AUDITOR GENERAL
Alberta

Report of the Auditor General of Alberta

FEBRUARY 2013

Mr. David H. Xiao, MLA
Chair
Standing Committee on Legislative Offices

I am honoured to send my *Report of the Auditor General of Alberta—February 2013* to Members of the Legislative Assembly of Alberta, as required by Section 20(1) of the *Auditor General Act*.

[Original signed by Merwan N. Saher]

Merwan N. Saher, FCA
Auditor General
February 5, 2013

AUDITOR GENERAL
Alberta

Contents

AUDITOR GENERAL'S MESSAGE 5

FEBRUARY 2013 RECOMMENDATIONS 7

STAND-ALONE SYSTEMS AUDITING
- Health—AHS Controls Over Expense Claims, Purchasing Card Transactions and Other Travel Expenses 21
- Human Services—Office of the Public Trustee 33
- Treasury Board and Finance— Reporting on Selected Payments to MLAs Follow Up 51

OTHER AUDITING
- Enterprise and Advanced Education—Report on Post-secondary Institutions 57
- Treasury Board and Finance—Province's Fiscal Update 103

GLOSSARY 107

AUDITOR GENERAL'S MESSAGE AND RECOMMENDATIONS

REPORT OF THE AUDITOR GENERAL OF ALBERTA

February 2013

AUDITOR GENERAL'S MESSAGE

The Office of the Auditor General serves the Legislative Assembly and the people of Alberta. Our mandate is to examine and report publicly on government's management of, and accountability practices for, the public resources entrusted to it. Under the *Auditor General Act*, the Auditor General is the auditor of all government ministries, departments, funds and provincial agencies. Our audit work focuses on areas that improve governance and ethical behaviour, safety and welfare of Albertans, and security and use of the province's resources.

In this report, we report on our audits of the Office of the Public Trustee; controls over expenses related to purchasing card transactions, expense claims and other travel expenses at Alberta Health Services; and the reporting of selected payments to MLAs. We also include our latest report card on post-secondary institutions and a commentary on the province's fiscal updates.

There are 28 new and five repeated recommendations to government in this report. The repeated recommendations have been made because we do not believe there has been sufficient action taken to implement our previous recommendations.

Health—AHS Controls Over Expense Claims, Purchasing Card Transactions and Other Travel Expenses (page 21)

Albertans are entitled to assurance that public servants are not rewarding themselves at public expense. Recently there has been increased public disclosure of the travel, meal and hospitality expenses incurred by the public service.

We believe that public disclosure is useful, but Albertans need more. Albertans need assurance from those who have oversight of the public institutions they fund that the organization has a well-designed and functioning framework to control expenses. Those with oversight responsibility must be able to assert publicly that their organization's policies and procedures ensure it reimburses expenses only if there is a business purpose and regard for economy—in other words, the expenses are a cost-effective use of Albertan's resources.

Our recommendation to Alberta Health Services is designed to help AHS back up its public assertion.

Human Services—Office of the Public Trustee (page 33)

The Office of the Public Trustee is entrusted with protecting and managing the property of deceased persons, represented adults and minors when there is no one else to act on their behalf. These are some of Alberta's most vulnerable citizens. We were asked by the Department of Justice to audit the files of the OPT when it had determined through an internal investigation that a senior trust officer had misappropriated trust funds. While our audit did not find other instances of misappropriation, it did determine that the OPT does not have adequate systems or controls in place to ensure its client files are being properly administered; there is sufficient rigour in its internal audit function; and its trust officers are performing their duties competently and acting in the best interests of their clients. Further, we found that there is improper segregation of duties between trust administration and financial services, which increases the risk that improper payments could go undetected.

Enterprise and Advanced Education—Report on Post-secondary Institutions (page 57)

This is our third report card on post-secondary institutions. The first was released in our *March 2012 Report* and the second in our *October 2012 Report.* These report cards were prepared in response to institutions requesting a means of differentiating themselves from their peers. In this report card we note that, while some institutions have made positive gains, there is still work to be done by others. The challenge will be for the boards of these latter institutions and the Minister, who have oversight responsibilities, to ensure there are adequate financial control environments in place. Albertans expect their post-secondary institutions to operate effectively.

FEBRUARY 2013 RECOMMENDATIONS

We conducted our audits in accordance with the *Auditor General Act* and the standards for assurance engagements set by the Canadian Institute of Chartered Accountants.

This report contains 28 new recommendations and five repeated recommendations. The repeated recommendations were made because in our judgement, taking into account the complexity of the matter and the action planned by management, progress was insufficient.

As part of the audit process, we provide recommendations to government in documents called management letters. We use public reporting to bring recommendations to the attention of Members of the Legislative Assembly. For example, members of the all-party Standing Committee on Public Accounts refer to the recommendations in our public reports during their meetings with representatives of government departments and agencies.

We believe all of the recommendations in this report require a formal public response from the government. In instances where a recommendation has been made to a board-governed organization, we expect the organization to implement the recommendation and report back to its respective government ministry as part of proper oversight of the organization. By implementing our recommendations, the government will significantly improve the safety and welfare of Albertans, the security and use of the province's resources, or the governance and ethics with which government operations are managed.

Reporting the status of recommendations

We follow up all recommendations and report their status in our public reports. The timing of our follow-up audits depends on the nature of our recommendations. To encourage timely implementation, and assist with the timing of our follow-up audits, we require a reasonable implementation timeline on all recommendations accepted by the government or the entities we audit that report to the government. We recognize some recommendations will take longer to fully implement than others, but we encourage full implementation within three years. Typically, we do not report on the progress of an outstanding recommendation until management has had sufficient time to implement the recommendation and we have completed our follow-up audit work.

We repeat a recommendation if we find that the implementation progress has been insufficient. We report the status of our recommendations as:

- Implemented—We explain how the government implemented the recommendation.
- Satisfactory progress—We may state that progress is satisfactory based on the results of a follow- up audit.
- Progress report—Although the recommendation is not fully implemented, we provide information when we consider it useful for MLAs to understand management's actions.
- Repeated—we explain why we are repeating the recommendation and what the government must still do to implement it.
- Changed circumstances—If the recommendation is no longer valid, we explain why and remove the recommendation from our outstanding recommendation list.

HEALTH—AHS Controls Over Expense Claims, Purchasing Card Transactions and Other Travel Expenses

Page 24

RECOMMENDATION 1: CONTROLS OVER EXPENSES

We recommend that Alberta Health Services tighten its controls over expense claims, purchasing card transactions and other travel expenses by:

- improving the analysis and documentation that support the business reasons for—and the cost effectiveness of—these expenses
- improving education and training of staff on their responsibilities for complying with policies
- monitoring expenses and reporting results to the board

Implications and risks if recommendation not implemented

AHS spent about $100 million during the 17-month period on these types of expenses. If it does not implement this recommendation, it may pay expenses that do not comply with policies.

Its spending on expenses may not be cost effective. Without effective control processes to monitor compliance with policy, AHS may pay more for expenses than its policies allow. And it may reimburse employees or pay for expenses that have no business purpose.

HUMAN SERVICES—Office of the Public Trustee

Page 42

RECOMMENDATION 2: SUPERVISORY REVIEW OF CLIENT FILES

We recommend that the Office of the Public Trustee improve its file management processes to ensure all client files are subject to adequate supervisory review.

Page 42

RECOMMENDATION 3: INTERNAL AUDIT ROLE

We recommend that the Office of the Public Trustee strengthen the role of its internal audit, ensuring it has adequate authority and independence to effectively perform its function.

Implications and risks if recommendations not implemented

Without an effective supervisory review and a broad scope of operations for its internal audit function, management cannot be assured that client files are being properly administered, that the OPT is applying a consistent approach in similar situations, and that trust officers are performing their duties competently and acting in the best interests of the client.

Page 45

RECOMMENDATION 4: IMPROVE AND FOLLOW POLICIES

We recommend that the Office of the Public Trustee:
- review and assess whether its policies are appropriate, and procedures are adequate to mitigate the risk that client assets could be misappropriated or otherwise mismanaged
- improve its processes for ensuring compliance with policies and procedures

Implications and risks if recommendation not implemented

Without strong policies that are monitored for compliance and enforced, it is difficult to know whether trust funds are being properly administered and accounted for.

Page 47

RECOMMENDATION 5: SEGREGATION OF DUTIES

We recommend that the Office of the Public Trustee strengthen its processes for the approval and payment of client expenses or disbursements.

Implications and risks if recommendation not implemented

If financial services must rely solely on the representations of the trust officer requesting payment, there is not a meaningful segregation of duties. Insufficient supervisory review and oversight further increases the risk that improper payments could go undetected.

Page 48

RECOMMENDATION 6: DOCUMENTATION

We recommend that the Office of the Public Trustee improve its processes for ensuring client files are appropriately documented, including adequate documentation of supervisory review and internal audit.

Implications and risks if recommendation not implemented

If client files do not include adequate supporting documentation, the OPT will be unable to demonstrate it is properly administering and monitoring client files.

ENTERPRISE AND ADVANCED EDUCATION—Report on Post-secondary Institutions

CROSS-INSTITUTION RECOMMENDATION

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.

Page 60

RECOMMENDATION 7: IMPROVE SYSTEMS TO ENSURE COMPLIANCE WITH LEGISLATION

We recommend that the post-secondary institutions[1] 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

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 RECOMMENDATIONS

Alberta College of Art + Design

Page 62

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

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.

Page 64

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

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

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.

Page 65

RECOMMENDATION 10: IMPLEMENT A DISASTER RECOVERY PLAN

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

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.

Page 66

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.

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.

Page 67

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.

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.

Page 68

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

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.

Grande Prairie Regional College

Page 72

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.

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

Page 73

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.

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.

Keyano College

Page 78

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.

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.

Lethbridge College

Page 81

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.

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.

Mount Royal University

Page 82

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.

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

Page 84

RECOMMENDATION 19: SEGREGATE INCOMPATIBLE JOB DUTIES

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

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.

Page 85

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

Implications and risks if this recommendation is not implemented

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

Page 86

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.

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.

Page 87

RECOMMENDATION 22: REGULARLY MAINTAIN INFORMATION SYSTEMS

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

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.

Page 88

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.

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.

Page 89

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.

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 make informed decisions. Also, the processes may be inefficient, causing unreasonable costs to prepare and audit year-end financial statements.

Page 90

RECOMMENDATION 25: SEGREGATE INCOMPATIBLE JOB DUTIES—REPEATED

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

Implications and risks if recommendation not implemented

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

Northern Lakes College

Page 92

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.

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.

Page 93

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

Implications and risks if recommendation not implemented

Information put into the accountng 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.

Page 94

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.

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

Page 95

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.

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.

Page 96

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.

Implications and risks if recommendation is not implemented

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

Portage College

Page 98

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.

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.

Red Deer College

Page 100

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

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

Page 101

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

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.

Systems Auditing

REPORT OF THE AUDITOR GENERAL OF ALBERTA

February 2013

Health—AHS Controls Over Expense Claims, Purchasing Card Transactions and Other Travel Expenses

SUMMARY

What we examined

In response to a request from both the Minister of Health and Alberta Health Services, we examined AHS's systems for processing expense claims, purchasing card transactions, and other travel expenses. Our objective was to assess if AHS has effective controls to ensure that these types of expense payments comply with AHS policies.

In addition to our audit, under the direction of the Minister of Health, AHS hired Ernst & Young to perform an audit of expenses claimed by the former Capital Health's Chief Financial Officer. Four executives who were, at that time, executives with the former Calgary Health Region also requested an internal audit of their expenses. AHS released both reports on December 13, 2012.

While the other two reports focus on the expense transactions of a small number of individuals, we focused on, and report our findings for, the whole system, not individuals.

Policies—We tested transactions against the expense reimbursement component of the Board Member Remuneration and Expense Reimbursement Policy; the Travel, Hospitality and Hosting Policy (and the predecessor policy); the Travel User Guide; the Purchasing Card Program User Guide; the Medical Staff Recruitment Incentives Policy; the Medical Staff Recruitment Guideline—Relocation Support; Medical Staff Strategic Workforce Incentives Guideline and the Employee Relocation Procedure in effect from April 1, 2011 to August 31, 2012.

Essentially, these policy requirements were our detailed criteria.

What we found and what needs to be done

AHS is a large, complex organization that operates the delivery of the provincial health care system. Travel is essential to its operations. AHS spent about $100 million on travel expenses and other expense claim and purchasing card expenses (expenses) between April 2011 and August 2012.

We found that AHS needs to tighten its controls by:

- improving the analysis and documentation that support the business reasons for—and the cost effectiveness of—these expenses
- improving education and training of staff on their responsibilities for complying with policies
- monitoring expenses and reporting results to the Board

We also found that AHS needs processes to guide employees on how to achieve cost effectiveness. Specifically, it needs to:

- analyze the major expense categories to guide employees on minimizing travel costs by choosing cost effective alternatives
- provide guidance to employees on where to document their analyses considering cost effectiveness and what to consider when doing these analyses

We also found that AHS has improved controls over expenses since our 2008 audit (of Peace Country Health Region, a predecessor of AHS).

Why it is important to Albertans

An effective control framework ensures that public servants do not subsidize the government—or reward themselves at public expense. It protects employees and helps ensure organizational policies are implemented. It also enables AHS's Board to show and publicly state that AHS expenses are incurred only for business reasons, with proper consideration of economy and efficiency—in other words, that AHS expenses are cost effective.

Although these types of expenses are a very small percentage of the total expenses spent by AHS, an effective control framework over these types of expenses helps reduce reputational risk to AHS and promote an overall proper control environment.

AUDIT OBJECTIVE AND SCOPE

Objective—To assess if AHS has effective controls to ensure payment of expense claims, purchasing card transactions and other travel expenses complies with AHS policies.

Because AHS inherited the outstanding recommendations of the health regions that existed before AHS was formed, we also assessed the status of the following recommendation to the former Peace Country Health Region (*October 2008 Report,* unnumbered recommendation—page 311).

We recommended that Peace Country Health:

- develop and implement policies and guidance on appropriate expenses for hosting and working sessions
- strengthen and follow its policies and processes for employee expense claims and corporate credit cards

Scope—AHS staff expenses include travel costs such as meals, hotels, airfare and mileage. They also include hosting expenses, course fees and reimbursement for any expenses allowed by contract for senior executives. AHS staff use purchasing cards for smaller expenses, such as travel and supplies. AHS may also pay travel expenses for contractors.

Both the Minister of Health and AHS asked us to examine the transactions of senior staff.[1] Because of the high volume of transactions at AHS, we examined the overall system and extended our audit to include transactions of the Board, other staff and contractors. We

[1] Senior staff refers to the CEO and his direct reports.

also examined a sample of transactions for vendors who provide travel services to AHS and gifts for AHS staff and volunteers.

Our approach focused on identifying potential control weaknesses and was not designed to be an investigation to identify compliance with policies by an individual or groups of individuals. Accordingly, our findings are grouped by identified areas of non-compliance. We used computer-assisted audit techniques to select samples for review—based on the dollar amount and the nature of expense. Our samples were mainly from the transactions that AHS recorded between April 1, 2011 and August 31, 2012. Our audit was conducted in accordance with the *Auditor General Act* and the standards for assurance engagements set by the Canadian Institute of Chartered Accountants.

When selecting samples, we used a judgmental selection method that focused primarily on larger or unusual transactions (based on the services AHS provides and the types and levels of transactions normally processed through expense claims and purchasing cards). We sampled transactions and accordingly may not have detected all instances of non-compliance. As we did not use a statistical method to select the samples, it would be inappropriate to generally project the rates of non-compliance that we found to the overall population of expense claim transactions, purchasing card transactions and other travel expenses.

We tested 256 expense claims, 213 monthly purchasing card statement reports and 142 invoices for travel not reported on an expense claim or purchasing card statement report. We report non-compliance as a percentage of the samples we examined in each individual category—percentage of non-compliance found in expense claims tested, percentage of non-compliance found in purchasing card statement reports examined and percentage of non-compliance found in invoices for travel not reported on an expense claim or purchasing card statement report. We also interviewed AHS staff.

BACKGROUND AND CONTEXT OF AUDIT

Alberta Health Services was formed under the *Regional Health Authorities Act (Alberta*). On April 1, 2009, the name of East Central Health changed to Alberta Health Services. All other Regional Health Authorities, the Alberta Mental Health Board, the Alberta Cancer Board and the Alberta Alcohol and Drug Abuse Commission were disestablished and amalgamated with AHS.

Complex operation with high expenses—because AHS operates the delivery of the provincial health care system, travel is a necessary part of operations. The operations are complex and include hospitals, continuing care services, ambulance services, diagnostic and therapeutic services, research, home care and other prevention services. In the fiscal year 2012, AHS had over 100,000 staff. In the 17 months we examined, we estimate, based on information obtained from AHS's accounts payable system, that AHS spent about $100 million on expenses from expense claims, corporate purchasing cards and other travel payments. The Board and the senior staff expense claims and purchasing card transactions amount to less than 1% of the $100 million. About $60 million is incurred by other staff. The remaining amounts are for travel payments made through AHS's regular accounts payable processes. These include payments for travel where AHS has paid travel based on invoices from vendors (such as hotels) or contractors.

AHS's Travel, Hospitality and Hosting Policy allows approval for travel to be provided only "if the travel is justified by an operational requirement", "is relevant to a person's role and responsibilities" and "is an efficient and/or effective way to obtain the information or benefit." In addition, the policy indicates that: "Individuals incurring Travel, Hospitality or Hosting expenses on behalf of AHS shall minimize expenses through means such as, but not limited to: ...using the most cost effective methods of travel." [2] This policy applies to AHS employees, members of the medical and midwifery staffs, students, volunteers and other people acting for AHS (including contracted service providers as necessary).

Our audit—We focused on corporate processes that apply to all staff. AHS's new policy[3] requires public disclosure of the expense reports for the President and Chief Executive Officer, Executive Vice Presidents, Senior Vice President/Associate Chief Medical Officer/Zone Medical Directors, the Ethics and Compliance Officer, the Chief Audit Executive and the Chief of Staff. Other staff spend much more, in total, but it would be too costly and impractical to publicly disclose all their expenses. So instead, AHS must have strong control processes for all staff to ensure compliance with its policy.

FINDINGS AND RECOMMENDATIONS

Controls over expense claims, purchasing card transactions and other travel expenses

RECOMMENDATION 1: CONTROLS OVER EXPENSES

We recommend that Alberta Health Services tighten its controls over expense claims, purchasing card transactions and other travel expenses by:

- improving the analysis and documentation that support the business reasons for—and the cost effectiveness of—these expenses
- improving education and training of staff on their responsibilities for complying with policies
- monitoring expenses and reporting results to the Board

Criteria: the standards for our audit

AHS should have a control framework to ensure that public servants do not subsidize the government for these kinds of expenses—or reward themselves at public expense.

AHS's Board should be able to ensure—and show—that AHS expenses are incurred only for business reasons, with proper consideration of economy and efficiency—in other words, ensure and show that AHS expenses are cost effective.

[2] AHS Travel, Hospitality and Hosting Policy, effective date: September 22, 2011, Section 7.1.a)(ii)

[3] Travel, Hospitality and Working Session Expenses—Approval, Reimbursement and Disclosure Policy, effective date: October 15, 2012.

Specifically, AHS should have controls to:
- ensure that expense transactions comply with policies
- ensure that expense decisions consider cost effectiveness
- monitor expenses and report results to the Board
- ensure recovery of non-compliant expense payments

Our audit findings

KEY FINDINGS

- AHS does not require the business reason for expenses to be stated on its forms that support the payment of purchasing card transactions.
- The requirements for hosting and group business meals are not consistently followed.
- AHS has not implemented corporate processes to ensure expense decisions consider cost effectiveness.
- AHS is not monitoring—on a total basis for individuals—staff spending on expenses or reporting results to the Board.

The following are cases of non-compliance with policies or cases where we previously found a control weakness in policy that AHS has not mitigated.

Non-compliance and policy weaknesses need to be resolved

Documenting the business reason for expenses—AHS's expenses are processed through expense claims, purchasing cards or vendor invoices.

AHS's Travel, Hospitality and Hosting Policy requires the approver to ensure that claims comply with the policy before approving them. Travel expenses must be justified by an operational requirement. To support this requirement, the expense claim form requires the reason for transactions to be documented. However, four per cent of the expense claims we examined had one or more transactions with no valid business reason documented, or only a vague description.

The larger issue is with purchasing card transactions. Staff with purchasing cards must follow the Purchasing Card Program User Guide and complete the Purchasing Cardholder Statement Report. Neither the guide nor the report requires staff to document the business purpose for transactions. The same problem surfaced in our 2008 audit of Peace Country's purchasing card transactions. Requiring the business reason for expenses to be documented helps ensure that spending is appropriate.

Because AHS provides services to patients and patient services gift shops, it can be appropriate for AHS employees to buy unusual items. For example, AHS staff bought toys, clothes, food, books, tickets and videogames with purchasing cards. While some transactions indicated a business reason, many did not. In some cases, the business reason was included on the documentation supporting the purchase. In certain cases, the coding of the transaction implied that the transaction would be appropriate for the AHS department buying the item. In other cases, it was not clear. For example, gift shops in Carewest's long-term care facilities bought:

- two Calgary Flames season tickets and playoff tickets for the 2011–2012 season and two season tickets for the 2012–2013 season
- 275 gate admission tickets for the 2011 Calgary Stampede
- 275 gate admission tickets, 40 grandstand show passes and 10 rodeo tickets for the 2012 Calgary Stampede

Carewest advised AHS Internal Audit that the gate admission tickets were re-sold to staff and the grandstand show passes, rodeo tickets and hockey tickets were re-sold to residents. AHS Internal Audit plans to examine Carewest's records to confirm that there was no net cost to Carewest except for the tickets for volunteers who accompanied residents.

Hosting and group business meal requirements—the hosting provision of the Travel, Hospitality and Hosting Policy specified who could do hosting, the types of expenses allowed and the type of approval required. It also required the names of the people who attended the events to be on the expense claims and the necessary receipts. The policy was not clear on alcohol; it stated: "Hospitality and hosting expenses eligible for reimbursement may include, but not be limited to: ...non-alcoholic beverages." If non-eligible expenses were to be incurred (no examples of non-eligible expenses were given), the policy required prior approval from the CEO, unless the CEO was going to incur the expenses. Then, prior approval of the Board Chair was required. The CEO confirmed to us that he understood the purchase of alcohol required his approval, so we used this as the official interpretation of this part of the policy. The new policy implemented in October 2012 has clarified the rules for alcohol.

Both the Travel, Hospitality and Hosting Policy and its predecessor required the names of individuals who participate in a group business meal to be listed on the documents accompanying expense claims.

Three per cent of expense claims we examined and four per cent of purchasing card statement reports had instances where the names of the people hosted or participating in a group business meal were not indicated; one per cent of expense claims we examined had hosting initiated by a person who did not have authority to incur hosting expenses, two per cent of expense claims and one per cent of purchasing card statement reports we examined had alcohol purchased without having prior approval for buying alcohol.

Training on processing expense transactions—AHS has prepared training on the Travel, Hospitality and Working Session Expenses—Approval, Reimbursement and Disclosure Policy and also has a Travel User Guide and Purchasing Card Program User Guide. These materials are available on the internal website for staff. However, there is no overall coordinated process to ensure all staff are aware of their responsibilities for complying with the policies.

Other cases of non-compliance with policies are listed in Appendix B.

Processes to ensure cost effectiveness need to improve

Most AHS travel expenses are routine—for hotels, commercial flights, meals and mileage. AHS has a Travel User Guide that gives examples of how to minimize travel expenses. But AHS lacks a process to consider this at the corporate level. For example, an analysis of travel costs by nature, such as ground transportation, air transportation and hotels/conferencing, may produce alternatives such as negotiated corporate arrangements for all AHS employees.

The rate AHS paid varied significantly between hotels in the same city, for both Edmonton and Calgary. For example, room rates for Edmonton varied from $89 to $279 and rates for Calgary varied from $99 to $299. AHS has not analyzed the reasons for the variation. Within Alberta, the highest hotel room rate was $377 and the lowest was $89.

Airfares between common destinations also varied greatly. For example, the average cost (including taxes, fees and charges) of return flights between Edmonton and Calgary was $457, but it ranged from $253 to $1,206. AHS also does not centrally track credits from cancelled flights when the flights have been bought using employee expense claims or purchasing cards.

In several cases, large mileage claims meant that it may have been cheaper for staff to use other transportation. AHS's purchasing group is completing an analysis of the mileage levels when it is cost effective for AHS to pay mileage or have staff rent a car, or use a fleet or a leased car.

Non-routine travel expenses—AHS has not directed staff on what to document, how to assess cost effectiveness or where to file the documentation.

In the following examples, we do not assess the cost effectiveness of purchases. Instead, these examples show where we found more information should have been provided in the analysis, or the analysis kept on file:

- In one case, a person providing services in a town flew their own plane instead of taking a commercial flight. The payment support did not include any information on the cost analysis that had been done. AHS indicated an analysis had been done of the difference between paying mileage and flying the plane. While taking a personal plane let the person maximize time in the community, there was no explanation of why the person did not take a commercial flight. Nor was there an explanation about how the rate charged for the plane was found to be competitive.

- In one sample, a facility used taxis to transport patients to their homes, with some taxi charges over $300. There was no explanation of why taxis were used. When we asked staff, they gave a business reason and indicated they had done a cursory cost analysis of the different travel options. They did not include in their explanation whether they had considered using a competitive bid process for these services.

- AHS had two large contracts with service providers where travel expenses totalled about $6.1 million during the 17 months. For these contracts, AHS decided not to have the contractor submit travel receipts. Instead, it paid travel based on a percentage of the professional fees the contractor charged. In both cases, AHS indicated its analysis showed this was the more cost effective option. In one case, the analysis was referred to in a memo and there was a later analysis for a change order in the project. However, AHS could not provide the original analysis in either case. By retaining the analyses, AHS could have checked the validity of its assumptions and used that in its future decisions on change orders and new projects.

Periodic policy review to assess effectiveness—AHS has a process to regularly review its policies. In the following cases, AHS may want to assess if the amount the Employee Relocation Procedure allows is cost effective and if an employee is receiving a vehicle allowance when a fleet car can be used:

- Employee Relocation Procedure—the highest single transaction for an expense claim that we reviewed was $116,390 for realtor commission. The procedure sets maximums for individual relocation expenses (for example, up to seven per cent of the selling price of the house), but not for the overall amount.

- Use of fleet cars—the Travel, Hospitality and Hosting Policy sets a mileage reimbursement rate of $0.505 per km. Although the CEO and some of his direct reports get a vehicle allowance, for the period we reviewed they could also claim mileage of $0.38 per km when outside of the municipality they live in. This was not in the policy—it was set by a memo from the former CEO. In September 2012, the AHS Board Chair told AHS that the $0.38 allowance should no longer be paid. In addition to these payments for vehicle expenses, the CEO and one of the direct reports (along with other employees) can use a fleet car. AHS has not yet clarified in its policy if a staff member has a vehicle allowance when a fleet car can be used.

Purchasing card limits—The AHS Purchasing Card Program User Guide sets the monthly limit for purchasing cards up to $10,000 ($120,000 a year). Thirteen people were allowed to have higher annual purchasing card limits, ranging from $180,000 to $900,000. AHS has not analysed the spending of these people to see if it would be more cost effective for some of their purchases to go through the regular purchasing system and its competitive selection process for vendors.

Monitoring processes and reporting to the Board need to improve

AHS has clearly defined roles and responsibilities for paying expense claims, purchasing card expenses and travel expenses of contractors. While people seeking reimbursement of expenses and people approving the claims have key responsibilities, AHS's Financial Operations Department is responsible for reporting non-compliance to senior staff and, in the case of the new policy, also reporting the results to AHS's Board Audit and Finance Committee.

Monitoring payment of senior staff allowances—The Financial Operations Department performs compliance checking on all expense claims over a set limit. This includes expense claims of the CEO and his direct reports. Part of the compensation for the CEO and some of the direct reports is an allowance for personal, financial and tax advice, club memberships, and other similar purposes; a professional development allowance and a vehicle allowance. Some allowances are paid monthly, without receipts. Others are paid only when receipts are submitted through the expense claim process. For the period we audited, the Financial Operations Department was not given the terms of the allowances or a schedule indicating the cumulative amounts that had been paid from allowances where receipts had to be submitted. As a result, the department could not verify if reimbursements to the CEO and his direct reports met the terms of their contracts.

Monitoring for additional approval of out-of-province travel—AHS's Travel User Guide requires employees who travel outside Alberta to complete an out-of-province travel form before traveling. The Guide requires higher-level employees to approve the travel depending on where it is—within Canada, the United States or outside North America. This form does not have to be attached to the employee's expense claim and the Financial Operations Department does not monitor whether the forms are completed.

Monitoring purchasing cards for ineligible transactions—The Financial Operations Department does not perform computer scans supplemented by document reviews of purchasing card transactions to check for ineligible transactions or to assess compliance with policy requirements for hosting and group business meals. In addition, AHS does not have separate codes for hosting, group business meals or working sessions or for recreation activities for patient treatment.

Monitoring of overall spending by person—The Financial Operations Department does not monitor staff spending on expenses on an individual or total basis. Yet this monitoring can indicate how to improve controls. For example, the person with the highest total dollar amount of expense claims in AHS in fiscal year 2012 was not the CEO or one of his direct reports. AHS reimbursed this person for over $150,000 of expenses. Most of the expenses were for conference fees and travel expenses for other staff. An alternative practice could be for such purchases to be made through AHS's purchasing system or using a corporate credit card. This would facilitate the management of credits for cancellations (if any).

Reporting to the Board—The Board has in place some controls over expenses—the Board Chair approves the CEO's expenses and the expenses of the other Board members; the Board Chair's expenses are approved by the Chair of the Audit and Finance Committee; and the Audit and Finance Committee reviews all Internal Audit Reports on expenses.

However the Board, through its Audit and Finance Committee, has not established that the Chief Financial Officer is responsible to ensure the integrity of the processes used to make expense claim, purchasing card and other travel payments. This includes accountability to ensure that proper policies are implemented and operating as intended.

The Audit and Finance Committee does not receive regular compliance reporting from the Chief Financial Officer on the integrity of the processes. Nor does the Committee receive confirmation from AHS Internal Audit on the effectiveness of the processes to ensure that services are obtained cost effectively.

The Committee is not receiving reporting on expenses for senior staff and staff who spend at higher levels.

Processes to recover non-compliant expense payments has one gap

AHS's Travel, Hospitality and Hosting Policy and the predecessor policy indicate which expenses can be reimbursed to employees. The Purchasing Card Program User Guide requires purchasing cards to be used for business purchases only and prohibits using purchasing cards for personal expenses. If a personal expense is charged to a purchasing card, the Guide requires the cardholder's approving manager to ensure that the cardholder reimburses AHS. The Financial Operations Department reviews purchasing card statements to determine if there are non-compliances such as missing receipts or authorization. Their review includes checking whether repayments need to be made. When the Financial Operations Department finds that there needs to be a repayment or other non-compliances need to be fixed, they send an email to the approver and the cardholder. However, if the individuals do not respond, the department lacks a process to do further follow up.

Implications and risks if recommendation not implemented

AHS spent about $100 million during the 17-month period on these types of expenses. If it does not implement this recommendation, it may pay expenses that do not comply with policies.

Its spending on expenses may not be cost effective. Without effective control processes to monitor compliance with policy, AHS may pay more for expenses than its policies allow. And it may reimburse employees or pay for expenses that have no business purpose.

PEACE COUNTRY HEALTH

Peace Country Health expense claims and corporate credit card controls—changed circumstances

In our *October 2008 Report* (page 311), we recommended that Peace Country Health:

- develop and implement policies and guidance on appropriate expenses for hosting and working sessions
- strengthen and follow its policies and processes for employee expense claims and corporate credit cards

AHS developed and implemented policies and guidance on appropriate expenses for hosting and working sessions with its September 2011 Travel, Hospitality and Hosting Policy and the new policy issued October 2012. We considered the findings on the second part of our 2008 recommendation when completing this audit. The second part has been subsumed by our recommendation to AHS in this report. However, in the area we could compare, AHS had a lower non-compliance rate than Peace Country Health had.

APPENDIX A

RELEVANT AHS POLICIES

- Board Member Remuneration and Expense Reimbursement Policy—effective date October 28, 2010
- Travel Policy—effective date February 15, 2011
- Travel, Hospitality and Hosting Policy—effective date September 22, 2011
- Travel, Hospitality and Working Session Expenses—Approval, Reimbursement and Disclosure—effective October 15, 2012
- Travel User Guide, December 2011
- Purchasing Card Program User Guide, May 2011
- Employee Relocation Procedure—effective date September 14, 2010
- Medical Staff Recruitment Incentives Policy, October 28, 2011
- Medical Staff Recruitment Guideline—Relocation Support, October 28, 2011
- Medical Staff Strategic Workforce Incentives Guideline, October 28, 2011

APPENDIX B

NON-COMPLIANCE CASES

Other non-compliance cases—see page 25

We report non-compliance as a percentage of the samples we examined in each individual category—percentage of non-compliance found in expense claims tested, percentage of non-compliance found in purchasing card statement reports examined and percentage of non-compliance found in invoices for travel not reported on an expense claim or purchasing card statement report.

- One per cent of expense claims or the forms supporting expense claims were either approved by a person without authority to do so or were not approved.
- Seven per cent of expense claims, three per cent of purchasing card statement reports and one per cent of invoices for travel had either insufficient support for mileage or payment for incorrect mileage or ineligible charges.
- Eleven per cent of expense claims and two per cent of purchasing card statement reports had meals paid based on a non-itemized receipt. Itemized receipts are required to ensure only eligible expenses are paid.
- The monthly purchasing card statement is paid at the end of every month, even if the card holder has not yet provided the supporting receipts and the approver has not approved the transactions. This is done to avoid interest charges. AHS has a process to follow up on outstanding receipts and approvals. But for nine per cent of the monthly statements we examined, none or only some of the support had been given to the Financial Operations Department. We also found seven per cent of expense claims and one per cent of invoices for travel were missing receipts.

The Purchasing Card Program User Guide prohibits staff from using a purchasing card to buy items such as capital equipment and software. It also prohibits them from using a card to pay for traffic violations. In addition, the cards restrict other types of purchases.

- In seven monthly statements, we found $14,639 of these prohibited purchases, mostly for capital assets.
- The purchases included $4,621 for photo radar tickets for emergency vehicles such as ambulances. (These were all the cases where AHS paid for photo radar tickets.) AHS emergency vehicles can exceed the speed limit in the circumstances permitted under the *Use of Highway and Rules of the Road Regulation.*[4] AHS has not documented why these expenses were paid.
- The Purchasing Card Program User Guide also sets monthly purchasing limits and a maximum transaction limit. We found five monthly statements where the monthly transaction limit was exceeded. In three other cases, the transaction limit was exceeded. The maximum individual transaction limit does not appear to be a strong control: we found eight cases where the transaction was below the transaction limit but multiple purchases were made from the same vendor on the same day.

[4] Section 62 of the *Use of Highway and Rules of the Road Regulation* indicates: "A siren on an emergency vehicle shall be operated only when the vehicle is being used in response to an emergency, an emergency call or an alarm." Section 63(1) indicates: "where, considering the circumstances, it is reasonable and safe to do so, a person driving an emergency vehicle may while the vehicle's siren is operating do one or more of the following: ... drive the vehicle in excess of the speed limit."

Human Services—Office of the Public Trustee

SUMMARY

The role of the Public Trustee is to protect and manage the property of deceased persons, represented adults[1] and minors when there is no one else to act on their behalf.

In 2010, Service Alberta notified the Office of the Public Trustee that one of its senior trust officers had obtained a government identification card under another name.[2] Upon further investigation, the OPT found that in 1997 the senior trust officer paid $102,000 to an individual of that name, identified as the sole beneficiary in an estate file that the officer administered. The funds were deposited into a bank account opened using the government identification. In 1998, the senior trust officer approved a final distribution from the same estate of $20,000 that was deposited into the same bank account.

After completing its internal investigation and finding that funds were improperly disbursed, the OPT terminated the employment of the senior trust officer administering the file. The Public Trustee, as personal representative of the estate, filed a civil suit[3] seeking to recover the funds the senior trust officer allegedly misappropriated. The Deputy Minister of the Department of Justice[4] asked the Office, and we agreed, to do two things:
- an investigation to assess the risk that the dismissed senior trust officer misappropriated other client funds
- an audit of the design and operating effectiveness of the OPT's systems to safeguard and administer client assets

What we examined

Our examination included reviewing files the former employee had handled and auditing the internal controls the OPT uses to protect its clients' financial interests.

Why it is important to Albertans

Albertans should be confident that the financial interests of vulnerable individuals are being properly safeguarded and managed by the Public Trustee.

[1] The Public Trustee may be appointed under the *Adult Guardianship and Trusteeship Act*, S.A. 2008 c.-4.2, to take control of the property of a represented adult. The Public Trustee then collects income and pays expenses on their behalf.
[2] Through the use of facial recognition software, Service Alberta found that a driver's licence was issued in the officer's own name, and a government-issued identification card was issued to the same individual under a different name.
[3] Court file number: 1103 02537. This Statement of Claim sets out specific allegations that have not yet been proven in court.
[4] The Department of Justice became the Department of Justice and Solicitor General in May 2012.

What we found

The OPT has inadequate systems to safeguard and administer clients'[5] assets. We found inadequate:

- supervisory review and internal audit[6] of client files
- compliance with policies and procedures
- segregation of duties
- supporting documentation in client files

We are concerned about the lack of proper management oversight in the administration of the client files. We found examples where the OPT has not followed its own policies for the administration of estate files. In some cases, management was unaware of these shortcomings. In other instances, management was aware but did not take the action needed.

We found no evidence of further misappropriation of client funds by the former senior trust officer. Accordingly, we can conclude there is a low probability that other client funds were diverted by this former employee.

Overall, our findings relating to the OPT's current control environment showed many files were poorly organized and lacked adequate supporting documentation, including evidence that the files had been adequately reviewed and internally audited. In effect, the Public Trustee does not have the necessary assurance that its clients' interests are being safeguarded. Unless the OPT significantly improves its systems and processes, unnecessary risk exists that the financial assets of vulnerable Albertans may be improperly diverted or misused.

What needs to be done

The OPT needs to:

- improve its file management processes and oversight of client files by ensuring adequate supervisory review and internal audit
- review and assess whether its policies are appropriate; ensure that processes adequately mitigate the risk that client assets could be mismanaged or misappropriated; and ensure policies and processes are being followed
- strengthen its processes for approving and paying client expenses
- improve its processes for ensuring client files are appropriately documented, including adequate documentation of administration, supervisory review and internal audit

---

[5] "client" is defined in section 1(a.1) of the *Public Trustee Act* as "a person, trust or estate
(i) for whom the Public Trustee holds property, or
(ii) to whom or for whose benefit the Public Trustee provides any service or performs any task or function under this or any other Act".

[6] The internal audit function of the OPT is limited to a compliance role. It consists primarily of pre-distribution verification for deceased estate and represented adult files.

AUDIT OBJECTIVES AND SCOPE

We had two objectives for this audit. The first objective was to assess the risk that the former senior trust officer had misappropriated other client funds. Our review included a risk-based sample of 550 files managed by the senior trust officer as well as the files from our second objective where he had involvement. The senior trust officer was a long-term employee of the OPT, so some of the files we examined were from the early 1990s.

Our second objective was to determine if the OPT has proper systems in place to safeguard and administer clients' assets. We reviewed an additional 430 files that were active between April 1, 2009 and March 31, 2011.

We commenced our work in January 2011, immediately after management informed us of the alleged misappropriation of funds. Our work took 19,500 hours over 22 months at a cost of $2.4 million[7] to complete.

The following table shows the cost of the work we performed:

Objective	Time Period	Hours	Cost
Investigation	January – December 2011	12,900	$1,555,000
Systems Audit	January – October 2012	6,600	$888,000
Total		**19,500**	**$2,443,000**

Our audit was conducted in accordance with the *Auditor General Act* and the standards for assurance engagements set by the Canadian Institute of Chartered Accountants.

BACKGROUND

Role and responsibilities of the Public Trustee

The role of the Public Trustee is to protect the financial interests of vulnerable Albertans by administering the estates of deceased persons, and managing the property of represented adults and minors when there is no one else to act. The *Public Trustee Act*[8] directs the Lieutenant Governor in Council to appoint a person to be the Public Trustee who will administer the OPT, which falls within the Department of Human Services.[9]

The OPT provides the following services[10] to Albertans:

- financial management services for adults who are unable to perform these functions independently
- estate administration services where there is no one else to administer a deceased estate
- financial management services for minor children, to protect their interests

[7] Costs directly incurred by the OAG were $1,243,000; the Department of Justice contributed $1,200,000.
[8] Section 2(1) of the *Public Trustee Act*
[9] The Office of the Public Trustee moved from the Department of Justice to the Department of Human Services in May 2012.
[10] *2010–2011 Annual Report Alberta Justice Office of the Public Trustee*, page 6.

Represented adults

The Public Trustee may be appointed by the court to act as Trustee for an adult when there is no private trustee appointed, or a private trustee is no longer able to continue acting. Once appointed, the Public Trustee:

- takes control of the represented adult's property, which may include real estate, cash, investments and other personal property
- makes arrangements to collect the represented adult's income and pay expenses
- manages, on an ongoing basis, the financial assets and expenses of the represented adult

Any payments made by the Public Trustee to or on behalf of the represented adult must come out of his or her assets or income. The Public Trustee does not provide any internal funding to the clients.

Deceased estates

The OPT may handle a deceased person's estate if there is no one else who can do so. The OPT acts as the administrator of the estate and handles duties that include locating assets, paying debts and funeral costs, and distributing inheritance to beneficiaries. This happens when:

- there is no will, and no one else entitled to be administrator has applied or is willing to apply to be appointed
- an executor cannot be found, or is unwilling to act, and no one else is entitled or willing to apply to be appointed to administer the estate

Official guardian for minors

The OPT[11] will act when a minor:

- inherits property and there is no will, or the will does not appoint a trustee to look after the property
- is injured and receives money under a legal settlement or court judgement
- is the beneficiary of an insurance policy or pension plan where a private trustee is not appointed
- wins a lottery or other game of chance

When a minor is entitled to property worth over $5,000, the law requires that the property be delivered to the Public Trustee. If the assets are worth $5,000 or less, parents and guardians can accept them as trustee for the minor, but must always act in the best interest of the minor. The person delivering the property is released from any further liability if they receive a signed Acknowledgement of Responsibility from the parent or guardian.

If a minor is entitled to property worth more than $5,000, a parent or guardian can apply for a court order to appoint them trustee of the minor's property. The court may appoint a private trustee of the minor's property only if satisfied that it is in the minor's best interest to do so, and the court may require the private trustee to provide a bond or other form of security. A person who is appointed private trustee of a minor's property by a court order will be accountable to the court for the proper administration of the minor's property.

---

[11] http://justice.alberta.ca/programs_services/public_trustee/Common_Questions_PublicTrustee/WhenDoesPublicTrusteeGetInvolved.aspx

Benefits payable to a minor under the *Victims of Crime Act* or section 70(9) of the *Workers' Compensation Act* must be paid to the Public Trustee, even if the amount is under $5,000.

Other responsibilities

Over the years, the OPT has developed the practice of keeping the original wills for some individuals, often in cases where the Public Trustee is named as the executor in the will. The OPT holds about 1,000 wills in its two offices.

The OPT also:
- investigates complaints made against private trustees under the *Adult Guardianship and Trusteeship Act*[12]
- administers missing persons' estates
- holds Pooling Order[13] funds for missing land owners

For the year ended March 31, 2011, the OPT handled 4,413 files on behalf of represented adults, 810 deceased estate files, and 12,501 official guardian files.[14] The OPT disbursed approximately $120 million dollars from client accounts in that fiscal year. The OPT has five functional groups—trust administration, legal, tax, financial services and internal audit.

Issues identified in previous external audits

We audit the OPT's financial statements annually. The purpose of these audits is to obtain reasonable assurance that the financial statements are free from material misstatement. As part of our audit, we consider internal controls relevant to the preparation of the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the OPT's internal controls. If in considering internal controls we observe deficiencies that are significant to the preparation of the financial statements as a whole, we communicate to management our observations and recommendations to improve internal control.

Over the last number of years, we made recommendations for improvements to the OPT's internal controls. Most of these recommendations were subsequently implemented by management. The following two recommendations remain outstanding. Management has identified them as implemented—to be confirmed by follow up audits:
- improving controls for adding new vendors to the Public Trustee Information System (*October 2010 Report,* page 180)
- improving controls for issuing and stopping recurring payments (*October 2010 Report,* page 180)

In 2009, the OPT asked a professional services firm to assess the OPT's fraud risk and controls. The OPT took this initiative as there were publicly reported cases of fraud at the Public Guardian and Trustee offices in British Columbia and Ontario. The firm issued 58 recommendations to the OPT to improve its internal controls to mitigate the risk of fraud or wrongdoing. Some of these recommendations were minor in nature, requiring minimal

[12] Section 75 of the *Adult Guardianship and Trusteeship Act.*
[13] A Pooling Order is used to distribute the net income of drilling a well between all owners of mines and minerals in a drilling space. The balance of proceeds for missing or untraceable owners is paid to the Public Trustee in accordance with Section 8 of the *Public Trustee Act*.
[14] *2010–2011 Annual Report Alberta Justice Office of the Public Trustee*, page 19.

change to implement; others were major in nature and would require significant changes to the OPT's control environment. According to the OPT, some of these recommendations have been implemented. The majority of them are to be implemented when the OPT's new operating software for client accounts becomes operational in several years. However, several key recommendations that would strengthen the internal controls remain outstanding.

Audit approach

At the time when the trust funds were allegedly misappropriated for the former senior trust officer's personal benefit, that officer's primary role was to administer deceased estates, although he had also worked on files for represented adults and minors while employed at the OPT. Therefore, we used the following risk-based approach to determine that we would examine all files the former senior trust officer had administered that were:

- deceased estate files with one beneficiary—We considered these high-risk files as the likelihood of someone challenging the identity of the beneficiary was very low.
- deceased estate files assigned to the officer between 1992 and 2002, which is five years on either side of the time when the trust funds were allegedly misappropriated
- represented adult files and a sample of official guardian files the senior trust officer worked on or administered

We also examined a sample of other deceased estate, represented adult and official guardian files active between April 1, 2009 to March 31, 2011 from the Calgary and Edmonton offices. These files were administered by other trust officers.

FINDINGS AND RECOMMENDATIONS

Alleged misappropriation of client funds

In December 2010, Service Alberta's Special Investigation Unit notified the OPT that their facial recognition software had found two pieces of identification where the person looked the same, but had different names. The first identification was an Alberta driver's licence in the name of one of the OPT's senior trust officers. The second identification was an Alberta photo identification card using a false identity in the name of Robert Thompson.[15] It appeared from the photos in both identification cards that the same individual was using two different names.

The OPT checked its internal electronic database[16] for the name of Robert Thompson and discovered that from 1995 to 1998, the senior trust officer had administered a deceased estate for which the only beneficiary was named "Robert Thompson." After reviewing the file, the OPT found:

- the file did not have proper kinship documents establishing "Robert Thompson" as a legitimate beneficiary—There is reference to kinship documents on the file; however, at the time of our audit, they were not present.

---

[15] We found no evidence that the false identity of Robert Thompson established by the former senior trust officer is the proper or legitimate beneficiary of the estate.
[16] PTIS—Public Trustee Information System

- the senior trust officer and the manager of deceased estates[17] authorized a distribution of estate funds in the amount of $102,360.67, payable to "Robert Thompson," in June 1997
- the same individuals authorized a second distribution of $20,382.96 to "Robert Thompson" in May 1998

The OPT subsequently terminated the employment of the senior trust officer. The Public Trustee, as personal representative of the estate, filed a statement of claim with the Alberta Court of Queen's Bench setting out the specific allegations and seeking to recover the funds that the employee allegedly used for personal benefit. The OPT is looking for the proper beneficiaries of the estate.

The former Department of Justice then asked us to review the OPT's processes, and assess the risk that other funds may have been misappropriated by the same senior trust officer.

We reviewed the Thompson file to determine how the diversion of funds was accomplished. We found the internal controls were not effective to mitigate risks and ensure the integrity of payments. There was inadequate segregation of duties that resulted in the senior trust officer administering files without effective safeguards to mitigate the risk of fraud and error. In this case, it allowed a senior trust officer to be the only individual dealing with and having contact with the "beneficiary," including being the only OPT employee to witness the beneficiary's signature on a document required by financial services before it issued payment. The cheque was then provided directly to the senior trust officer for delivery to the "beneficiary."

We also found OPT internal audit reviewed the file prior to the distribution of the inheritance as was required by policy. In a memo to the file, internal audit identified a number of deficiencies in the client file, yet still provided their approval to distribute the funds to the beneficiary. It appears internal audit did not follow up with the senior trust officer about the deficiencies identified in their memo.

We also reviewed over 550 files handled by the former senior trust officer. Our examination was complicated because the senior trust officer was an employee of the OPT for over 20 years. In our extensive review of client files managed by the senior trust officer, there were no further files where we found evidence that client assets were misappropriated.

In October 2012, we interviewed the senior trust officer and found him to be cooperative. The interview did not result in any new evidence or further leads. Nothing in our discussions with the senior trust officer caused us to change any of our conclusions.

[17] There is no indication that this individual was involved in the alleged misappropriation.

Management oversight

Background

The role of the Public Trustee is to protect and manage the property of deceased individuals, minor children and represented adults when no one else can. Management is responsible for setting clear expectations that support the OPT's role and objectives and ensuring there are effective internal controls that support those objectives.

Our audit findings

We would have expected the OPT, being in a position of trust, to have strong internal controls and rigourous management oversight to ensure that the property of vulnerable Albertans is properly safeguarded and administered. Instead, we found:
- evidence of poorly designed internal controls
- policies and procedures were inadequate to manage risks
- significant non-compliance with relevant policies across all program areas
- inadequate supervisory review of files administered by trust officers
- the OPT's internal audit function was weak, and lacked the rigour and independence required to effectively identify risks

Our findings relating to specific control weaknesses are discussed elsewhere in this report. Collectively, they demonstrate an overall failure by management to provide adequate direction and oversight.

We found an office environment:
- marked by excessive trust and reliance on the actions and assertions of trust officers, who have a great deal of autonomy and exercise broad discretion when administering the assets of vulnerable Albertans
- where staff didn't feel comfortable questioning the actions or decisions of colleagues or superiors
- marked by recurring non-compliance with policies and procedures
- with no effective process for following up on and resolving compliance issues
- where management's actions did not demonstrate that it appreciates the seriousness of non-compliance with policies and procedures

Our finding that management was unaware of the extent of non-compliance issues may, in part, offer some explanation. But it is management's responsibility to ensure effective controls are in place, operating as intended, and that it is receiving the information it needs to effectively manage risk and resolve issues.

Rectifying the internal control weaknesses that we have identified is only part of the solution. New policy requirements or stronger controls won't effectively mitigate risks if the office environment remains unchanged. Office environment starts with management's action or inaction as the case may be. Failure to effectively monitor and redress non-compliance issues contributes to an environment in which management may be seen as tolerant of or indifferent to non-compliance with internal policies and procedures. In turn, employees are unlikely to appreciate the seriousness of non-compliance issues if that is the tone set by management. Comprehensive policies and procedures will not resolve these issues if management action is inconsistent with the expectations it sets out in the policy.

It is management's responsibility to ensure that there is adequate supervisory review of files, and an effective internal audit function that can provide management with the assurance it needs that the assets of vulnerable Albertans are being safeguarded and administered in a prudent manner. However, we found that supervisory review was inadequate; internal audit's role was too limited and lacked rigour.

Real change requires action on the part of management to create a working environment in which:
- management demonstrates that non-compliance with legislation, policies and procedures will not be tolerated
- open discussion by staff regarding potential issues and solutions is encouraged
- employees are comfortable questioning decisions and actions by supervisors and colleagues—Otherwise staff may not report suspicious transactions or other significant issues to management.
- the value of rigourous supervisory review and audit is recognized and supported—This can be demonstrated by ensuring its audit function has sufficient authority, independence and the resources necessary to effectively fulfill its role. Internal audit should have a clear mandate, including the authority to make recommendations and confirm implementation. Because without an effective follow-up process to ensure compliance, risks cannot be effectively mitigated. Nor can internal audit provide management with the necessary assurance needed for proper oversight.

Supervisory review

Background

Trust officers have considerable independence and discretion when acting as the administrator of an estate, or as a trustee managing funds held on behalf of and for the benefit of represented adults and minors. This means that the financial interests of vulnerable Albertans are subject to the competency and integrity of the trust officer assigned responsibility for managing their property. It is the Public Trustee, though, that is appointed and entrusted with protecting its clients' financial interests, and ensuring their assets are properly managed. This requires strong internal controls, a key component of which is supervisory review of client files to ensure that trust officers are managing the files properly, and acting in the best interest of the client.

Deceased estate files

Deceased estate files require supervisory review four months after the file is opened, and review by internal audit before any estate funds are distributed to beneficiaries. Policy requires that issues or exceptions identified in the audit must be resolved before internal audit authorizes the distribution. Additional review and authorization is required from the OPT's tax section administration prior to the trust officer accounting to the beneficiaries, notifying them of the proposed distribution of assets, and providing them with a release confirming their agreement with the proposed distribution.

Releases must be signed by all beneficiaries before final distribution of the estate. The trust officer forwards the file with the completed release packages to the director. The director should ensure the release packages are properly signed and then enter the third electronic signature authorizing the distribution to the beneficiaries.

Represented adults

OPT policy requires that represented adult files be reviewed by a supervisor four months after it is opened, and by the OPT's internal audit section ten months after opening the file. Review by the OPT's internal audit section is also required prior to closing the file.

Official guardian files

The OPT has classified client files for minors as low risk, and does not require an audit, even prior to closing. There is an administrative process in place before funds are distributed to a minor to ensure the file is ready for distribution and subsequent closure. But there is no requirement for an in-depth review of the file's activity and the trust officer's management of the file. These files are often open for many years, until the minor reaches the age of majority.

We make two recommendations to the OPT to improve their processes relating to supervisory review and audit of client files.

RECOMMENDATION 2: SUPERVISORY REVIEW OF CLIENT FILES

We recommend that the Office of the Public Trustee improve its file management processes to ensure all client files are subject to adequate supervisory review.

RECOMMENDATION 3: INTERNAL AUDIT ROLE

We recommend that the Office of the Public Trustee strengthen the role of its internal audit, ensuring it has adequate authority and independence to effectively perform its function.

Criteria: the standards for our audit

The OPT should provide proper supervisory review of its client files by management and internal audit.

KEY FINDINGS

- The OPT does not have an adequate and comprehensive review of open files to ensure proper and timely administration by the trust officer.
- Some client files were dormant for extended periods of time or non-compliant with policy and were undetected by management control systems.

Supervisory review of client files

The OPT has systems in place to supervise its trust officers' management of client assets for its three program areas, but the systems are weak and not always followed. The OPT needs to strengthen its supervisory review of client files to ensure it is adequately protecting client interests and performing its role in an effective and efficient manner.

Deceased estate files

After the initial review four months after the file is opened, deceased estate files require no further review until the trust officer is ready to distribute the estate to the beneficiaries. An estate file can span from several months to many years, during which time many key decisions may have been made, and funds disbursed. The alleged misappropriation of client funds by a senior trust officer was not detected by the OPT until almost 15 years later, and only after being notified of a potential issue by Service Alberta. With more timely, rigourous review while the file was being administered, management may have become aware of it much sooner or prevented it from happening.

Timing of the review was not the only issue that we found. Even in cases that were subject to review and audit, we found the review was not sufficiently rigourous to mitigate the risk that funds were administered improperly, and to ensure that expenses were legitimate and accounted for.

We found instances in which:

- funds were paid to beneficiaries without adequate kinship documents on the file to confirm identity of the beneficiary
- funds were distributed without the appropriate level of approval being obtained as evidenced by the required authorized electronic signatures
- approval by electronic signatures was provided, but no other evidence of review being done
- files remained dormant for a number of years, without adequate explanation for the delay

Official guardian files

We found there was no effective supervisory review and oversight to ensure official guardian files were properly managed by a trust officer. The OPT does have an administrative process in place before distributing the funds to the minor. But this process is not designed to provide assurance that the funds are being managed properly. After the funds are disbursed, approval to close the file is provided by the same trust officer who administered the file. There is no supervisory review of the file activity from the time it is opened. Internal audit does not audit these files.

The issues we found included:

- serious delays and periods of inactivity on open files
- not obtaining an adequate reporting or a proper accounting of funds held for the benefit of a minor by a private trustee when required to do so
- inadequate documentary support for discretionary disbursements made to guardians for the benefit of a minor

Given the number of exceptions we found, it raises concerns about the management of the official guardian (OG) files we did not audit, particularly since some exceptions involved non-compliance with requirements under legislation. We examined 236 of the 12,051 OG files handled by the OPT according to their 2011–2012 annual report. For exceptions relating to non-compliance with policy and legislative requirements, we found these went undetected by management in most cases since there are no effective processes for supervisory review and oversight.

Represented adults

We found numerous represented adult files that had not been reviewed by a supervisor or audited in many years. In one case, the file had not been reviewed in 45 years. Policy requires supervisory review after four months and by audit at ten months and prior to closing. By the time management has the opportunity to identify any potential issues or mismanagement by trust officers, years may have passed, and the opportunity to mitigate risk and prevent any loss or misuse of client assets is gone.

Internal audit

Currently, internal audit has a limited role at the OPT. They:

- perform a ten-month review of representative adult files, but are not responsible for any follow-up work from their review
- complete pre-distribution audits for deceased estates and represented adult files
- do not audit any operational processes
- do not perform any third-party verification as part of their audit work
- do not perform any audit work relating to the estates of minors
- report directly to the Public Trustee

Opportunities for improvement

There are opportunities for improvement in supervisory review in all of the service areas that the OPT handles. The supervisory review would ensure that the issues on the files are being handled properly and completed on a timely basis.

Without effective processes for ensuring there is proper supervisory review and independent audit, management does not have the assurance that client assets are being managed in the best interest of the client. Management cannot resolve issues if it doesn’t have an effective process for identifying them. Nor can it identify weaknesses or opportunities to improve policy or guide staff.

A well-designed audit group will work with and report to management, but will also have a level of independence. A best practice suggests that an internal audit group should have dual reporting relationships—reporting to management and, in this case, the Ministry.The audit group should develop its own audit strategy, which may include issues management wants audit to look at plus issues that audit has identified as a higher risk.

Implications and risks if recommendation not implemented

Without an effective supervisory review and a broad scope of operations for its internal audit function, management cannot be assured that client files are being properly administered, that the OPT is applying a consistent approach in similar situations, and that trust officers are performing their duties competently and acting in the best interests of the client.

Improve and follow policies

Background

Policies are an important component of a properly designed internal control system. The purpose of written policy is to clearly articulate management's expectations and provide guidance to staff to achieve the desired result. Compliance with policy requirements will result in a consistent approach when staff deal with similar issues. Policies and procedures are also important when staff must deal with complex legislation or when staff, such as trust officers, have a certain amount of independence to exercise discretion. Policies should be reviewed regularly to ensure they remain updated.

The OPT has a number of policies for its program areas to assist staff in the administration of client files. The OPT updated its policies 113 times during the 2010–2011 fiscal year.

RECOMMENDATION 4: IMPROVE AND FOLLOW POLICIES

We recommend that the Office of the Public Trustee:

- review and assess whether its policies are appropriate, and procedures are adequate to mitigate the risk that client assets could be misappropriated or otherwise mismanaged
- improve its processes for ensuring compliance with policies and procedures

Criteria: the standards for our audit

The OPT should have appropriate policies that management and staff follow.

KEY FINDINGS

- Policies are not always followed and processes to monitor compliance with policy are ineffective.
- Policy around supporting documentation requirements is inadequate.

We found instances of non-compliance with policy in all program areas, and occurring over multiple years. Management was unaware of the extent of non-compliance with policy requirements. We also found instances in which management did not comply with policy.

OPT policy requires taxation, internal audit and the director to authorize the release of client funds from the deceased estate files. In the deceased estate files we examined from the Edmonton office, we found that the majority of files did not have the proper level of authorization from the director to release the funds to the beneficiaries. These files were authorized by taxation, internal audit and a senior trust officer. The senior trust officer did not have the proper signing authority to approve the distributions to the beneficiaries. Total payments to beneficiaries from these files were just over $1.9 million.

We found the policy governing the approval and payment of client expenses should be reviewed, and management should assess whether it is adequate given the role and objectives of the OPT. At this time, it provides that invoices or other supporting documentation are only required if the expense is over $500. The implication being that invoices or other evidence to support the payment is not required for expenses under $500. The policy also states that no invoice or receipt is required for payments made to a third party by cheque or electronic fund transfer,[18] regardless of the amount. Policy states that the client must submit a written request for the expenditure to a third party. The policy also states a trust officer has the discretion to request a receipt from the payee even if the amount is under $500.

As the OPT is administering trust funds for the benefit of vulnerable Albertans, we would have expected more onerous requirements regarding the need for adequate evidence of the legitimacy of expenses. For example, the Government of Alberta's policy for the payment of government expenses requires invoices or receipts to support the payment or reimbursement of expenses. There are some exceptions for lower cost items, such as parking costs, where a receipt may be more difficult to obtain. Under the OPT policy, however, it is not only certain types of expenses that do not require supporting documentation; rather, it is any expenses under certain threshold amounts, or types of expenses regardless of amount. This makes it difficult to determine if client funds were used for the intended purpose.

We acknowledge certain OPT clients will be unable to provide the required documentation to support their expenses. These incidents should be the exception and clearly defined in the policy.

Implications and risks if recommendation not implemented

Without strong policies that are monitored for compliance and enforced, it is difficult to know whether trust funds are being properly administered and accounted for.

Segregation of duties

Background

Trust officers are responsible for the administration of a client's file, including initiating the payment of client expenses. OPT policies prescribe what approvals and supporting documentation are necessary for financial services to issue a payment. In particular, OPT policy:

- does not require an invoice or other supporting documentation for client expenses less than $500
- does not require an invoice or receipt if payments are made directly to a vendor, regardless of the amount
- requires two signatures from individuals with the proper level of authorization, evidencing approval from the appropriate level of staff, for expenses over $4,000

When no invoice or other supporting documentation is required, a trust officer submits what is referred to as a "pink slip" to financial services for processing. The pink slip, filled in by a trust officer, contains the client number, vendor name, vendor number and amount of the payment.

[18] Third-party would not include a represented adult, minor or the minor's parent/guardian.

For deceased estate files, distribution of estate funds requires authorization from internal audit, taxation and the director of trust administration, before cheques are issued.

RECOMMENDATION 5: SEGREGATION OF DUTIES

We recommend that the Office of the Public Trustee strengthen its processes for the approval and payment of client expenses or disbursements.

Criteria: the standards for our audit

There should be proper segregation of duties between the person who authorizes a payment and the person who processes it.

KEY FINDINGS

- Segregation of duties between trust administration and financial services is flawed because financial services does not receive sufficient documentation to scrutinize payment requests.
- Financial services provide trust officers with cheques for payment of expenses the trust officers approved from client accounts.

Segregation of duties is an important internal control requiring that more than one person be involved in a task. Having one person authorizing the payment and a second person processing the payment minimizes the possibility of error and fraud.

We found that the OPT segregates duties between individuals involved in authorizing expenditures and those processing the payments. Trust officers submit a request for payment to financial services staff, who then process the payment. However, these processes need to be significantly strengthened to operate effectively.

Since OPT policy does not require supporting documentation for all client expenses or other disbursements, financial services relies on the trust officer's authorization as evidence that the expense is valid.

We found the trust officers submit a large number of "pink slips" to financial services to process vendor payments. Yet, without an invoice from the vendor or other supporting documentation, it's not clear how financial services has the necessary assurance that the payment is correct or legitimate and complies with applicable policies.

We also found instances of financial services making payments even though it was apparent from the pink slip or invoice that the required signatures of approval were missing. For example, in cases requiring two signatures, payments were made when there was only one or when persons authorizing the payment did not have the proper level of authorization.

We identified other exceptions that increase the risk of illegitimate transactions going undetected. These involved financial services providing cheques directly to trust officers for payments to third parties. This is a poor practice, as it reduces the opportunity to flag illegitimate transactions and verify the legitimacy of the payee.

Similar issues were identified in 2009 by a professional services firm, as stated in its report to management: "…the disbursement process lacks sufficient rigour, structure and design to provide an effective basis of determining whether policies and procedures are being adhered to by OPT staff or payments are valid." It recommended that the OPT consider redesigning the disbursement process to improve its effectiveness and efficiency.

Our findings similarly demonstrate that OPT processes for approving and paying client expenses lack rigour, and do not provide the necessary assurance that expenses are appropriate or legitimate and funds are used as intended.

Implications and risks if recommendation not implemented

If financial services must rely solely on the representations of the trust officer requesting payment, there is not a meaningful segregation of duties. Insufficient supervisory review and oversight further increases the risk that improper payments could go undetected.

Supporting documentation

Background

The OPT maintains a client file for each estate in which the Public Trustee is appointed the administrator, or when acting on behalf of a represented adult or minor.

The documents that should be retained on a file will vary depending on the type of file. For example, deceased estate file documentation will include court documents such as the letters of administration, kinship documents, other vital statistic documents, inventory of assets and invoices. Represented adult files could include documents evidencing financial obligations of the represented adult, such as bills for utilities or other ongoing expenses. Represented adult files should also include sources of income and the OPT's authority to act on behalf of the represented adult. Official guardian files may include the OPT's authority to act, questionnaires sent to the parent/guardian, receipts or other supporting documentation for payments made for the benefit of the minor. All client files should also contain various correspondence outlining the ongoing status of the file, actions taken and decisions made in the administration of the client file.

Size and complexity of a file will also vary depending on the amount of ongoing activity required on the file, and the length of time the OPT has administered it. The file size can range from one folder containing a few documents to multiple folders containing numerous documents showing the activity on the file over many years. The OPT has been the Public Trustee of some represented adult clients in excess of 40 years.

RECOMMENDATION 6: DOCUMENTATION

We recommend that the Office of the Public Trustee improve its processes for ensuring client files are appropriately documented, including adequate documentation of supervisory review and internal audit.

Criteria: the standards for our audit

There should be proper documentation in client files supporting the decisions made by the OPT. All OPT policies identifying documentation requirements should be followed.

KEY FINDINGS

- Client files lacked the required documentation demonstrating that the file was properly administered.
- Status updates, rationale and support for key decisions and evidence of supervisory review were often not documented in client files.

We examined 430 files from the Calgary and Edmonton offices. We found many instances, from all program areas, in which the files lacked the appropriate documentation. Missing or incomplete documentation included all document types, such as invoices, receipts, legal documents, correspondence and memos outlining actions or decisions that we would have expected to see on file.

Client files often lacked the documentation necessary to determine if expenses were legitimate. Other key documents were often missing from the files as well, such as:

- on minors' files, legal documents such as court orders confirming awards to minors, copies of letters of administration or grants of probate
- documents relating to minors' interests in land
- final reporting and accounting in cases where minors are beneficiaries
- adequate kinship documents, particularly for foreign beneficiaries, in which the integrity of translated documents is often relied upon

On client files for represented adults and minors where regular expenditures were made, there was little evidence of adequate financial planning such as preparing a budget. This may involve working with the client or their representative, as appropriate within the terms of the trust instrument, to create an overall strategy and long-term objectives for the trust fund, budgeting anticipated receipts and expenditures based on agreed upon objectives. This information would be useful in guiding trust officers in assessing requests for funds and in maximizing the benefits to the clients.

Many files also lacked internal documentation outlining the status of the file, or explaining the decisions made by the trust officer. Trust officers must use their professional judgement when exercising discretion and making decisions; however, decisions and the rationale to support them should be documented on the file. A file may be transferred to another trust officer, and it is important that anyone assuming responsibility for the file is able to understand actions taken to date, and the rationale behind any decisions. As well, adequate documentation is necessary for supervisory review and audit of the file.

Given the size or history of some files, a summary memo would be useful, particularly for files that are unusually complex or very large. A memo could provide a clearer understanding of the actions taken to date, and what remains to be done. This would be especially useful for a new trust officer assuming responsibility for the file, the supervisor reviewing the file, and the OPT's internal audit group.

A properly documented file is a best practice for several reasons. It not only protects the interests of clients, or those who have a legal interest in property held by the OPT; it helps protect the reputation of the individual trust officer, and it also helps maintain public trust and confidence in the OPT.

We also found that the client files were not well organized, particularly files with a long history or a large number of documents. Files were generally organized by date, which makes it difficult to locate specific documents in a timely manner. Key documents were not segregated by type (for example, court documents). Rather, all documents were intermingled, in many cases depending on the date the trust officer put it on the file, rather than by the type of document.

As well, we found numerous duplicate documents within the files. Organizing documents by type, for example, keeping invoices, receipts or court documents together, would help the trust officer eliminate duplicate documents, and make it much easier to quickly locate a document or determine if all required documentation is on file.

Implications and risks if recommendation not implemented

If client files do not include adequate supporting documentation, the OPT will be unable to demonstrate it is properly administering and monitoring client files.

Treasury Board and Finance—Reporting on Selected Payments to MLAs Follow Up

SUMMARY

What we examined

In 2008, we audited systems the Department of Treasury Board and Finance used to prepare its report of payments to MLAs and people directly associated with them.[1] We recommended in our *October 2008 Report* (starting on page 372), that the Department:

- use current technology in preparing its report
- improve the timeliness of the report

This year, we conducted follow-up audit work to assess the Department's progress in implementing our recommendations.

What we found

The Department has implemented both recommendations by implementing new processes to collect and compile information from the departments and Legislative Assembly Office (LAO). The Department also set specific timelines for departments to submit MLA payment information and for MLAs to review and approve the annual report of these payments. As a result, the Department has significantly reduced the time it takes to have the report ready for tabling in the Legislative Assembly.

Why this is important to Albertans

Albertans need to know they can have confidence in the accuracy, completeness and timeliness of the Department's reports of payments the government makes to MLAs.

AUDIT OBJECTIVE AND SCOPE

Our audit objective was to determine if the Department had implemented the recommendations from our *October 2008 Report*.

We conducted our field work from July to August 2012, and focused on the Department's actions since our *October 2008 Report*. We substantially completed our audit on September 12, 2012. Our audit was conducted in accordance with the *Auditor General Act* and the standards for assurance engagements set by the Canadian Institute of Chartered Accountants.

[1] Report of Selected Payments to Members and Former Members of the Legislative Assembly and Persons Directly Associated with Members of the Legislative Assembly (published annually)

BACKGROUND

The Department prepares an annual report[2] that it tables in the Legislative Assembly, detailing the payments made to current and former MLAs and persons directly associated with them. The report outlines payments for Remuneration and Benefits, Reimbursements for Expenses and Other Payments.

The two main sources of data used by the Department to compile the report are data from the LAO and government departments. The LAO pays salaries, benefits, fees and expenses of MLAs who sit on legislative or government boards, commissions and committees. The LAO has its own payroll system outside of the government's financial system, the Integrated Management Information System (IMAGIS). The departments reimburse the LAO for MLA costs associated with government work such as salaries, benefits or attending government board meetings. The departments pay the MLAs directly for government related expenses. Department transactions are recorded in the IMAGIS.

The Department compiles a preliminary report, which each department reviews to ensure all MLA transactions are included. The preliminary report is sent to each MLA for review. After MLA approval, the final report is tabled in the Legislative Assembly.

FINDINGS

Efficient compilation—implemented

Background

In our *October 2008 Report* (page 376), we recommended that the Department use current technology to regularly and efficiently compile the material for public reporting.

Our audit findings

The Department implemented new technology and processes to regularly and efficiently compile the material for public reporting by:

- implementing a SharePoint site so that departments can electronically report payment information
- developing a procedures manual that specifies the nature and type of expenses to be included in the report
- collaborating with Service Alberta to develop reports to assist departments in collecting the required payment information directly from IMAGIS
- training department staff on the revised reporting process

[2] The report is prepared to satisfy the reporting requirements under Section 37(4) of the *Legislative Assembly Act* and Section 16(1) of the *Conflicts of Interest Act*.

Timely reporting—implemented

Background

In our *October 2008 Report* (page 377), we recommended that the Department arrange for all final reviews of the report to take place within six months of the year-end, so that the report can be ready for tabling in the Legislative Assembly. Prior reports were tabled more than a year after the fiscal year-end, even though the information in the report is widely available and routinely reported.[3]

Our audit findings

The Department arranged for all final reviews of the report to take place within six months of the year-end by setting specific timelines for the departments to submit MLA payment information and for MLAs to review and approve the report. The Department required all departments to submit 2010–2011 fiscal year-end MLA payment information by July 2011. All departments complied and submitted the information within the required response time. The Department sent its preliminary report to MLAs for their review and approval in August and September 2011. As a result, the report was ready for tabling in the Legislative Assembly within six months of year-end.

[3] For example, a Minister's office expenses are publicly posted by each ministry. Also, the Government of Alberta makes public the consolidated financial statements by June 30 of each year, three months after the fiscal year.

AUDITOR GENERAL
Alberta

Other Auditing

REPORT OF THE AUDITOR GENERAL OF ALBERTA

February 2013

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

[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				91
2012	n/a[2]	◆	◆	
2011	◆	◆	◆	
Alberta College of Art + Design				61
2012	◆	▲	◆	
2011	◆	◆	◆	
NorQuest College				83
2012	◆	▲	◆	
2011	◆	◆	◆	
Olds College				94
2012	◆	●	◆	
2011	◆	▲	◆	
Mount Royal University				82
2012	▲	▲	▲	
2011	▲	▲	●	
Keyano College				78
2012	●	▲	▲	
2011	●	▲	▲	
Bow Valley College				71
2012	▲	●	●	
2011	●	▲	●	

[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

[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

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

[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

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

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.

---

[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

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

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.

Treasury Board and Finance—Province's Fiscal Update

The government is required by Section 9 of the *Government Accountability Act* to report publicly, through quarterly fiscal updates, on the accuracy of the Province's consolidated fiscal plan. We do not audit the Province's quarterly fiscal updates, although as part of our audit of the Province's consolidated financial statements, we consider the fiscal updates important. Much like any business, it is better run if management periodically monitors its own performance throughout the year.

When the government released the 2012–2013 first quarter fiscal update, the form and content of the report had changed, and it did not contain the same information that was previously reported publicly, such as a balance sheet. Subsequently, there was considerable commentary about whether the new form and content of the fiscal update complied with the law, specifically Section 9 of the *Government Accountability Act*. In light of this, we felt it was important to consider the substantive changes made to the fiscal update, to identify whether there was an instance of legislative non-compliance that we should bring to the attention of the legislative assembly.

With respect to the legal requirement contained in Section 9 of the *Government Accountability Act*, we found the wording could give rise to differing interpretations. Although the Act is clear in that fiscal updates are required within certain timeframes, it does not specifically prescribe the content or level of detail needed for an update.

We noted some observations as part of our consideration of the fiscal update. We provided these observations to the Department of Treasury Board and Finance, in the interest of making the fiscal updates more useful. These included the following:

- In general, the fiscal update could report on the accuracy of the fiscal plan by reporting on the accuracy of the items required to be included in the plan—the items in Sections 5, 6 and 7 of the *Act,* as relevant in the circumstances.
- The fiscal update could include a statement of compliance with the *Government Accountability Act,* with quarterly updates, if the government believes the update complies with the Act.
- The fiscal update could include a balance sheet, i.e., net financial position and a breakdown by liabilities and financial and other assets at quarter end; qualitative discussion of important variances; and discussion or forecast for revenues, expenses and deficit (for the year) and forecast of financial assets, liabilities and other assets expected at year-end.
- The budget for each quarter could be published in advance of each quarter's fiscal update, for example as part of an annual budget which includes budgets for each quarter.

Some of our observations were incorporated into the second fiscal update, which was released on November 28, 2012. Although the second quarter fiscal update included a forecast of the expected range of deficit for the year, it did not include a forecast of revenues or expenses, or a forecast of the balance sheet, for the year.

With respect to the fiscal updates under the *Government Accountability Act*, given different interpretations are possible, we cannot conclude on whether the fiscal updates meet the legal reporting requirements of the legislation. Law is not always clear, and in some cases wording used in legislative provisions is not sufficient to ensure consistent application or interpretation. In such cases, the law may remain uncertain unless settled by judicial interpretation or resolved through legislative amendments.

GLOSSARY

REPORT OF THE AUDITOR GENERAL OF ALBERTA

February 2013

GLOSSARY

Accountability In governance, the responsibility of an organization (government, ministry, department or other entity) to:
- report results (what they spent, and what they achieved)
- compare results with plans, budgets or goals
- explain any difference between the actual and expected results

Government accountability allows Albertans to decide whether the government is doing a good job. They can compare the costs and benefits of government action: what it spends, what it tries to do (goals) and what it achieves (results).

Accrual basis of accounting A way of recording financial transactions that puts revenues and expenses in the period when they are earned and incurred.

Adverse auditor's opinion An auditor's opinion that things audited do not meet the criteria that apply to them.

Assurance An auditor's written conclusion about something audited. Absolute assurance is impossible because of several factors, including the nature of judgement and testing, the inherent limitations of control and the fact that much of the evidence available to an auditor is only persuasive, not conclusive.

Attest work, attest audit Work an auditor does to express an opinion on the reliability of financial statements.

Audit An auditor's examination and verification of evidence to determine the reliability of financial information, to evaluate compliance with laws or to report on the adequacy of management systems, controls and practices.

Auditor A person who examines systems and financial information.

Auditor's opinion An auditor's written opinion on whether things audited meet the criteria that apply to them.

Auditor's report An auditor's written communication on the results of an audit.

Business case An assessment of a project's financial, social and economic impacts. A business case is a proposal that analyzes the costs, benefits and risks associated with the proposed investment, including reasonable alternatives. The province has issued business case usage guidelines and a business case template that departments can refer to in establishing business case policy.

Capital asset A long-term asset.

COBIT Abbreviation for Control Objectives for Information and Related Technology. COBIT provides good practices for managing IT processes to meet the needs of enterprise management. It bridges the gaps between business risks, technical issues, control needs and performance measurement requirements.

COSO Abbreviation for Committee of Sponsoring Organizations of the Treadway Commission. COSO is a joint initiative of five major accounting associations and is dedicated to development of frameworks and guidance on risk management, internal control and fraud deterrence.

Criteria Reasonable and attainable standards of performance that auditors use to assess systems or information.

Cross-ministry The section of this report covering systems and problems that affect several ministries or the whole government.

Crown Government of Alberta

Deferred contributions See "Restricted contributions."

Deferred maintenance Any maintenance work not performed when it should be. Maintenance work should be performed when necessary to ensure capital assets provide acceptable service over their expected lives.

Enterprise risk management (ERM) The systems and processes within an organization used to identify and manage risks so it can achieve its goals and objectives. An ERM creates linkages between significant business risks and possible outcomes so that management can make informed decisions. An ERM framework helps organizations identify risks and opportunities, assess them for likelihood and magnitude of impact, and determine and monitor the organization's responses and actions to mitigate risk. A risk-based approach to managing an enterprise includes internal controls and strategic planning.

Enterprise resource planning (ERP) Abbreviation for enterprise resource planning. ERPs integrate and automate all data and processes of an organization into one comprehensive system. ERPs may incorporate just a few processes, such as accounting and payroll, or may contain additional functions such as accounts payable, accounts receivable, purchasing, asset management, and/or other administrative processes. ERPs achieve integration by running modules on standardized computer hardware with centralized databases used by all modules.

Exception Something that does not meet the criteria it should meet—see "Auditor's opinion."

Expense The cost of a thing over a specific time.

IFRS International Financial Reporting Standards (IFRS) are global accounting standards, adopted by the Accounting Standards Board of the Canadian Institute of Chartered Accountants. They are required for government business enterprises for fiscal years beginning on or after January 1, 2011.

GAAP Abbreviation for "generally accepted accounting principles," which are established by the Canadian Institute of Chartered Accountants. GAAP are criteria for financial reporting.

Governance A process and structure that brings together capable people and relevant information to achieve goals. Governance defines an organization's accountability systems and ensures effective use of public resources.

Government business enterprise A commercial-type enterprise controlled by government. A government business enterprise primarily sells goods or services to individuals or organizations outside government, and is able to sustain its operations and meet its obligations from revenues received from sources outside government.

Internal audit A group of auditors within a ministry (or an organization) that assesses and reports on the adequacy of the ministry's internal controls. The group typically reports its findings directly to the deputy minister or governing board. Internal auditors need an unrestricted scope to examine business strategies, internal control systems, compliance with policies, procedures, and legislation, economical and efficient use of resources and effectiveness of operations.

Internal control A system designed to provide reasonable assurance that an organization will achieve its goals. Management is responsible for an effective internal control system in an organization, and the organization's governing body should ensure that the control system operates as intended. A control system is effective when the governing body and management have reasonable assurance that:
- they understand the effectiveness and efficiency of operations
- internal and external reporting is reliable
- the organization is complying with laws, regulations and internal policies

Management letter Our letter to the management of an entity that we have audited. In the letter, we explain:
1. our work
2. our findings
3. our recommendation of what the entity should improve
4. the risks if the entity does not implement the recommendation

We also ask the entity to explain specifically how and when it will implement the recommendation.

Material, materiality Something important to decision makers.

Misstatement A misrepresentation of financial information due to mistake, fraud or other irregularities.

Outcomes The results an organization tries to achieve based on its goals.

Outputs The goods and services an organization actually delivers to achieve outcomes. They show "how much" or "how many."

Performance measure Indicator of progress in achieving a goal.

Performance reporting Reporting on financial and non-financial performance compared with plans.

Performance target The expected result for a performance measure.

PSAB Abbreviation for Public Sector Accounting Board, the body that sets public sector accounting standards.

PSAS Abbreviation for public sector accounting standards, which are applicable to federal, provincial, territorial and local governments.

Qualified auditor's opinion An auditor's opinion that things audited meet the criteria that apply to them, except for one or more specific areas—which cause the qualification.

Recommendation A solution we—the Office of the Auditor General of Alberta—propose to improve the use of public resources or to improve performance reporting to Albertans.

Restricted contributions Canadian accounting standards for not-for-profit organizations require externally restricted contributions to be accounted for by reporting the value of contributions as liabilities until the stipulations are met, after which they are recognized as revenue. Externally restricted contributions for which the stipulations have not been met are called "deferred contributions." The purpose of this accounting is to provide readers of the financial statements with useful information about how management has used resources provided to them and whether or not they have complied with stipulations imposed by donors.

Review Reviews are different from audits in that the scope of a review is less than that of an audit and therefore the level of assurance is lower. A review consists primarily of inquiry, analytical procedures and discussion related to information supplied to the reviewer with the objective of assessing whether the information being reported on is plausible in relation to the criteria.

Risk Anything that impairs an organization's ability to achieve its goals.

Sample A sample is a portion of a population. We use sampling to select items from a population. We perform audit tests on the sample items to obtain evidence and form a conclusion about the population as a whole. We use either statistical or judgemental selection of sample items, and we base our sample size, sample selection and evaluation of sample results on our judgement of risk, nature of the items in the population and the specific audit objectives for which sampling is being used.

Standards for systems audits Systems audits are conducted in accordance with the assurance and value-for-money auditing standards established by the Canadian Institute of Chartered Accountants.

Systems (management) A set of interrelated management control processes designed to achieve goals economically and efficiently.

Systems (accounting) A set of interrelated accounting control processes for revenue, spending, preservation or use of assets and determination of liabilities.

Systems audit To help improve the use of public resources, we audit and recommend improvements to systems designed to ensure value for money. Paragraphs (d) and (e) of subsection 19(2) of the *Auditor General Act* require us to report every case in which we observe that:
- an accounting system or management control system, including those designed to ensure
- economy and efficiency, was not in existence, or was inadequate or not complied with, or
- appropriate and reasonable procedures to measure and report on the effectiveness of programs
- were not established or complied with.

To meet this requirement, we do systems audits. Systems audits are conducted in accordance with the auditing standards established by the Canadian Institute of Chartered Accountants. First, we develop criteria (the standards) that a system or procedure should meet. We always discuss our proposed criteria with management and try to gain their agreement to them. Then we do our work to gather audit evidence. Next, we match our evidence to the criteria. If the audit evidence matches all the criteria, we conclude the system or procedure is operating properly. But if the evidence doesn't match all the criteria, we have an audit finding that leads us to recommend what the ministry must do to ensure that the system or procedure will meet all the criteria. For example, if we have five criteria and a system meets three of them, the two unmet criteria lead to the recommendation. A systems audit should not be confused with assessing systems with a view to relying on them in an audit of financial statements.

Unqualified auditor's opinion An auditor's opinion that things audited meet the criteria that apply to them.

Unqualified review engagement report Although sufficient audit evidence has not been obtained to enable us to express an auditor's opinion, nothing has come to our attention that causes us to believe that the information being reported on is not, in all material respects, in accordance with appropriate criteria.

Value for money The concept underlying a systems audit is value for money. It is the "bottom line" for the public sector, analogous to profit in the private sector. The greater the value added by a government program, the more effective it is. The fewer resources used to create that value, the more economical or efficient the program is. "Value" in this context means the impact that the program is intended to achieve or promote on conditions such as public health, highway safety, crime or farm incomes. To help improve the use of public resources, we audit and recommend improvements to systems designed to ensure value for money.

Other resources

The Canadian Institute of Chartered Accountants (CICA) produces a useful book called, Terminology for Accountants. They can be contacted at CICA, 277 Wellington Street West, Toronto, Ontario, Canada M5V 3H2 or www.cica.ca

Office of the Auditor General of Alberta
8th Floor, 9925 109 Street NW
Edmonton, Alberta, Canada T5K 2J8

Phone: 780.427.4222
Fax: 780.422.9555
Email: info@oag.ab.ca
This report is available at www.oag.ab.ca
ISSN 1927-9604