



Advanced Education

October 2017

Summary

Department

There are no new recommendations to the department in this report. We have repeated our 2015 recommendation to the department to implement an integrated enterprise risk management framework to identify and mitigate relevant risks—see page 13.

Post-secondary Institutions

There are no new recommendations made to post-secondary institutions in this report. Post-secondary institutions in total have nine outstanding recommendations to implement—see page 15.

Post-secondary Institutions Report Card

This report includes an update on the report card on four universities' internal controls over financial reporting, together with comparative assessments from our 2016 and 2015 audits. Our May 2017 report included the results of our audits at the colleges, technical institutions, MacEwan University and Mount Royal University.

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

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

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

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

Our conclusion on the status of 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 on page 15. Six of the nine 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 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 by operating in a cost-effective manner and managing operating risks.

The Report Card

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

Institution	Financial Statements Preparation		Outstanding Recommendations
	Accuracy	Timeliness	
Athabasca University			
2017	●	●	◆
2016	●	●	◆
2015	●	●	◆
University of Alberta			
2017	●	●	●
2016	●	●	●
2015	●	●	●
University of Calgary			
2017	●	●	●
2016	●	●	●
2015	●	●	●
University of Lethbridge			
2017	▲	●	●
2016	●	●	●
2015	●	●	●

Note: *The Report of the Auditor General of Alberta—May 2017*, page 82 included the fiscal 2016 report card as the results of our audits at the colleges, technical institutions, MacEwan University and Mount Royal University.

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

Financial Statements Preparation

The four universities that we examine in this report have internal controls and processes to promptly prepare reliable financial statements.

We made a number of observations on internal controls related to the University of Lethbridge's financial reporting processes which management is working promptly to rectify. While each observation is not individually significant to the overall university control environment, collectively they signal that management needs to do some work to sustain the university's overall financial reporting controls and processes. We encourage the board of governors to oversee management's actions to sustain the university's strong internal controls and processes.

All four universities prepare clear documentation and support for financial reporting conclusions which significantly enhances the universities' financial reporting preparation throughout the fiscal year. The universities are continuously working to improve financial reporting systems and management's decision making ability. Sustaining strong financial reporting systems increases opportunities to use results analyses to better communicate the universities' performance and accountability for results.

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

Outstanding Recommendations

There were no new recommendations to the four universities.

Athabasca University is the only one of Alberta's six universities that has outstanding recommendations. Athabasca University continues to work towards implementing the two recommendations on its information technology internal controls and processes. The university must improve IT resumption capabilities and procedures to monitor and report IT access and security violations. Without promptly rectifying the identified weaknesses, the university risks being unable to reliably provide accessible on-line learning to Albertans and sustain processes to produce accurate financial reporting to the board of governors and Albertans.

Findings and Recommendations

Department

Enterprise risk management framework—**recommendation repeated**

Context

In October 2015¹ we recommended that the Department of Advanced Education implement an integrated enterprise risk management framework to identify and mitigate relevant risks.

Department management began developing a risk assessment framework in 2008 but stopped when the department underwent restructuring in fiscal 2012. Department management subsequently performed a preliminary risk assessment and drafted a document outlining the department's current and future risks in November 2013. Department senior management has not yet approved this preliminary assessment.

We repeat this recommendation because the department still has not implemented a formal enterprise risk management framework to manage its strategic risks.

¹ Report of the Auditor General of Alberta—October 2015, no.15, page 124

Criteria: the standards of performance and control

An effective enterprise risk management framework involves:

- identifying and prioritizing entity-wide risks associated with achieving the department's objectives
- assessing and ranking risks, including the likelihood and potential impact of the risks
- defining roles and responsibilities for risk management
- designing and implementing procedures for identifying risks
- updating risk assessments as changes occur
- monitoring and evaluating procedures to mitigate risks
- reporting to senior management on actions to reduce identified risks to an acceptable level

Our audit findings**Key Finding**

The department still has not finalized its formal enterprise risk management framework.

The department initiated an action plan in fall 2015 to finalize, implement and maintain the enterprise risk management framework. This work is still in progress.

Department management has made some efforts to update the risk management framework and its risk assessment in response to the Treasury Board and Finance requirement for a periodic risk assessment. However, department management has not prioritized and ranked the risks, developed mitigation activities to manage the identified risks or assessed the likelihood and severity of the possible consequences.

**Recommendation: Implement Enterprise Risk Management Framework—
recommendation repeated**

We again recommend that the Department of Advanced Education implement an integrated enterprise risk management framework to identify and mitigate relevant risks.

Consequences of not taking action

Without an effective enterprise risk management system, the department will not identify and mitigate its risks efficiently and effectively.

Outstanding Recommendations

Department

The following recommendations are outstanding and not yet ready for follow-up audits:

For-profit and cost recovery ventures at post-secondary institutions—document and communicate expectations and guidelines—October 2015, no. 1, p. 25

We recommend that the Department of Advanced Education:

- document its expectations in terms of desired results and risk management for institutions participating in for-profit and cost recovery ventures
- establish approved guidelines for cost recovery ventures, to support best practices and align with the department's expectations
- update and approve for-profit venture guidelines, to support best practices and align with the department's expectations
- develop a process to communicate the department's expectations and guidelines to all institutions.

For-profit and cost recovery ventures at post-secondary institutions—improve department's oversight of institution's risk assessment of ventures—October 2015, no. 2, p. 27

We recommend that the Department of Advanced Education improve its oversight processes to ensure that boards of governors oversee management's assessment of the risks associated with for-profit and cost recovery ventures by:

- tailoring board training to examine these ventures
- maintaining relevant documentation of the institution's risk assessment and venture approval requests
- requiring the institution to comply with the department's expectations and guidelines
- requiring the institution to report on venture results on an ongoing basis
- providing effective feedback and ongoing guidance to the boards

Improve review of travel, meal and hospitality expenses—May 2017, no. 4, p. 56

We recommend that the Department of Advanced Education improve its review processes for travel, meal and hospitality expenses.

Collaborative initiatives among post-secondary Institutions: Develop strategic plan and accountability framework—October 2017, Performance Auditing, p. 37 (originally July 2013, no. 6, p. 48)

We again recommend that the Department of Advanced Education, working with institutions:

- develop and communicate a strategic plan that clearly defines the minister's expected outcomes for Campus Alberta initiatives to achieve those outcomes, the resources required and sources of funding
- develop relevant performance measures and targets to assess if the outcomes are being achieved
- publicly report results and the costs associated with collaborative initiatives
- review and clarify the accountability structure for governing collaborative initiatives

Collaborative initiatives among post-secondary institutions: Develop processes and guidance to plan, implement and govern collaborative projects

—October 2017, Performance Auditing, p. 40 (originally July 2013, no. 7, p. 51)

We again recommend that the Department of Advanced Education, working with institutions, develop systems and guidance for institutions to follow effective project management processes for collaborative initiatives.

Implement enterprise risk management framework—October 2017, Financial Statement Auditing, p. 15 (originally October 2015, no. 13, p. 124)

We again recommend that the Department of Advanced Education implement an integrated enterprise risk management framework to identify and mitigate relevant risks.

Institution	Outstanding Recommendations		
	3+ Years*	Other	Total
Alberta College of Art + Design	-	-	-
Athabasca University	2	-	2
Bow Valley College	-	-	-
Grande Prairie Regional College	-	-	-
Keyano College**	1	1	2
Lakeland College	-	1	1
Lethbridge College	-	-	-
MacEwan University	-	-	-
Medicine Hat College	-	-	-
Mount Royal University	-	-	-
NorQuest College	-	-	-
Northern Alberta Institute of Technology	-	-	-
Northern Lakes College	1	-	1
Olds College	1	1	2
Portage College	1	-	1
Red Deer College	-	-	-
Southern Alberta Institute of Technology	-	-	-
University of Alberta	-	-	-
University of Calgary	-	-	-
University of Lethbridge	-	-	-
Total Outstanding	6	3	9
Ready for follow-up audit***	3	1	4
Not yet ready for audit	3	2	5

* Originally issued in October 2014 report and earlier

** Outstanding recommendation to improve financial reporting processes

*** Based on management representations to August 21, 2017

Athabasca University

The following recommendations are outstanding and not yet ready for follow-up audits:

Establish information technology resumption capabilities—October 2016, no. 9, p. 65 (repeated October 2013, no. 9, p. 96 and originally October 2010, no. 10, p. 111)

We again recommend that Athabasca University:

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

Improve procedures to monitor and report access and security violations—October 2016, no. 10, p. 67 (originally October 2013, no. 8, p. 95)

We again recommend that Athabasca University formalize its access and security monitoring procedures to:

- detect and assess security threats to critical information systems
- report access and security violations to senior management
- identify and resolve the root causes of security threats and violations

Keyano College

The following recommendations are outstanding and not yet ready for follow-up audits:

Improve financial reporting processes—February 2016, no. 13, p. 102

We recommend that Keyano College improve its financial reporting by:

- training staff on Canadian Public Sector Accounting Standards
- improving its monitoring and reviewing processes to ensure accurate financial information.

Improve systems to ensure compliance with legislation²—May 2017, no. 8, p.86 (Originally February 2013, no. 7, p. 60)

We recommend that Keyano College 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

² As a result of our assessment, we made this common recommendation to all colleges and universities as part of our original audit in February 2013, and then followed up in October 2013, February 2014, February 2016 and October 2016.

Lakeland College

Management has identified this recommendation as implemented
– to be confirmed with a follow-up audit:

Improve segregation of duties—February 2016, no. 14, p. 103

We recommend that Lakeland College improve segregation of duties within the finance department.

Northern Lakes College

Management has identified this recommendation as implemented
– to be confirmed with a follow-up audit:

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

We recommend that Northern Lakes College 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

Olds College

The following recommendation is outstanding and not yet ready for a follow-up audit:

Improve access controls to information systems—February 2016, no. 15, p. 105

We recommend that Olds College strengthen its information systems access controls, to ensure it:

- promptly removes system access privileges when staff or contractors leave the college
- discontinues the practice of leaving accounts open for email access after staff are terminated

Management has identified this recommendation as implemented
– to be confirmed with a follow-up audit:

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

We recommend that Olds College 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

Portage College

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit:

Improve systems to ensure compliance with legislation³—February 2013, no. 7, p. 60

We recommend that Portage College 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

³ As a result of our assessment, we made this common recommendation to all colleges and universities as part of our original audit in February 2013, and then followed up in October 2013, February 2014, February 2016 and October 2016.