to some employees to purchase supplies and services for ACAD and for business travel. Last year, we noted that management established guidelines that specify cardholder responsibilities and procedures. Cardholders must provide the finance department with a reconciliation of statements by a specified date. The reconciliation must include:

- expenses incurred, with supporting receipts
- explanations of each expense
- business purpose

RECOMMENDATION 11: STRENGTHEN CONTROLS OVER PROCUREMENT CARD TRANSACTIONS

We recommend that Alberta College of Art + Design strengthen its processes over the authorization, review and approval of procurement card transactions.

Criteria: the standards for our audit

ACAD should:

- establish acceptable practices for using procurement cards, and procedures for authorizing, approving and accounting for purchases made with procurement cards
- ensure that a person independent of the cardholder does a documented review and approval of procurement card transactions

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KEY FINDINGS

- Several expenses had no backup or explanation of what was purchased or the business purpose.
- Reconciliations were submitted late, but procurement card privileges were not suspended, contrary to procurement card procedure.

ACAD established, and communicated to staff:
- guidelines that specify cardholders' responsibilities
- procedures for obtaining a procurement card
- spending limits
- procedures for reviewing and reconciling statements

Enforcement practices were deficient. We found examples where management did not enforce these guidelines and where controls were ineffective and inconsistent. Examples of deviations identified by our audit include:
- A cardholder submitted reconciliations late, but procurement card privileges were not suspended, contrary to ACAD's procurement card procedure.
- Receipts were not provided for some expense items. Some items also lacked any explanation of what was purchased or its business purpose.
- In some instances, receipts were provided with no explanation of what was purchased or the business purpose.

Implications and risks if recommendation not implemented

Without strong management controls over the enforcement of the procurement card guidelines, ACAD risks inappropriate or unauthorized spending with procurement cards.

Purchase requisitions

Background

In our 2009 management letter, we recommended that ACAD ensure purchases are appropriately supported by purchase requisitions and purchase orders, in accordance with its policies and procedures. Management started a program to educate staff to prepare purchase requisitions promptly and not order goods and services before obtaining an approved purchase requisition and purchase order. Last year, we found that management had made significant progress to ensure compliance with the purchasing policy.

We make this recommendation because we continue to find an increased number of compliance issues when compared to the prior year.

RECOMMENDATION 12: IMPLEMENT PROPER PURCHASE CONTROLS

We recommend that Alberta College of Art + Design ensure purchases are appropriately supported by purchase requisitions and purchase orders, in accordance with its policies and procedures.

Criteria: the standards for our audit

ACAD should have effective controls to ensure that staff support purchases with authorized purchase requisitions and purchase orders, in accordance with the purchasing procedure.

KEY FINDINGS

- Purchase orders were issued after the invoices had been received for payment.
- Purchase requisition dates were after the purchase order dates.

There were many instances of non-compliance with ACAD's procedures for the transactions we tested. We again found that internal controls over purchase approvals were deficient. ACAD staff can still make purchases without prior approval of a purchase requisition and a purchase order—in contravention of the purchasing procedure.

We tested purchase transactions in our interim and year-end audits and found the following control deficiencies:
- Purchase orders were dated after the invoice date, so purchases were made before they were approved.
- Purchase requisitions were dated after the purchase order date. Purchase orders were issued before management approved the purchase requisition.

Implications and risks if recommendation not implemented

If ACAD does not have controls to make sure that staff comply with its purchasing procedure, ACAD may pay for inappropriate expenses.

Information systems change management policy and controls

Background

In our 2007 management letter, we recommended that ACAD develop and implement a comprehensive change management policy and effective control processes. We further recommended that it obtain assurance from the Southern Alberta Institute of Technology that changes to Banner, an application hosted by SAIT and that affect ACAD's student information, follow an appropriate change management process.

We make this recommendation because ACAD cannot show that it fully implemented its change procedures, or that changes to all systems and applications affecting student information and financial reporting are made in a structured way.

RECOMMENDATION 13: IMPLEMENT A CHANGE MANAGEMENT POLICY AND CONTROLS

We recommend that Alberta College of Art + Design:
- implement its change management policy and control processes for all its IT assets
- obtain assurance that changes to the Banner application affecting its student information follow an appropriate change management process

Criteria: the standards for our audit

ACAD should:
- have a documented, comprehensive and effective change management process
- ensure its change management process includes well-designed IT controls that ensure all changes to systems and applications hosting financial and student information comply with the change management process

KEY FINDING

ACAD has not implemented its change management policy and control processes.

ACAD has not implemented its approved change management procedures and standards. It could not provide comprehensive information about changes in its computing environment

during the audit. So, we could not tell if change management procedures and standards (such as approval, testing and segregation of duties) were consistently followed and operating effectively. In addition, ACAD could not show that changes to its Banner application hosted by SAIT met ACAD's change management standards.

ACAD must:
- show that its change management procedures are followed and changes are not made outside the procedures
- ensure service providers cannot access or change systems and applications outside of the change management procedures

Implications and risks if recommendation not implemented

ACAD cannot rely on the completeness, accuracy, availability or validity of its financial or student information. This information may be used or disclosed in a way that leads to fraud, loss of money and loss of reputation.

Financial reporting and year-end processes—satisfactory progress

Background

In our *April 2008 Report* (page 180), we recommended that ACAD improve its processes and controls to increase the accuracy and efficiency of its financial reporting. We repeated this recommendation in our *April 2010 Report* (page 160), because ACAD had not provided balanced financial statements and adequate working papers for the audit team to complete the audit within our timelines.

In 2011, ACAD experienced staffing and resource challenges and was again unable to produce accurate and timely financial statements.

Our audit findings

ACAD has taken significant steps to improve its year-end financial reporting processes. Management followed a comprehensive year-end plan to prepare account reconciliations, financial statements, note disclosures and supporting working papers within the set timelines. The finance department's duties schedule outlined its schedule of tasks, timelines and staff accountability.

We received financial statements with notes in time to commence our audit. The senior vice president of finance and corporate services gave us written representations that he had reviewed and signed off the draft financial statements before giving them to us.

ACAD is still unable to produce accurate year-end financial statements. The draft financial statements had significant accounting errors. At our request, management adjusted the financial statements for the errors, to ensure they were not materially misstated. ACAD also later corrected deficiencies in financial statement disclosures.

To implement this recommendation, ACAD must improve the quality of financial information by minimizing errors and disclosure deficiencies in its financial statements.

Code of conduct, conflict of interest and fraud procedures—satisfactory progress

Background

In our *April 2011 Report* (page 72), we recommended that ACAD develop, implement and enforce code of conduct and conflict of interest procedures. We also recommended that ACAD develop and implement a fraud procedure to clearly define actions, responsibilities, authority levels and reporting lines in case of fraud allegations.

Our audit findings

ACAD has developed, approved and communicated to all employees and management:
- a code of conduct
- procedures for avoiding and reporting conflict of interest
- procedures for reporting potential fraud

ACAD's president approved the code of conduct and the conflict of interest procedures. The procedures took effect on June 16, 2011. The fraud and irregularity procedure, approved by the president, took effect on July 6, 2011. ACAD posted the procedures on its intranet site, where they are accessible by all staff. The code of conduct was also posted on ACAD's external website, where it is available to the public.

Despite these steps, ACAD cannot show evidence of enforcement of any of these procedures. Our testing found that procedure compliance is not consistently stated as a requirement for new employees in their accepted applications or offer letters. ACAD lacks a formal process (such as a signature sheet) requiring all employees to sign off at least annually, acknowledging that they know and will comply with ACAD procedures.

To implement this recommendation, ACAD must show evidence that it has well-functioning systems to enforce compliance with its conflict of interest and code of conduct procedures.

Preserving endowment assets—implemented

Our audit findings

ACAD implemented our *April 2009 Report* recommendation (page 78) to define its goals for the use and preservation of the economic value of endowment assets (inflation proofing). The president approved the new investment procedure, which also explains the College's endowment goals and sufficiently resolves the issues noted in our original audit. It took effect November 1, 2011. College practice does not require the Board of Governors to approve procedures.

Review and approve journal entries—implemented

Our audit findings

ACAD implemented our *April 2010 Report* recommendation (page 183) to:
- ensure an authorized individual, separate from the one who prepares journal entries, reviews and approves the entries
- develop a policy that defines the process for recording and approving journal entries and the documentation required to support the entry

We tested journal entries during the interim and year-end phases of our audit and found only one exception. After a thorough investigation, we were satisfied that this was an

isolated incident. We confirmed that ACAD has implemented all parts of this 2010 recommendation.

Controls over vendor master file set-up and maintenance—implemented

Our audit findings

ACAD implemented our *April 2011 Report* recommendation (page 73) to improve its controls over set-up, maintenance and monitoring of the bookstore's vendor master list. The key issues were weak approval procedures and the lack of segregation of duties for the vendor master list. ACAD has eliminated the ability of bookstore staff to access the vendor system. It now allows access only to the director and the supervisor of facility and ancillary services.

ACAD also segregated the duties for controlling the vendor master list and the purchasing function. It now requires the finance department to validate and approve suppliers. The finance department also maintains and reviews the master vendor list.

Information technology internal controls—implemented

Our audit findings

ACAD implemented our *October 2007 Report* recommendation (vol. 2—page 21) to strengthen internal controls for computer system access and server backups, and to develop a computer use policy. In July 2011, ACAD approved backup and acceptable use procedures, but could not show they were operating effectively. This year, ACAD showed that its procedures to back up and recover systems, and its acceptable use policies and procedures, were operating effectively.

BOW VALLEY COLLEGE

Summary

This year, we recommended that Bow Valley College implement systems to ensure compliance with legislation—see page 60.

GRANDE PRAIRIE REGIONAL COLLEGE

Conflict of interest policy

Background

Directors, committee members, executives, management and employees should conduct themselves with personal integrity, ethics, honesty and diligence in performing their duties for the College. A conflict of interest policy is a risk management tool that ensures that employees support and advance the interests of the College and avoid placing themselves in situations where their personal interests actually or potentially conflict with the College's interests. Having a well-written conflict of interest policy is crucial to maintaining organizational integrity and reputation.

The purpose of a conflict of interest policy is to prevent personal interests from having biased influence over the operations of the College. Having a conflict of interest policy will protect the College's interest and establish an ethical framework of transparency.

RECOMMENDATION 14: IMPROVE CONFLICT OF INTEREST PROCEDURES

We recommend that Grande Prairie Regional College update its policy and procedures, and implement a process for directors and employees to annually disclose potential conflicts of interest in writing, so the College can manage the conflicts proactively.

Criteria: the standards for our audit

The College 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.

KEY FINDING

The College's conflict of interest policy does not provide sufficient guidance to govern employees' conduct

The College's code of conduct includes a conflict of interest policy that defines possible conflicts and requires staff to declare those conflicts to the president when they arise. However, the policy is not broad enough to include most potential areas of conflict of interest and does not require employees and directors to sign annual disclosures and indicate their agreement with the policy.

Implications and risks if recommendation not implemented

Without an updated policy and annual disclosure of potential conflicts, the College may be unable to properly manage the financial, business and legal risks of real or perceived conflicts of interest and commitment.

GRANT MACEWAN UNIVERSITY

Summary

Grant MacEwan University started several initiatives to strengthen internal business practices and resolve weaknesses in its control environment. In its attempt to remedy outstanding deficiencies in its enterprise resource planning system, the University engaged consultants to:
- coordinate a sustainable ERP solution that improves business practices
- conduct a risk assessment
- identify and document internal controls across the University
- develop action plans to address the root cause of errors identified

The University also established a month-end financial reporting process and identified and documented certain roles and responsibilities. The University provided accurate draft financial statements at the start of the audit as well as appropriate supporting working papers.

In our view, the University has made significant progress with improving its financial reporting processes and the quality of its financial statements. The University has already implemented two of our outstanding recommendations. Although others will require a longer timeframe to implement, the University appears to be on the right track.

This year, we recommended that Grant MacEwan University:
- improve systems to ensure compliance with legislation—see page 60
- limit the use of a system/shared account to ensure there is an audit trail—see below

The University also made satisfactory progress to improve:
- University policies for control environment—see page 74
- financial business processes—see page 76

Grant MacEwan University implemented the following recommendations from prior years' audits to improve its:
- capital asset processes—see page 77
- processes to ensure contracts and purchases are approved by individuals with proper signing authority—see page 78

General ledger posting using a system/shared account

Background

Controlling user access security is a critical part of managing information security. Managing user access effectively ensures that the University can produce an audit trail. If necessary, it can trace actions on its computer systems to one person. That ensures people are accountable for their business activities and critical data changes.

To protect information security, organizations must tightly control the use of generic, system and "shared" accounts (accounts not specific to one person, with a shared and well-known password). Organizations need to be able to trace actions in those accounts back to one person.

RECOMMENDATION 15: LIMIT USE OF A SYSTEM/SHARED ACCOUNT

We recommend that Grant MacEwan University strengthen controls for posting financial transactions, so it can trace transactions to specific users.

Criteria: the standards for our audit

The University should have well-designed and effective account security and administrative procedures to:
- tightly control, monitor and review shared accounts, including system batch processing accounts, so that it can trace actions taken with these accounts to one person
- regularly review system and application accounts to verify that users have only the access they need to do their jobs

KEY FINDING

Financial users can use generic system accounts—instead of their own—to post transactions, leaving no trace of who did what.

A system feature in the accounting system, called the Journal-Generator, can be used to post batched financial transactions to the general ledger. The feature uses a system account called "FSBATCH" to post the transactions. The primary purpose of this account is to log when the system (not a user) has posted financial transactions, either through an online event or after hours by a scheduled batch processing event.

We found that financial users are using the FSBATCH system account instead of their own user account ID. As a result, all financial transactions posted this way are not recorded in the system logs to the user that actually posted the transactions. Instead, the system logs these transactions against the FSBATCH account.

The University should investigate options for removing the use of the FSBATCH account ID in the online system, to ensure that when this feature is used, the user performing the function has their account ID entered and logged against the posted transactions.

Implications and risks if recommendation not implemented

Inadequate computer access controls limit the University's ability to know who might have made unauthorized or fraudulent transactions using shared or system accounts.

University policies for control environment—satisfactory progress

Background

In 2009, we recommended that the University improve its control environment by implementing or improving policies such as a code of conduct and ethics, disclosure of potential conflicts of interest, and guidance on appropriate expenses for hosting events and working sessions. We identified several areas the University should consider as a part of its project to review and update its policies.

Our audit findings

Ethics—The University improved the effectiveness of its control environment by strengthening policies and procedures to set standards for behaviour and ethical values of employees. Management finalized several policies, which the board approved in 2009. These policies include a code of conduct for employees, conflict of interest and commitment, safe disclosure, fraud and irregularities and a policy for sponsorships, donations and gifts made by the University.

Code of conduct—The University expects all faculty and staff to exemplify the ethical standards in its code of conduct. The code includes steps to report non-compliance and states that the consequences for non-compliance may include disciplinary action up to dismissal. Instead of requiring staff to annually acknowledge that they understand and agree to follow the code, the University will require new employees to sign an employee conduct, confidentiality and disclosure agreement when they start. But good practices in this area require an annual acknowledgement by staff. So, management needs to show that it has examined the pros and cons of annual signoff and shared its conclusions with the board.

Conflicts of interest—In August 2012, the University revised its employee confidentiality agreement to include employee conduct, conflict of interest and commitment and safe disclosure. A copy of the agreement will be kept on the employee's file in human resources. Employees acknowledge that they have received a copy of the University's code of conduct handbook. This handbook, developed in July 2012, forms part of the University's communication and education strategy for the code. This strategy will unfold over the next six months. After that, there will be ongoing actions to educate and reinforce the importance of the code (for example, annual information sessions, e-learning opportunities).

The University's conflict of interest and commitment policy is supported by a disclosure form to be used immediately if a real, perceived or potential conflict of interest or commitment develops. The policy has guidance for employees on deciding if possible conflicts of interest or commitment exist. The policy applies to all employees and incorporates academic policies on ethics, such as the policy on conduct during research and scholarly activity.

Safe disclosure—The University's safe disclosure policy confirms the right of people to report conduct that does not meet the University's ethical standards and code of conduct and confirms its commitment to protect them from reprisal. This should encourage staff to report suspected wrongdoing anonymously. The fraud and irregularities policy also covers reporting suspected fraud and irregularities involving the president or other senior management officers. The policy removes discretion and requires the vice president to report all suspected fraud and irregularities to the board's audit committee after following appropriate due diligence processes. The policy includes examples of irregularities, to provide a general understanding of the scope of irregular activities the policy contemplates.

Management's responsibility—The University's 2010–2011 annual report includes a statement from the president on management's responsibility for reporting. The statement acknowledges that management is responsible for the internal control systems designed and maintained to produce reliable information for reporting requirements.

Expenses—The University has revised polices and updated guidance related to appropriate expenses for hosting events, working sessions, employee recognition, sponsorships and donations. In May 2012, the board retired two policies (Travel and Business Expense Payments; Hosting Working Sessions and Employee Acknowledgement) and approved a revised policy on allowable expenses, procurement cards and expense reimbursement. In addition, the University developed a policy on reasonable and acceptable forms of sponsorships, donations or gifts by the University.

The Alberta Government recently announced a new travel, meal and hospitality expenses policy, effective October 1, 2012. The Government expects agencies, boards and commissions to follow this policy. In addition, the new policy has disclosure requirements. The policy requires posting expenses online; the first report was available in January 2013.

To fully implement this recommendation, the University needs to:
- show that it has processes and controls in place to support the new policies
- implement its communication and education strategy on the code of conduct
- show that it has examined the pros and cons of annual sign off and shared its conclusions with the board (for code of conduct and conflicts of interest)

Improve financial business processes—satisfactory progress

Background

In our *March 2012 Report* (page 13), we recommended that the University improve its financial business processes by:
- establishing clearly documented processes and controls
- developing clear roles and responsibilities and communicating them to staff
- training staff on the policies, processes and controls for their roles and responsibilities
- implementing processes to monitor and review that staff follow the policies, processes and controls

Our audit findings

Establishing clearly documented processes and controls—The University established a month-end close financial reporting process and identified and documented certain roles and responsibilities. It hired a consultant to assess the risks within the general ledger accounts and perform specified procedures on the high- and medium-risk accounts based on the results for March 31, 2012. Management has been developing plans to resolve the root cause of errors the consultant identified. Management has also been documenting current reconciliation procedures. It plans to develop more reconciliation procedures and reports to help with variance analysis by other areas of the University, beyond the financial services department. Management provided better financial and human resources reporting to faculty, administration and department budget holders.

The consultant is also helping identify and document internal controls across the University. The consultant made an initial report after reviewing the University's processes and controls for financial reporting. Recommendations from the report covered three key areas: documentation of controls, segregation of duties and knowledge and accountability. Work on documenting controls is underway and a plan is being developed consistent with priorities for the next 12 to 18 months.

Because of work it did during the year, the University was ready for the year-end audit in August 2012. Financial services provided accurate draft financial statements at the start of the audit and appropriate supporting working papers.

Developing clear roles and responsibilities and communicating them—The University is documenting roles, responsibilities and segregation of duties concurrently with documenting its processes. Since May 2012, the executive director of finance has met with teams throughout the University to discuss roles and responsibilities associated with the year-end financial reporting process. Financial services told key stakeholders across the University of the year-end schedule for preparing the financial statements, indicated areas of responsibility and explained the University's readiness for the year-end audit. The department plans to document roles and responsibilities on an internal website as the documents become available.

Training staff on policies, processes and controls—Financial services has been training staff on processes at the same time as deciding on roles and responsibilities and documenting processes. For example, in May 2012, it trained 22 key employees across the University (with financial accountability responsibilities) on new drill-down reports and department financial statement reports. As the University continues to improve the control framework, it will do more training on financial policies, processes and controls.

Implementing processes to monitor and review that staff comply—As the University documents its processes and controls, the documentation will also include monitoring and review processes. For example, financial services has developed a standard format for documenting reconciliations. It provides more information to people reviewing reconciliations so that they can better understand the nature of reconciling items. The new format documents who reviewed the reconciliation. Financial services also established timelines for when reconciliations must be prepared and reconciling items must be investigated.

To fully implement this recommendation, the University must finalize its:
- internal controls documentation work and resolve any control weaknesses
- internal reporting capabilities, by ensuring that areas outside of its finance department have suitable reports to perform actual and variance reporting
- documentation of roles, responsibilities and segregation of duties

Improve capital asset processes—implemented

Our audit findings

The University implemented our *April 2009 Report* recommendation (page 85) to improve its capital asset processes by documenting its assessment of the appropriate accounting treatment for costs of construction and renovation projects. It also improved its processes to code and record transactions accurately at initial entry.

University areas responsible for capital projects submit the proposed project accounting assessment for review by finance staff. Staff in this area received guidelines and training sessions on how to assess projects. The University applies the principles in its policy and guideline for capital asset recognition and valuation as a whole, when assessing the appropriate accounting treatment for costs of construction and renovation projects. Once the assessments are reviewed, the budget coding is reviewed by the project controller and budgeting office. Then the budgeting office approves the project so spending against the project can take place. We did not find any errors in our testing of a sample of expenses.

Adhere to signing authority limits—implemented

Our audit findings

The University implemented our *April 2010 Report* recommendation (page 176) to improve its processes for ensuring contracts and purchases are approved by the appropriate people, with proper signing authority.

The University developed a signing authority matrix linked to its policy on delegation of signing authority. It also provided training on applying the policy. In response to a recommendation from the University's internal audit services, the University plans to improve this policy to give more guidance in cases where contracts may create contingent liabilities or have similar problems for the University. We tested 20 contracts and found that they were all approved by people with proper signing authority. The University now monitors compliance with its policies and procedures. Next year, we will review how the University implemented internal audit services' recommendation.

KEYANO COLLEGE

Summary

We have two new recommendations for the College to improve:
- systems to ensure compliance with legislation—see page 60
- improve general ledger processes—see below

The College implemented the following three recommendations we had made:
- ensure server security—see page 79
- improve access controls for information systems—see page 79
- monitor access to key financial systems—see page 79

Improve general ledger processes

Background

The general ledger is a critical part of the College's accounting system. It holds the College's financial and non-financial data. Transactions must be posted using proper accounting principles to create accurate and timely financial statements. The general ledger and subsidiary ledgers in an accounting system are control mechanisms that ensure accurate financial information.

RECOMMENDATION 16: IMPROVE GENERAL LEDGER PROCESSES
We recommend that Keyano College improve accounting processes for the general ledger and stop relying on manual processes when creating its financial statements.

Criteria: the standards for our audit

The College should ensure that:
- transactions are posted using proper accounting principles
- manual processes outside the general ledger are minimized or eliminated

KEY FINDING

The College relies too much on manual processes, such as spreadsheets.

The College can better use its general ledger. Transactions for significant areas like capital acquisitions, deferred contributions and endowments are posted following inappropriate accounting principles. Some revenue streams and related expenses were maintained on spreadsheets instead of in the general ledger. These practices cause incorrect equity balances after year-end closing procedures. They also prevent the financial statements from being created directly from the general ledger.

As a work-around, College staff must download the general ledger into Excel spreadsheets and manually adjust the balances. This is inefficient. And it exposes the College to a higher risk of fraud and error, as these numbers could be accidentally or deliberately altered or deleted. Plus, management cannot get timely and accurate reporting from the general ledger. Management agree that they could use the controls in the general ledger more effectively, to reduce their reliance on spreadsheets and other manual processes.

Implications and risks if recommendation not implemented

By using its general ledger incorrectly, the College has increased its risk of fraud, error, inefficiency and manipulation in its financial reports.

Ensure server security—implemented

Our audit findings

The College implemented our *March 2012 Report* recommendation (page 29) to ensure all of its servers are secure with current anti-virus software. It has documented control procedures for anti-virus software and update/patch management. These procedures have been followed consistently. Anti-virus signatures were current and could not be disabled. The College also implemented a systems management tool to manage server updates.

Improve access controls for information systems—implemented

Our audit findings

The College implemented our *April 2011 Report* recommendation (page 77) to improve access control policies and processes for its information systems. The College:
- stopped the sharing of login IDs and passwords with temporary and contract staff
- improved the control process for terminated employees
- has a documented procedure to review access quarterly and follows it consistently

Monitor access to key financial systems—implemented

Our audit findings

The College implemented our *April 2011 Report* recommendation (page 78) to develop a policy and processes to monitor and investigate security breaches of its information systems. It is now using several security tools and software systems to log, monitor and report on information security violations.

LAKELAND COLLEGE

Summary

This year, we recommend that Lakeland College improve its systems to ensure compliance with legislation—see page 60.

Human resource journal entries—implemented

Our audit findings

The College implemented our *March 2012 Report* recommendation (no. 11—page 30) to ensure that manual journal entries are reviewed and approved by an authoritative person other than the preparer. This year, an appropriate authority, different from the preparer, approved a sample of journal entries we reviewed.

Code of conduct—implemented

Our audit findings

The College implemented our *April 2011 Report* recommendation (page 79) to enhance its code of conduct and require all employees to reconfirm compliance with the code of conduct on an annual basis.

We observed that, with the exception of faculty members, new and continuing employees at least annually provide written acknowledgement of their compliance with the code of conduct. Although the College's faculty members have declined to formally confirm their compliance with the code of conduct, the College has taken all reasonable efforts to communicate to faculty members the ethical principals inherent in the code of conduct and the College's expectation that they will comply with those principles.

LETHBRIDGE COLLEGE

Summary

This year, we recommend that Lethbridge College:

- improve systems to ensure compliance with legislation—see page 60
- implement an appropriate patch policy and procedures to update and protect the servers that host its enterprise resource planning system—see below

Computer operations

Background

The College uses a separate server to host its enterprise resource planning system. This system manages the College's financials and student information.

To protect its enterprise resource planning system against outside threats, the College must regularly update the software for the server that hosts the system. Vulnerabilities in software products are being discovered with increasing frequency, and hackers are quick to take advantage of the opportunities presented by the defects.[9] Patches are updates that IT suppliers provide to fix the defect that makes the software vulnerable to hackers.

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[9] http://www.sans.org/reading_room/whitepapers/windows/vulnerability-risk-mitigation-patching-Microsoft-Windows-environment_291

RECOMMENDATION 17: IMPROVE SOFTWARE PATCH POLICIES AND PROCEDURES

We recommend that Lethbridge College implement an appropriate patch policy and procedures to update and protect the servers that host its enterprise resource planning system.

Criteria: the standards for our audit

The College should have a formalized patch management process that includes:

- a schedule to check for new patches and updates
- a process to assess the risk of the patch/update and determine when or if it should be applied
- a separate test environment to ensure that the patch/update will not disrupt or interfere with other applications hosted on the same server
- a process to apply the update

KEY FINDINGS

- The College does not have a documented patch process for servers.
- The College's operating system patches are not up to date.

Through our review of the servers that host the College's enterprise resource planning system, we found that the College had no documented patch process to:

- define a patch schedule
- assess the risk associated with a patch/update
- apply the patch/update

The College was using an update service to automate the management of updates for its servers, but we noted the following updates were not installed:

- Datatel—database server: 29 updates not installed
- Datatel—portal server 1: 52 updates not installed
- Datatel—portal server 2: 59 updates not installed
- Datatel—College server: 37 updates not installed
- Main Domain Controller: 13 updates not installed

Additionally, management was unsure when the last updates were applied to the servers.

Implications and risks if recommendation not implemented

Without an appropriate patch management process, the College's enterprise resource planning system may not be adequately protected against known threats and vulnerabilities. Individuals leveraging these threats and vulnerabilities may compromise the servers, resulting in a loss of data or inconvenience to students and staff.

MEDICINE HAT COLLEGE

Summary

This year, we recommend that Medicine Hat College improve its systems to ensure compliance with legislation—see page 60.

MOUNT ROYAL UNIVERSITY

Summary

We have two new recommendations (on internal controls) for the University to improve:

- systems to ensure compliance with legislation—see page 60
- year-end financial reporting—see below

Improve accuracy and timeliness of consolidated financial statements

Background

Management is responsible for preparing the financial statements and accompanying notes in accordance with Canadian generally accounting principles. To do so, management needs effective internal controls over financial reporting.

For the 2012 audit cycle, we asked vice presidents of finance, or their equivalent at the post-secondary institutions we audit, to give us written representations that:

- they had reviewed and were comfortable with completeness and accuracy of the draft financial statements
- the draft financial statements were supported with appropriate schedules and supporting documents
- the institution was ready for our audit

On September 7, 2012, we obtained the written representation from Mount Royal University's vice president of administrative services with the first draft of the unconsolidated financial statements. We started our year-end audit on September 10, 2012. We extended our fieldwork to October 18, 2012. During the audit, the University produced several versions of its consolidated financial statements.

RECOMMENDATION 18: IMPROVE YEAR-END FINANCIAL REPORTING

We recommend that Mount Royal University review the adequacy of its financial statements closing process and improve its ability to produce timely and accurate financial statements.

Criteria: the standards for our audit

The University should have processes to ensure complete and accurate financial statements are prepared and reviewed on time.

KEY FINDINGS

- We found errors in draft financial statements.
- Management had to revise the consolidated financial statements several times.

There were errors in the draft of the consolidated financial statements the audit team received on September 10, 2012.

The University experienced difficulties in producing accurate financial statements in a reasonable time. We expected the University to provide accurate consolidated financial

statements at the start of our year-end audit visit. As a result, our start date was later than those of other post-secondary institutions. We found errors in the different versions of the consolidated financial statements from management.

As the audit progressed, we received several revisions to the financial statements. We found the following errors (later corrected) in the draft consolidated financial statements:

- accounting errors in the treatment of certain operating leases
- presentation errors in the statement of cash flow and the note disclosures for deferred contributions, investment in capital assets and long-term liabilities

We also found inconsistencies between the University's draft financial statements and the pro-forma financial statements from the Department of Enterprise and Advanced Education.

Institutions with weak processes to prepare year-end financial statements are likely to experience difficulty preparing timely and accurate periodic financial reports. 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.

Implications and risks if recommendation not implemented

Without having processes to ensure its financial statements are complete and accurate, the University may fail to identify material errors or omissions in its financial statements. As a result, management and the board may have inaccurate financial information for decision making.

NORQUEST COLLEGE

Summary

We continue to report weaknesses at NorQuest College that indicate an ineffective control environment for a College its size. As a result, the College is exposed to continued risks of fraud and error going undetected, and inaccurate financial information for its management and the board's finance and audit committee.

Internal control systems

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

- restricting access to information and information systems to staff with appropriate levels of authority
- clearly defining staff roles and responsibilities and segregating incompatible functions so that no one person can initiate, approve and record transactions
- completing timely reconciliations so financial records accurately reflect all transactions such as revenues, cash collected and payments made
- physically safeguarding assets such as cash by restricting access to appropriate staff

Management must consider the risk of potential fraud against the College and the risk of errors in financial reports. A strong control environment can reduce these risks but not eliminate them.

This year, we recommend that NorQuest College:
- improve systems to ensure compliance with legislation—see page 60
- improve user access controls in the payroll module of the financial system—see page below
- review the existing employee spending policy—see page 85
- limit the use of shared financial system accounts—see page 86
- improve the information system's patch management process—see page 87

We also repeated the following recommendations:
- improve its financial internal controls—see page 88
- improve its quality control process for reporting year-end financial information—see page 89
- improve segregation of duties in the bookstore—see page 90

User access control

Background

Payroll information is stored in the accounting system payroll module. Payroll staff can access this information and are responsible for keeping it complete and accurate. Employee payments are processed bi-weekly and the payroll module is processed through the general ledger to promptly update financial information.

RECOMMENDATION 19: SEGREGATE INCOMPATIBLE JOB DUTIES

We recommend that NorQuest College segregate access within the payroll module.

Criteria: the standards for our audit

The College should have effective controls over the payroll module. This includes segregating incompatible job duties.

KEY FINDING

People with access to the payroll module can create and approve new employees in the system.

Proper segregation of duties does not exist in the payroll and human resources departments. Staff in the payroll and HR departments can access both the payroll and HR functions of the payroll module in the accounting system. They can set up an employee in the system, process payroll information and set up employees to be paid bi-weekly—all without any approval from anyone else.

Implications and risks if this recommendation is not implemented

Without proper segregation of duties between payroll and HR departments in the accounting system, the College has a significant risk of fraud and error.

Employee spending

Background

Public post-secondary institutions reimburse board members, management and staff for costs of necessary travel and for hosting guests and internal working sessions related to

their duties. Institutions also occasionally sponsor events, make donations and provide gifts to recognize staff performance or retirement. Effective systems must ensure those costs comply with clear policies and are a reasonable use of public funds to an impartial observer.

RECOMMENDATION 20: PROVIDE GUIDANCE ON EMPLOYEE SPENDING

We recommend that NorQuest College:
- improve policies and guidance on appropriate expenses for travel and hosting internal working sessions and guests
- follow its policies and processes for employee expense claims and corporate credit cards

Criteria: the standards for our audit

The College should have policies and procedures that provide sufficient guidance on appropriate spending for travel, hosting internal working sessions and guests, and fundraising.

KEY FINDING

The College does not adequately guide staff on acceptable spending.

The College approved an employee spending policy in November 2007. While the new policy provides guidance in some areas, it does not provide sufficient guidance in others. For example, the policy states that, "Where the College is hosting guests and events, this Standard Practice may be waived with the expectation that employees use reasonable judgment of the appropriate expense to be incurred and eligible for reimbursement." This does not give enough guidance to staff to ensure spending is reasonable.

In light of Treasury Board's new directive on travel, meal and hospitality expense reimbursement, the College should update its policy. This guidance should provide a framework of accountability and rules to guide the effective oversight of public resources in the reimbursement and payment of these costs.

Implications and risks if this recommendation is not implemented

Without proper guidance on eligible spending, employees may not spend public funds reasonably.

Use of shared accounts

Background

User access security is a core requirement for managing information security effectively. Effective user account management ensures that the College can ensure accountability by tracing actions—including business and system support activities on computer systems and in applications—to one person.

Effective user access security requires organizations to tightly control the use of generic or shared accounts (accounts not specific to one person, with a shared or known password) so they can trace actions performed by accounts back to one person, if necessary.

RECOMMENDATION 21: IMPROVE COMPUTER ACCESS CONTROLS FOR ACCOUNTABILITY

We recommend that NorQuest College improve its computer access controls to ensure accountability over its information systems.

Criteria: the standards for our audit

The College should have well-designed and effective account security and administration procedures to ensure that management:

- closely monitors, reviews and controls access to shared accounts—if such accounts are needed—to ensure that actions taken using them can be traced back to one person
- regularly reviews all system and application accounts to confirm their use and assignment is still appropriate for the user's job

KEY FINDING

Contrary to its documented control process requirement, the College did not complete the annual review of its shared accounts.

The College has nine shared accounts for the accounting system and 12 network shared accounts in its computing environment. There are more shared accounts for other computing services, but our focus was on financial applications.

Although the College has a documented control process to review shared accounts annually, its review was incomplete. It did not review shared accounts used by systems support staff and contractors to support the accounting system.

As well, some shared accounts that support the accounting sysem finance and HR modules have full administrative privileges that allow account users to perform actions to the application without restriction.

Overall, the College's ability to audit changes to critical systems is compromised when changes are performed by users with shared accounts. The College should re-assess its use of shared accounts in its computing environment and implement the necessary controls to enforce user accountability.

The College reviewed the accounting system shared accounts after our audit, but staff are still using and sharing the accounts.

Implications and risks if recommendation not implemented

Without computer access controls that limit the use of shared accounts, the College cannot identify who initiated unauthorized or potentially fraudulent transactions and cannot link a specific user with changes to the College's systems and applications.

Security patch management

Background

A critical component in information security is promptly implementing security patches for information systems and applications. Properly patched systems greatly reduce security vulnerabilities and the risk of information systems being compromised.

RECOMMENDATION 22: REGULARLY MAINTAIN INFORMATION SYSTEMS

We recommend that NorQuest College regularly maintain its information systems to reduce the risk of security weaknesses.

Criteria: the standards for our audit

The College should ensure that servers, applications and other devices are built to a secure standard and remain secured. It should regularly apply vendor supplied patches—as soon as they are available—to mitigate known security threats.

KEY FINDING

The College does not maintain the security of critical IT servers.

We selected a sample of Windows production servers to test how quickly the College applied security patches. The servers we selected included servers critical to the College's business operations, such as its accounting system application and database servers.

We found significant time gaps between the application of patches on the servers we tested. In some cases, almost a full year had passed since the last patch had been installed.

Implications and risks if recommendation not implemented

Delayed security patch management practices increase vulnerabilities in the College's computing environment. They may lead to unauthorized access to the College's business applications and its critical student and financial data, resulting in fraudulent or malicious activities.

Financial internal controls—recommendation repeated

Background

In our *March 2012 Report* (page 22), we recommended that the College improve its internal controls in the key areas of reconciliation of financial information, approval of invoice payments, review of journal entries and documentation of these controls.

It is our practice to follow up outstanding recommendations when management indicates that they are implemented. Management asserted to us that they had implemented this recommendation and our current year audit plan indicated that we would be following up. Management and the board's finance and audit committee agreed to this audit plan.

Since our work confirmed that this recommendation had not been implemented, we are repeating it.

RECOMMENDATION 23: IMPROVE FINANCIAL INTERNAL CONTROLS—REPEATED

We again recommend that NorQuest College improve its reconciliation of financial information, review of journal entries and documentation of these controls.

Criteria: the standards for our audit

The College should have effective business processes and systems to produce timely, relevant and accurate period and year-end financial information, financial statements and working papers.

KEY FINDINGS

- Key reconciliations were not promptly reviewed.
- Many year-end entries were required to correct errors made during the year.

Invoice payments—In our current year audit, we did not find any case where payments of invoices were not approved according to policies.

Reconciliations—The accounts payable, capital assets and payroll ledgers were not promptly reconciled to the general ledger. Prompt reconciliations ensure the accuracy of financial information that management needs to make decisions and the board needs to effectively oversee the College.

The finance department did not prepare and review bank reconciliations appropriately. The adjustments identified to the general ledger balance (to reconcile to the bank balance) were not posted to the general ledger.

Journal entries—Journal entries were reviewed before they were posted in the general ledger. A number of journal entries had to be made to correct errors in previously approved journal entries. This indicates that the process to approve journal entries is not adequate to identify errors.

Although invoice payments were reviewed in the year, there were still significant deficiencies in the reconciliation and journal entry process. Improvements to controls were not sufficient to produce satisfactory progress.

Implications and risks if recommendation not implemented

Without effective controls over its financial business processes, the College cannot show that:
- its operations are efficient and effective
- its assets are safeguarded
- it is complying with legislation

As well, the College cannot promptly or accurately report financial and non-financial results that management and the board need for decision making.

Year-end financial information—recommendation repeated

Background

In our *March 2012 Report* (page 25), we recommended that the College improve its quality control processes for preparing year-end financial information to improve efficiency and accuracy.

Since our work confirmed that this recommendation had not been implemented, we are repeating it.

RECOMMENDATION 24: IMPROVE QUALITY CONTROL FOR YEAR-END FINANCIAL INFORMATION—REPEATED

We again recommend that NorQuest College improve its quality control processes for preparing its year-end financial information to improve efficiency and accuracy.

Criteria: the standards for our audit

The College should have effective processes to produce accurate and timely year-end financial information.

KEY FINDINGS

- The College did not restate its financial statements after transferring responsibility for the West Yellowhead Region to Grande Prairie Regional College.
- Final financial statements were received by the OAG six weeks late.

West Yellowhead Region transfer—Effective July 1, 2011, responsibility for the West Yellowhead Region was transferred from NorQuest College to Grande Prairie Regional College.

Accounting standards require that when such a transfer occurs between entities under common control, both entities must restate prior-year financial information to ensure financial information is comparable. However, management at the College was unaware that a restatement was necessary for the prior-year financial information to be comparable to the current year.

We expected management would have included the restatement in these statements, but they did not do so. Management initially said that they did not believe that accounting standards required a restatement, but changed its position and gave us the updated financial statements. Yet these updated statements were still not properly restated for the transfer.

Statement of cash flows—The statement of cash flows was not prepared correctly in the first draft of the financial statements. Management provided revised financial statements, but it still had significant deficiencies, including:
- not tying in to statement of operation or the statement of financial position
- not correctly adjusting for the West Yellowhead Region transfer

Use of pro-forma financial statements—The Department of Enterprise and Advanced Education gives pro-forma financial statements to post-secondary institutions, with guidance on presenting and disclosing financial statements. The financial statements that management provided had several deficiencies and did not comply with pro-forma statements in several areas.

Implications and risks if recommendation not implemented

Without controls that ensure its financial statements are complete and accurate, management, the finance and audit committee and the board may not have timely and accurate information to run and oversee the College and to make informed decisions. Also, the processes may be inefficient, causing unreasonable costs to prepare and audit year-end financial statements.

Segregation of duties (bookstore)—recommendation repeated

Background

In our *April 2010 Report* (page 186), we recommended that the College implement proper segregation of duties in its bookstore. In 2010, we reported that the material control administrator authorizes the purchase of books, enters receipts of books into financial systems, can change the quantity of inventory and price of books, and write off inventory. We repeat this recommendation because the bookstore still lacks proper segregation of duties.

RECOMMENDATION 25: SEGREGATE INCOMPATIBLE JOB DUTIES—REPEATED

We again recommend that NorQuest College properly segregate incompatible job duties in its bookstore.

Criteria: the standards for our audit

The College should have effective controls over bookstore services. This includes segregating incompatible job duties of authorizing purchases, receiving and maintaining inventory, receiving cash and preparing deposit slips, and restricting access to assets and information systems to appropriate staff.

KEY FINDING

Incompatible job duties at the bookstore are not adequately segregated, resulting in higher risk of fraud and inaccurate financial information.

Proper segregation of duties still does not exist in the bookstore. The material control administrator and the coordinator of business services can perform the following actions:
- reconcile daily cash
- prepare deposit slips
- access the cash register and occasionally process transactions
- investigate discrepancies between the POS system and the inventory count
- manually adjust bookstore inventory in the POS system based on the inventory count

To fully implement this recommendation, management needs to properly segregate incompatible job duties. Specifically, staff who:

- process bookstore transactions must not prepare the daily deposit slip
- enter inventory in the system and reconcile cash must not reconcile the inventory count results without adequate review of inventory adjustments

Implications and risks if recommendation not implemented

Without adequate segregation of duties, the College's risk of fraud and inaccurate financial information increases.

NORTHERN ALBERTA INSTITUTE OF TECHNOLOGY

Summary

This year, we recommend that NAIT improve its systems to ensure compliance with legislation—see page 60.

NORTHERN LAKES COLLEGE

Summary

In our *November 2011 Report (page 63)*, we reported that Northern Lakes College was unable to demonstrate that it had an effective control environment. We provided an update in our *March 2012 Report (page 11)* that the College had still not completed its 2010 and 2011 financial statements.

A new chief financial officer started at the College in February 2012 and, with the assistance of an accounting firm, was able to complete the 2010 financial statements along with all the necessary supporting documents by September 2012. We issued an unqualified audit opinion on the 2010 financial statements.

The College completed its 2011 and 2012 financial statements concurrently and had provided them to us, with supporting documentation, by late October 2012. These audits are still underway and should be complete in the near future. The College responded in a timely manner to our requests for further information or clarification as these audits progressed. Further, the College has advised us that in their view, the recommendations we made to them respecting the 2010 audit have been implemented. However, we have yet to confirm their view with a follow up audit.

For the 2010 audit, we recommend that Northern Lakes College:

- clarify its goals for preserving endowment assets—see page 92
- improve controls over tuition revenue—see page 93
- establish an accounts receivable write-off policy—see page 94

Preserving endowment assets

Background

The College has $1.6 million of endowment funds in its long-term investments as at June 30, 2010. Earnings from endowment investments support scholarships, bursaries and teaching. Northern Lakes College's endowment funds are managed by an external investment manager in accordance with policies and investment objectives established by the College's board.

While some donors encourage spending all endowment investment earnings, other donors expect that the College will preserve the real value of endowments over time.

RECOMMENDATION 26: DEFINE GOALS FOR PRESERVING ECONOMIC VALUE OF ENDOWMENTS

We recommend that Northern Lakes College define its goals for the use and preservation of the economic value of endowment assets

Criteria: the standards for our audit

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

KEY FINDING

The College does not have a policy or clearly defined goals on preserving the economic value of endowments.

The College's investment policy states that investment income will be allocated to the endowments monthly, based on the rate of return earned on the underlying funds. However, we found that the College does not have any policies on preserving the economic value of its endowments, including specific endowment spending policies. In addition, the College has not clearly defined its goals to inflation proof endowment funds.

Implications and risks if recommendation not implemented

Without a clear definition of the goals, performance measures and policies to protect the economic value of endowments, the College may not generate sufficient income to support scholarships, bursaries and teaching, and may not meet donors' expectations.

Controls over tuition revenue

Background

The College's senior management team and board annually review and approve the fee schedule which lists the program offerings and fees for the next fiscal year. The approved fee schedule is forwarded to management for their reference. Only the assistant registrar of admissions can make any additional changes or updates to the fee schedule after the board and management approve those changes.

An authorized individual enters the approved fee schedule in the financial reporting system. The system automatically generates invoices for students once they register.

RECOMMENDATION 27: IMPROVE CONTROLS OVER TUITION REVENUE

We recommend that Northern Lakes College improve controls over tuition revenue by implementing the following processes:
- review the approved fee schedule entered into the accounting system, to ensure completeness and accuracy
- review user access to the accounting system for tuition fees to ensure that roles and level of access are appropriately granted to individuals

Criteria: the standards for our audit

The College should ensure that:
- information transferred from the approved fee schedule to the financial reporting information system is reviewed promptly
- only authorized individuals have access to make changes to the tuition fees and course set-up master files in the financial reporting information system
- management regularly review user access rights for tuition fees

KEY FINDINGS

- Appropriate individuals are inputting information into the accounting system.
- No formal reviews of inputs are completed.
- User access rights are not being reviewed specific to changing program fees in the accounting system.

Authorized staff obtain a copy of the approved fee schedule and transfer the information into the accounting system. One employee is responsible for inputting information pertaining to program fees; the other, for updating program offerings. We were able to identify that the transfer and inputting of information was performed by the appropriate individual. However, we were unable to identify any formal review process to ensure that the information was entered completely and accurately into the system.

The accounting system automatically generates tuition invoices once a student has fully registered and enrolled in their courses. Before printing the invoices, the accounting assistant reviews the invoices to ensure invoice amounts agree to the approved fee schedule. Through discussion, we identified instances where the program fees charged to students did not agree with the approved fee schedule, as the information was not entered accurately into the accounting system. The accounting assistant was able to access the tuition master files and amend the program fee. However, the accounting assistant should not be granted access to changing program fees in the accounting system, as only certain individuals are provided the level of access and responsibility to make these changes. In addition, we also identified that a routine review of users and their roles in the accounting system related to tuition fees was not being performed.

Implications and risks if recommendation not implemented

Information put into the accounting system may not be complete or accurate, due to human error. Granting an individual responsibility to both review tuition invoices and amend program fees in the master files shows a lack of segregation of duties. This could result in

unauthorized changes to tuition revenue transactions, and possibly fraudulent activities going undetected.

Accounts receivable write-off policy

Background

The College, over the past two fiscal years, has had accounts receivables that averaged $1.4 million. The accounts receivable relate to amounts owed to the College from grants, tuition and fees.

RECOMMENDATION 28: ESTABLISH ACCOUNTS RECEIVABLE WRITE-OFF POLICY

We recommend that Northern Lakes College establish an accounts receivable write-off policy to ensure that balances are valid and appropriately valued.

Criteria: the standards for our audit

The College should have effective controls over the write-off of accounts receivable to ensure that:
- accounts receivables are written off in accordance with an established policy
- the policy should include what collection efforts need to be carried out before write-offs, timing of write-offs and approval of write-offs

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KEY FINDING

No policy on accounts receivable write-offs has been established.

We found that the College does not have a policy pertaining to accounts receivable write-offs. Currently, the College's practice is to allow for any balance that is 12 months overdue and write off amounts over 24 months old. There is no documented approval process for this write-off practice.

Implications and risks if recommendation not implemented

Without an accounts receivable write-off policy in place, there is a risk that the accounts receivable balance the College reports in its financial statements is overstated and the College may not collect funds as a result.

OLDS COLLEGE

Summary

In our *March 2012 Report* (page 27), we reported that Olds College must significantly improve its internal controls. The College made some progress implementing our recommendations during the year, particularly with the timeliness to prepare the year-end financial statements. However, we identified a number of disclosure deficiencies that management did not identify, which cumulatively would have resulted in a material misstatement to the financial statements. We also identified a number of errors that were less significant in size than in recent years. Management corrected all these. Given these issues, our new recommendation and two repeated recommendations, the College still must significantly improve its controls environment to meet its goals, protect its assets, reduce the risk of fraud and error and produce reliable financial information.

This year, we recommend that Olds College improve processes to ensure compliance with legislation—see page 60.

We also repeat the following recommendations:
- improve its year-end financial reporting—see below
- improve segregation of privileged user access roles—see page 96

The College implemented our *April 2010 Report* recommendation (page 184) to improve sales and inventory controls in the bookstore—see page 97.

Financial year-end reporting—recommendation repeated

Background

We repeat our *March 2012 Report* recommendation (no. 8—page 27) because improvement over the accuracy and completeness of the preparation of the College's financial statements is unsatisfactory. This recommendation was previously reported in our *April 2011 Report* (page 68) and our *April 2010 Report* (page 162).

Management is responsible for preparing the financial statements and accompanying notes and schedules in accordance with Canadian generally accepted accounting principles. In fulfilling this responsibility, management should have effective internal controls over financial reporting.

> **RECOMMENDATION 29: IMPROVE SYSTEMS ON FINANCIAL YEAR-END REPORTING—REPEATED**
>
> We again recommend that Olds College further improve its processes and controls over year-end financial reporting.

Criteria: the standards for our audit

The College should have effective processes to ensure it reports accurate financial information. This would include adequate review processes to ensure financial statements are prepared accurately and on time, in accordance with Canadian generally accepted accounting principles.

> **KEY FINDINGS**
>
> - Timely completion of the initial year-end financial statements along with supporting documentation improved significantly from the prior-year.
> - Deficiencies in presentation or disclosures significant to the overall financial statements were identified during the audit.

Management improved the timeliness of its preparation of the initial financial statement draft from that in fiscal 2011, despite turnover at the director of business services position late in fiscal 2012. Financial statement balances related to routine processes were observed to be generally well supported.

However, our audit identified that the presentation and disclosures related to the investment in the Olds College Trust were not in accordance with Canadian generally accepted accounting principles. We also identified that required disclosures related to joint ventures and investments were incomplete or in error. Management was receptive and took timely action to adjust for these deficiencies identified during the audit. While the accounting for these areas can be more complex or non-routine in nature, the lack of systems to identify and correct these issues when preparing the financial statements indicates a significant weakness in the financial statement preparation process.

To fully implement this recommendation, the College must further enhance its financial statement close process to ensure the College's financial reporting presents fairly in all material respects the financial statements, in accordance with Canadian generally accepted accounting principles.

Implications and risks if recommendation not implemented

Without effective and efficient processes and controls over year-end financial reporting, the College will be unable to provide timely and accurate reporting of financial information at a reasonable cost. In addition, financial reporting throughout the year may not be as accurate as decision makers would prefer.

Privileged user access—recommendation repeated

Background

We repeat our *March 2012 Report* recommendation (no. 9—page 28) because of the unsatisfactory progress on implementing critical controls over the prevention of unauthorized changes by fraud and error.

Effective controls prevent users from making unauthorized changes to systems and the data stored in them. Privileged systems access gives users the ability to edit data or the configuration of programs, for the purpose of maintaining the system, in ways not available to a normal user. Giving too many people this level of access, or combining this access with routine data entry responsibilities, can reduce the effectiveness of controls over managing changes to data and the system.

Access controls enforce segregation of job duties, which is an important internal control for maintaining the reliability of data and protecting the College's resources. This helps ensure there are no incompatible or conflicting job functions among staff.

RECOMMENDATION 30: IMPROVE SEGREGATION OF PRIVILEGED USER ACCESS ROLES—REPEATED

We again recommend that Olds College segregate privileged systems access from data entry responsibilities and business functions.

Criteria: the standards for our audit

The College should have effective controls to segregate incompatible job functions that might otherwise allow a privileged user to manipulate data or compromise system security. Users who have privileged systems access should not also have job functions that involve entering or approving data.

KEY FINDINGS

- Reduced the number of privileged access users to two for each application.
- Stopped sharing the password for Banner privilege I.
- Removed the domain administrator's privileged access to applications.
- Created another separate account for privileged access for users with data entry responsibilities.

In May 2012, the College implemented a quarterly review of user accounts to ensure that privileged user accounts are verified for need. However, since privileged users have been performing data entry using both accounts, the suggested quarterly monitoring process is not effective.

The separate account for privileged users with data entry control is only effective if there is a monitoring control to review that privileged account use was appropriate.

To fully implement this recommendation, the College must remove privilege access from data entry responsibilities and have a periodic review of user accounts to ensure that privileged user accounts are verified for validity.

Implications and risks if recommendation is not implemented

If the College does not ensure that it has segregate privileged systems access from data entry responsibilities and business functions, its systems and data will be vulnerable to unauthorized changes by fraud or error.

Bookstore sales and inventory controls—implemented

Our audit findings

The College implemented our *April 2010 Report* recommendation (page 184) to improve sales and inventory controls in the bookstore. During 2011, the College implemented controls to buy and sell books and other inventory; manage and account for this inventory and recordkeeping; restrict access to the bookstore's assets and records; and segregate duties related to reconciliations, handling cash and ordering items for sale in the bookstore. We confirmed these controls operated effectively this year.

PORTAGE COLLEGE

Summary

Portage College provided accurate draft financial statements at the start of the audit, as well as appropriate supporting working papers.

The College has made significant progress with improvements to its financial reporting process and the quality of financial statements. The College has implemented some of our recommendations. Although others will require more time to implement, the College is on the right track.

This year, we recommend that Portage College improve:
- systems to ensure compliance with legislation—see page 60
- information systems change management processes—see below

Portage College implemented our *April 2010 Report* recommendation (page 160) to improve quarterly financial reporting to the board and senior management—see page 99.

Information systems change management

Background

Information systems change management is an essential component of IT operations. Portage College uses information systems and applications to process critical data and relies on the integrity of these systems to achieve business goals and objectives.

Good change management policies and procedures would assure the College that only authorized and tested changes to business systems and applications are implemented in the computing environment.

RECOMMENDATION 31: IMPROVE INFORMATION SYSTEM CHANGE MANAGEMENT

We recommend that Portage College develop and implement formal change management policies and control procedures to ensure all changes to systems and applications within the computing environment are implemented in a consistent and controlled manner.

Criteria: the standards for our audit

The College should have formal change management policies and control procedures to ensure that:
- all changes in the computing environment are logged and subject to change management procedures
- changes are tested in a test environment before migration to production
- all affected stakeholders provide formal approval before implementation
- there is a separation of duties among requestor, approver, developer, tester and implementer

KEY FINDING

The College's draft change management procedures are not approved, outdated and not being followed.

The College has a draft IT change management procedure. However, the document is outdated and was not formally approved. We focused our change management controls testing on the College's main financial application, and interviewed key stakeholders who are involved in implementing changes to that application.

The College requires its staff to document all systems and applications changes in a request for change form. However, we found that not all changes to the accounting system were documented. Furthermore, for changes documented with a request for change form, the

College could not provide evidence to show the changes were properly tested and authorized before being implemented into production.

Implications and risks if recommendation not implemented

Without proper change management policies and procedures, Portage College is at risk of introducing untested and unauthorized changes in its computing environment. Such changes could damage the integrity of the College's financial and student information.

Quarterly financial reporting—implemented

Our audit findings

Portage College implemented our *April 2010 Report* recommendation (page160) to improve its financial reporting to the board and senior management, by presenting a quarterly statement of operations with actual year-to-date operating results beginning March 2012.

RED DEER COLLEGE

Summary

This year, we recommend that Red Deer College improve:
- systems to ensure compliance with legislation—see page 60
- its general computer control environment—see page 100

General computer controls

Background

In our 2006–2007 report to management, we recommended that Red Deer College improve its general computer control environment by:
- finalizing its risk assessment process and implementing a comprehensive IT control and governance framework for its key processes
- implementing appropriate security over information and information technology assets
- managing changes to computer programs
- testing its disaster recovery plan and then assessing its adequacy

We summarized this recommendation in our *April 2008 Report* (page 198) as part of a recommendation to the Department of Enterprise and Advanced Education to provide guidance to institutions on using an IT control framework to implement effective internal controls. From 2008–2011, the College:
- designed some new IT controls and participated in the provincial post-secondary system's information and technology management control framework project (PSS-ITM)
- developed draft procedures to create, change, terminate and review access to its enterprise application (Banner), and implemented a tool to collect and analyze security logs from critical assets and send alerts to appropriate stakeholders
- implemented a documented and effective password control
- drafted a change management policy, including specific procedures to request, approve, test and implement all changes to the College's administrative systems
- updated its draft disaster recovery plan to include information such as critical business functions, and inspected the offsite backup media storage location to ensure it has adequate physical and environmental controls

RECOMMENDATION 32: IMPROVE GENERAL COMPUTER CONTROL ENVIRONMENT

We recommend that Red Deer College improve its general computer control environment by:
- finalizing its risk assessment process and implementing a comprehensive IT control and governance framework for its key processes
- implementing appropriate security over information and information technology assets
- managing changes to computer programs
- testing its disaster recovery plan and then assessing its adequacy

KEY FINDINGS

- The College has not completed an IT risk assessment.
- The new executive committee to oversee IT has not met.
- The College's disaster recovery plan is only a draft and is missing key areas.

The College was not performed an IT risk assessment, which is a prerequisite for the IT control framework project.

The College's IT steering committee consisted of business area and IT employees who were to provide recommendations to management on strategic and operational priorities. As of June 2012, a new executive committee has replaced the IT steering committee and assumed responsibility for the former committee's mandate. The newly formed executive committee has not met. Therefore, it had no minutes to report its progress on the PSS-ITM IT control framework or demonstrate sufficient communication regarding this project.

The College maintains that it is committed to the PSS-ITM IT control framework project, but has not completed an IT risk assessment to initiate the project. The current disaster recovery plan was also just a draft and was missing key areas such as restore and recovery, backup and testing procedures.

To fully implement this recommendation, the College must:
- ensure that management and staff consistently follow its access control procedures
- classify information according to a defined scheme
- design and implement physical and environmental security standards for all its computer rooms, and ensure IT management and staff consistently follow them
- approve and implement its new change management policy and ensure that all College staff consistently follow the documented procedures
- plan, approve and test its disaster recovery plan

Additionally, the College must demonstrate that it has identified risks to the College and has a plan to address them through an IT control framework as specified by the PSS-ITM IT control framework roadmap.

Implications and risks if recommendation not implemented

Weaknesses in the general computer control environment pose a risk to the integrity and availability of the College's systems and data. Requests for funding, student records, course pricing, etc., all depend on accurate information. Without accurate information, College management cannot perform their functions efficiently.

SOUTHERN ALBERTA INSTITUTE OF TECHNOLOGY

Summary

We identified two new internal control matters. SAIT needs to:

- improve its systems to ensure compliance with legislation—see page 60
- reassess and update its IT Action Plan 2009–2012 and further develop a project plan with effective controls and a process to identify, rank and prioritize all IT projects—see page 101

IT strategic plan

Background

IT strategic plans are an important part of overall IT governance. An IT strategic plan defines what must be done, who will do it and when it will be done, so that an organization can provide effective and efficient programs and services.

SAIT developed and approved an IT strategic plan in 2009, which had 12 initiatives. The stated goals of this plan are to:

- develop an IT action plan that supports SAIT's business plan through 2012
- review IT's current state
- provide a vision for its future state and a roadmap to get there

Detailed project plans help ensure projects have good governance, are implemented on time and budget, and meet their goals and objectives. Without good project management and governance, projects can often be over budget, delayed or fail to meet expectations.

RECOMMENDATION 33: IT STRATEGIC PLAN

We recommend that SAIT reassess and update its IT action plan. We further recommend that SAIT develop:
- a project plan with effective controls to ensure its plan is implemented on time and achieves SAIT's strategic objectives
- an effective process to identify, rank and prioritize all IT projects and update plans as needed

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Criteria: the standards for our audit

SAIT should have:

- a process to regularly review and update its action plan, to ensure it reflects the changing goals and objectives of the Institute
- project management controls to help ensure management regularly reviews and updates the plan and that SAIT meets its project timelines
- a process to ensure that management identifies new projects and changes in priorities that may require updates to the plan

KEY FINDINGS

- Projects in the IT action plan were not implemented according to the timelines in the plan.
- SAIT identified and implemented other IT projects and initiatives not included in the IT action plan.

In 2012, SAIT provided us with a status update on its IT action plan. The update showed that, of the 12 items in the plan:
- two were completed
- two were deferred
- eight continued to be worked on throughout the year

The director of information systems told us that although 10 items were not completed, SAIT had instead completed other, higher priority IT projects, based on the changing needs of the institute and at the direction of senior management. These higher priority items were not in the original action plan or the updates.

SAIT was unable to demonstrate that it had an effective process to regularly assess and update its IT action plan and to prioritize or reprioritize IT projects to most effectively meet its goals.

Implications and risks if recommendation not implemented

Without a regularly reviewed and updated IT action plan, and effective project management controls to implement it, SAIT cannot know or demonstrate that it is implementing its IT action plan to effectively support the Institute and achieve its goals.