

# Innovation and Advanced Education —Report on Post-secondary Institutions

## INTERNAL CONTROLS—A REPORT CARD

This report includes an update on the report card on internal controls over financial reporting, together with comparative assessments from our 2013 and 2012 audits of colleges, technical institutions, MacEwan University and Mount Royal University. Our October 2014 report provided our observations on Athabasca University, University of Alberta, University of Calgary and University of Lethbridge.<sup>1</sup>

To govern effectively, boards need accurate and timely financial information throughout the year, not just at year-end. To manage effectively, management needs the same information. We see a direct correlation between a strong year-end process to prepare financial statements and the ability to prepare quality financial information throughout the year. Strong, sustainable processes improve management's decision making ability and provide opportunities to use results analysis to communicate to Albertans the institution's performance and accountability for results. The Minister of Innovation and Advanced Education, through the department, must ensure the boards of governors of post-secondary institutions hold management accountable for sustaining strong internal control environments and improving identified control weaknesses in a reasonable period of time.

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

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

A post-secondary institution could have a yellow or red status yet still receive an unqualified audit opinion on its financial statements as management can correct errors and financial statement 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.

Our conclusion on the status of outstanding recommendations considers not just the number, but also the age and nature of the outstanding recommendations. A summary of outstanding recommendations by institution is provided on page 117. Eleven of the 40 outstanding recommendations to institutions are aged greater than three years.

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

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<sup>1</sup> *Report of the Auditor General of Alberta—October 2014*, pages 155-171.

The report card

- ◆ 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.

Institutions where improvements are needed

Institution	Financial statements preparation		Outstanding recommendations
	Accuracy	Timeliness	
<b>Olds College</b>			
2014	◆	◆	◆
2013	◆	◆	◆
2012	◆	●	◆
<b>Northern Lakes College</b>			
2014	◆	●	◆
2013	◆	◆	◆
2012	◆	◆	◆
<b>Alberta College of Art + Design</b>			
2014	●	●	▲
2013	◆	▲	◆
2012	◆	▲	◆
<b>Lakeland College</b>			
2014	▲	●	●
2013	●	●	●
2012	●	●	●
<b>Portage College</b>			
2014	●	●	▲
2013	●	●	◆
2012	●	●	▲

## Institutions with adequate internal controls and processes over financial reporting

Institution	Financial statements preparation		Outstanding recommendations
	Accuracy	Timeliness	
<b>Bow Valley College</b>			
2014	●	●	●
2013	▲	●	●
2012	▲	●	●
<b>Grande Prairie Regional College</b>			
2014	●	●	●
2013	▲	●	●
2012	●	●	●
<b>Keyano College</b>			
2014	●	●	●
2013	▲	◆	●
2012	●	▲	▲
<b>MacEwan University</b>			
2014	●	●	●
2013	●	●	▲
2012	●	●	▲
<b>Medicine Hat College</b>			
2014	●	●	●
2013	●	●	◆
2012	●	●	▲
<b>Northern Alberta Institute of Technology</b>			
2014	●	●	●
2013	●	▲	●
2012	●	●	●
<b>Lethbridge College</b>			
2014	●	●	●
2013	●	●	●
2012	●	●	▲
<b>Mount Royal University</b>			
2014	●	●	●
2013	●	●	●
2012	▲	▲	▲
<b>NorQuest College</b>			
2014	●	●	●
2013	●	●	●
2012	◆	▲	◆
<b>Red Deer College</b>			
2014	●	●	●
2013	●	●	▲
2012	●	●	▲
<b>Southern Alberta Institute of Technology</b>			
2014	●	●	●
2013	●	●	●
2012	●	●	●

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

### Financial statements preparation

Each institution made improvements to internal controls and processes to promptly prepare reliable financial statements.

Alberta College of Art + Design significantly improved its financial reporting internal controls and processes in the year. As previously demonstrated at MacEwan University and NorQuest College, significant improvements to financial reporting processes can be possible in a short period of time if the board of governors holds management accountable for implementing and maintaining those processes.

Olds College and Northern Lakes College added more qualified individuals to their finance departments and began to revise controls and processes to improve their financial reporting. Significant improvements are still required to improve the financial reporting controls and processes at both institutions.

Unanticipated changes in an organization can impact management's ability to sustain strong financial reporting annually. Lakeland College had changes in key finance personnel which contributed to accuracy and disclosure deficiencies being identified in the college's draft financial reporting. We expect Lakeland College will restore effective financial reporting in fiscal 2015.

We issued unqualified audit opinions on the financial statements of all post-secondary institutions in fiscal 2014.

### Outstanding recommendations

Alberta College of Art + Design significantly improved its overall internal control environment. The college implemented five of ten outstanding recommendations including a recommendation to improve financial reporting processes. The college must continue to focus on implementing its remaining recommendations in fiscal 2015.

MacEwan University, Medicine Hat College and Northern Lakes College also implemented numerous outstanding recommendations in the year, strengthening their overall internal control environments. Portage College reduced its outstanding recommendations by one during fiscal 2014 however, it must continue to focus on its remaining four outstanding recommendations, half of which were originally issued over three years ago.

Olds College and Northern Lakes College are the only institutions with an outstanding recommendation to significantly improve their financial reporting processes. We conclude that given the significance of those processes, immediate attention is required to implement improvements.

## FINDINGS

There were no new or repeated recommendations to post-secondary institutions in fiscal 2014.

## ALBERTA COLLEGE OF ART + DESIGN SUMMARY

The college implemented our recommendations to:

- improve financial reporting processes—see below
- implement and enforce procedures for code of conduct and conflict of interest—see below
- improve risk management systems—see below
- improve internal controls at the bookstore—see page 112
- implement proper purchase controls—see page 112

### FINDINGS

#### Matters from prior audits

##### Improve financial reporting processes—implemented

The college implemented our 2014 recommendation<sup>2</sup> (repeated from 2008 and 2010) to improve its processes and internal controls to increase the accuracy and efficiency of its financial reporting. The college implemented this by:

- strictly enforcing cut-off deadlines. This resulted in the timely preparation of financial statements and allowed management to complete detailed reviews of the financial statements before our audit.
- designing and operating processes to prepare reliable draft financial statements. As a result, our audit team found no significant errors in the course of the year-end audit.
- implementing good practices for financial statement presentation and disclosures

Our examination of these processes found them to operate effectively.

##### Implement and enforce procedures for codes of conduct and conflict of interest—implemented

The college implemented our 2014 recommendation<sup>3</sup> (repeated from 2011) to develop, implement and enforce procedures for code of conduct and conflict of interest by:

- developing and implementing procedures for code of conduct, conflict of interest and fraud
- enforcing procedures for acceptable business practices to ensure a sound control environment
- clearly stating who is accountable and what they are responsible for in complying with college procedures. This clear record of accountability is in the Confirmation of Understanding document that the college requires its staff to sign.

Our testing of enforcement processes found them to be adequate.

##### Improve risk management systems—implemented

The college implemented our 2012 recommendation<sup>4</sup> to develop an effective management process to manage and mitigate its risks. The college has implemented this by:

- finalizing its enterprise risk management framework document and annually updating it for changes
- implementing semi-annual reporting processes where the senior vice president, finance and corporate services presents a risk management report to the board of governors, on behalf of the president and chief executive officer, to comply with board policy

Our testing of these processes found them to be adequate.

<sup>2</sup> *Report of the Auditor General of Alberta—February 2014, no. 5, page 78.* (Originally April 2008, page 180; repeated April 2010, page 160).

<sup>3</sup> *Report of the Auditor General of Alberta—February 2014, no. 6, page 79.* (Originally April 2011, p. 72.)

<sup>4</sup> *Report of the Auditor General of Alberta—March 2012, no. 3, page 19.*

### Improve internal controls at the bookstore—implemented

The college implemented our 2014 recommendation<sup>5</sup> (repeated from 2013) to improve deficiencies in its internal control systems at the bookstore, by:

- adequately segregating incompatible job duties
- having the finance department perform test counts quarterly to detect and investigate discrepancies between inventory counts and inventory records
- resolving software deficiencies in its inventory management computer application

Our examination of the bookstore controls identified no differences.

### Implement proper purchase controls—implemented

The college implemented our 2014 recommendation<sup>6</sup> (repeated from 2013) to ensure purchases are appropriately supported by purchase requisitions and purchase orders, in accordance with its policies and procedures.

The college has implemented controls to ensure management consistently approves purchase orders and purchase requisitions before staff make purchases. Management also enforced staff compliance with the college's purchasing procedures.

Our examination of the controls identified no differences.

## GRANDE PRAIRIE REGIONAL COLLEGE FINDINGS

### Matters from prior audit

#### Conflict of Interest Policy—implemented

The college implemented our 2013 recommendation<sup>7</sup> by:

- developing and implementing a new conflict of interest policy that defines when a conflict of interest exists and outlines the corresponding corrective action
- implementing a process for employees to annually declare that they have read the policy and disclosed potential conflicts of interest in writing, or to confirm that they are free from any conflicts of interest so that the college can manage the conflicts proactively

We noted that the college regularly follows up on outstanding declarations. We examined supporting documentation of the analysis performed, and where applicable, the corrective action taken, on a sample of conflicts identified.

Members of the board of governors do not make annual written declarations on conflicts of interest. All members are required to declare any conflicts of interest, if they arise, at board meetings held throughout the year.

## MACEWAN UNIVERSITY SUMMARY

The college implemented our recommendations to:

- improve its financial business process—see page 113
- improve security of its enterprise resource planning system—see page 113
- improve the process to ensure timely signing of contracts—see page 113

<sup>5</sup> *Report of the Auditor General of Alberta—February 2014*, no. 7, page 80. (Originally February 2013, no. 8, page 62.)

<sup>6</sup> *Report of the Auditor General of Alberta—February 2014*, no. 8, p. 81 (Originally February 2013, no. 12, page 67.)

<sup>7</sup> *Report of the Auditor General of Alberta—February 2013*, No. 14, page 72.

## FINDINGS

### Matters from prior audits

#### Improve financial business process—implemented

The university implemented our 2012 recommendation<sup>8</sup> to improve its financial business processes. Management has:

- established clearly documented processes and controls to avoid processing errors and incomplete financial records. We tested financial reporting controls and did not identify any control weaknesses.
- developed quarter and year-end close checklists outlining roles, responsibilities and timeline for each finance staff to prepare documents supporting the financial reports. We received working papers supporting the financial statements timely for our audit.
- provided on-the job training to accounting staff throughout the year. We noted that staff were familiar and knowledgeable with the policies, processes and controls surrounding the financial business process.
- implemented a monitoring and review process

We examined these processes and assessed them to be effective.

#### Improve security of the enterprise resource planning system—implemented

The university implemented our 2012 recommendation<sup>9</sup> to improve the security of its enterprise resource planning system by:

- limiting user access to the minimum needed for business purposes
- documenting and enforcing segregation of duties through defined roles
- limiting the use of powerful data entry modes

The university formalized its security standards and policies, reviewed existing roles and user permission lists and revised them to be in compliance with its documented standards and policies. We examined the documentation that management provided and assessed that they are adequate.

The university implemented a defined operational process to monitor security changes to maintain the integrity of the security controls. We obtained a log of data changes and tested a sample of changes. We noted that there was sufficient evidence of logging, approvals, separation of duties, testing and approval to implement the changes.

We conclude that management has adequate controls to manage the security of its enterprise resource planning system and the controls are operating effectively.

#### Improve the process to ensure timely signing of contracts—implemented

The university implemented our 2011 recommendation<sup>10</sup> (repeated from 2006) to improve the process to ensure timely signing of contracts. It establishes guidelines for procurement and contract services. If there is a need to proceed with the work prior to execution of the contracts, management will issue an interim letter of agreement. We tested a sample of contracts that the university entered and did not identify any exceptions to the university's guidelines.

Management told us that it is not always feasible to have signed contracts in place prior to service delivery. The undue delay may adversely affect its project delivery schedule. Management's approach to assess risk is on a case-by-case basis. If a signed contract cannot be in place prior to service delivery,

<sup>8</sup> Report of the Auditor General of Alberta—March 2012, no. 1, page 13.

<sup>9</sup> Report of the Auditor General of Alberta—March 2012, no. 2, page 15.

<sup>10</sup> Report of the Auditor General of Alberta—April 2011, no. 3, page 75. (Originally November 2006, no. 9, page 35.)

management will assess if certain work orders can commence without posing significant risks to the university and that the university can manage the risks within its acceptable parameters. We concur with management's rationale.

## MEDICINE HAT COLLEGE SUMMARY

The college implemented our recommendation to improve its enterprise risk management systems—see below.

The college also implemented our 2013 recommendations<sup>11</sup> relating to its international education programs—see page 99

## FINDINGS

### Matters from prior audits

#### Improve enterprise risk management systems—implemented

The college has implemented our 2012<sup>12</sup> recommendation to improve its risk assessment processes by:

- developing an enterprise risk management system based on a recognized international risk management standard
- creating a steering committee to oversee development and implementation of the enterprise risk management processes
- implementing a risk management policy which defines its risk management framework and institutional risk appetite
- identifying and documenting strategic, operational and financial risks the college faces, and process owners for key risk categories
- completing risk assessments for nine of thirteen risk categories, including assessing the likelihood and impact of identified risk, current controls and planned response for areas where the residual risk remained higher than the risk tolerance. The college will repeat this process until all risk categories have been formally assessed.
- reporting implementation progress to the audit committee regularly and developing processes to report assessed risks to the audit committee

We examined supporting documentation and approvals and concluded they were adequate.

## NORQUEST COLLEGE FINDINGS

### Matters from prior audit

#### Contract management—implemented

The college implemented our 2012 recommendation<sup>13</sup> to improve its controls over contract management by developing and implementing:

- contract framework and specific procedures which provide guidance to staff
- contract templates to ensure consistency of language in all types of the college's contracts
- contract control form to improve the review and approval of contracts

We examined these documents and found them to be adequate.

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<sup>11</sup> *Report of the Auditor General of Alberta—July 2013*, no. 8, page 62; no. 9, page 67; no. 10, page 72; and no. 11, page 77.

<sup>12</sup> *Report of the Auditor General of Alberta—March 2012*, no. 12, page 31.

<sup>13</sup> *Report of the Auditor General of Alberta—March 2012*, no. 5, page 23.



## NORTHERN LAKES COLLEGE SUMMARY

The college implemented our recommendations to:

- preserve endowment—see below
- improve controls over tuition revenue—see below
- establish an accounts receivable write off policy—see below

### FINDINGS

#### Matters from prior audit

##### Preserving endowment—implemented

The college implemented our 2013<sup>14</sup> recommendation to define the college's goals for the use and preservation of the economic value of endowment assets. During the year the college developed a policy which adequately defined those terms.

##### Controls over tuition revenue—implemented

The college implemented our 2013<sup>15</sup> report recommendation to improve controls over tuition revenue.

The college reviews that:

- the approved fee schedule entered into the system matches the board of governors approved fees
- individuals are appropriately assigned roles and levels of user access to the system

Our testing of these controls identified no differences.

##### Accounts receivable write off policy—implemented

The college implemented our 2013<sup>16</sup> report recommendation to establish an accounts receivable write off policy to ensure that balances are valid and appropriately valued. The college approved a policy that provides guidance on identifying accounts receivable write offs, collection efforts that need to be carried out prior to write off and write off approvals.

Our examination confirmed the bad debt expense and allowance for doubtful accounts were determined in accordance with the policy.

## OLDS COLLEGE FINDINGS

#### Matters from prior audit

##### Privileged user access—implemented

The college implemented our 2013 recommendation<sup>17</sup> (repeated from 2012) to segregate privileged systems access from data entry responsibilities and business functions.

College management stated that there are a limited number of staff within the college's business division. This prevents them from providing privileged user access to staff that do not enter financial data. With this limitation in mind, the college amended access for the two business staff that need privileged user and data entry access. They will continue to have separate user IDs for each role but data entry is possible with privileged user access. As a compensating control, the college developed monthly reports to confirm that no data entry takes place under the privileged user access. All changes

<sup>14</sup> Report of the Auditor General of Alberta—February 2013, no. 26, page 92.

<sup>15</sup> Report of the Auditor General of Alberta—February 2013, no. 27, page 93.

<sup>16</sup> Report of the Auditor General of Alberta—February 2013, no. 28, page 94.

<sup>17</sup> Report of the Auditor General of Alberta—February 2013, no. 30, page 96. (Originally March 2012, no. 9, page 28.)

in authority for privileged access are authorized in advance and documented. We tested a sample of those monthly reports and found no exceptions. In our view, this compensating control achieves the objective we recommended.

## PORTAGE COLLEGE FINDINGS

### Matters from prior audit

#### Bookstore perpetual inventory system—implemented

The college implemented our 2014 recommendation<sup>18</sup> (repeated from 2011 and 2012) to improve the accuracy of its perpetual inventory system at the bookstore.

The college implemented our recommendation by:

- preparing year-end variance reports for inventory with review by the director of finance and administration
- updating the inventory system with the results from the physical inventory count
- restricting access to the bookstore from the general public by installing doors and security cameras
- inventory report and reconciliation are reviewed by chief financial officer

We examined the year-end variance reports, book-to-physical adjustments and improved controls, and concluded they were adequate.

## SOUTHERN ALBERTA INSTITUTE OF TECHNOLOGY FINDINGS

### Matters from prior audit

#### IT strategic plan—implemented

The college implemented our 2013<sup>19</sup> recommendation to reassess and update its IT action plan and develop an effective process to identify, rank and prioritize all IT projects and update plans as needed. It implemented an IT project portfolio review process to identify and review all IT projects with senior management regularly throughout the year. We obtained evidence that this process:

- replaces the IT action plan that the college developed in prior years
- identifies the priority of IT projects and reprioritizes IT projects throughout the year as needed
- provides assurance to application and data owners and users that the IT group is meeting its IT project obligations

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<sup>18</sup> *Report of the Auditor General of Alberta—February 2014*, no.10, page 88. (Originally April 2011, page 82; repeated March 2012, no. 15, page 34)

<sup>19</sup> *Report of the Auditor General of Alberta—February 2013*, no. 33, page 101.

## OUTSTANDING RECOMMENDATIONS

Institution	Outstanding Recommendations		
	3+ Years*	Other	Total
Alberta College of Art + Design	-	5	5
Athabasca University	5	2	7
Bow Valley College	-	1	1
Grande Prairie Regional College	-	1	1
Keyano College	-	1	1
Lakeland College	-	1	1
Lethbridge College	-	1	1
MacEwan University	1	1	2
Medicine Hat College	-	1	1
Mount Royal University	-	1	1
NorQuest College	-	1	1
Northern Alberta Institute of Technology	-	1	1
Northern Lakes College**	-	2	2
Olds College**	1	1	2
Portage College	2	2	4
Red Deer College	-	2	2
Southern Alberta Institute of Technology	-	1	1
University of Alberta	1	1	2
University of Calgary	1	2	3
University of Lethbridge	-	1	1
<b>Total Outstanding</b>	<b>11</b>	<b>29</b>	<b>40</b>
Ready for follow-up audit***	4	8	12
Not yet ready for audit	7	21	28

\* Originally issued in March 2012 report and earlier

\*\* Outstanding recommendation to improve financial reporting processes

\*\*\* Based on management representations to March 3, 2015

The following is a detailed list of outstanding recommendations to public post-secondary institutions. The list does not include the University of Alberta, University of Calgary, University of Lethbridge, Athabasca University or the Department of Innovation and Advanced Education, which were included in our October 2014 report.

### MULTI-INSTITUTIONAL RECOMMENDATION

#### Improve systems to ensure compliance with legislation—February 2013, no.7, p.60

We recommend that the post-secondary institutions<sup>20</sup> 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

<sup>20</sup> As a result of our assessment, we made this common recommendation to all colleges and universities as part of our original audit in February 2013, and then followed up in October 2013 and February 2014.

## ALBERTA COLLEGE OF ART + DESIGN

Improve systems to ensure compliance with legislation—see multi-institutional recommendation

Improve controls over contracts—February 2013, no. 9, p. 64

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

Implement a disaster recovery plan—February 2013, no. 10, p. 65

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

Strengthen controls over procurement cards transactions—February 2013, no. 11, p. 66

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

Improve controls over expense claims and purchase card transactions—February 2014, no. 4, p. 76

We recommend that Alberta College of Art + Design strengthen its controls over expense claims and purchase card transactions by:

- improving documentation to support the business reason for and cost effectiveness of expenses
- improving staff training on their responsibilities for complying with policies monitoring expenses and reporting results to the board

## MACEWAN UNIVERSITY

Systems over costs for internal working sessions and hosting guests—April 2010, p. 165

We recommend that MacEwan University:

- implement policies and guidance on appropriate expenses for events related to internal working sessions and for hosting guests
- follow its policies and processes for employee expense claims and corporate credit cards

Improve systems to ensure compliance with legislation—see multi-institutional recommendation

## NORTHERN LAKES COLLEGE

Improve systems to ensure compliance with legislation—see multi-institutional recommendation

Improve processes for year-end financial report—February 2014, no. 9, p. 87

We recommend that Northern Lakes College review the adequacy of its financial statements closing process and improve its ability to produce timely and accurate financial statements.

## OLDS COLLEGE

Improve systems to ensure compliance with legislation—see multi-institutional recommendation

Improve systems on financial year-end reporting—February 2013, no. 29, p. 95  
(Originally April 2011, p. 68; repeated March 2012, no. 8, p. 27)

We again recommend that Olds College further improve its processes and controls over year-end financial reporting.

### PORTAGE COLLEGE

**Follow access controls and remove access promptly—March 2012, no. 13, p. 32**

We recommend that Portage College ensure that employees follow its system user-access control procedures and that management promptly removes access privileges when staff leave.

**Develop and test a business resumption plan—March 2012, no. 14, p. 33**

We recommend that Portage College fully develop and test a business resumption plan to ensure that it can resume IT services in a reasonable time after a disaster.

**Improve systems to ensure compliance with legislation—see multi-institutional recommendation**

**Improve information system change management—February 2013, no. 31, p. 98**

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.

### RED DEER COLLEGE

**Improve systems to ensure compliance with legislation—see multi-institutional recommendation**

**Improve general computer control environment—February 2013, no. 32, p. 100**

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

### BOW VALLEY COLLEGE

### GRANDE PRAIRIE REGIONAL COLLEGE

### KEYANO COLLEGE

### LAKELAND COLLEGE

### LETHBRIDGE COLLEGE

### MEDICINE HAT COLLEGE

### MOUNT ROYAL UNIVERSITY

### NORQUEST COLLEGE

### NORTHERN ALBERTA INSTITUTE OF TECHNOLOGY

### SOUTHERN ALBERTA INSTITUTE OF TECHNOLOGY

**Improve systems to ensure compliance with legislation—see multi-institutional recommendation**

