

October 2016 Recommendations

We conducted our audits in accordance with the *Auditor General Act* and the standards for assurance engagements as set out in the CPA Canada Handbook—Assurance.

This report contains 14 new and four repeated recommendations to government. The repeated recommendations have been made because we do not believe there has been sufficient action taken to implement our previous recommendations. We also confirm in this report that 13 prior recommendations have been implemented.

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.

The auditor general is the auditor of every ministry, department and regulated fund, and most provincial agencies. Under the *Government Organization Act*, ministers are responsible for administering departments and provincial legislation. Deputy ministers are delegated responsibility to support the minister in his or her role, and to act as the chief operator of a department. Ministers may also establish any boards, committees or councils they consider necessary to act in an advisory or administrative capacity for any matters under the minister's administration. A minister is responsible for oversight of the work and actions of the department and any provincial agencies under his or her administration. However, we make our recommendations to departments and provincial agencies rather than to the minister directly, given the delegated operational responsibilities and that they are in the best position to respond to and implement our recommendations. With respect to recommendations related to ministerial oversight of a provincial agency, we generally make the recommendation to the department supporting and providing advice to the minister.

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 oversight and ethics with which government operations are managed.

Reporting the status of recommendations

We follow up on all recommendations. The timing of our follow-up audits depends on the nature of our recommendations. To encourage timely implementation and assist with the planning 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.
- **Repeated**—We explain why we are repeating the recommendation and what the government must still do to implement it.

On occasion, we may make the following comments:

- **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.

SYSTEMS AUDITING—NEW AUDITS

Agriculture and Forestry—Agriculture Financial Services Corporation —Systems to Manage the Lending Program

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RECOMMENDATION 1: DEFINE STRATEGIC OBJECTIVES, ARTICULATE SECTOR CREDIT NEEDS AND RE-EVALUATE THE RELEVANCE OF THE LENDING PROGRAM

We recommend that the Agriculture Financial Services Corporation:

- clearly define the strategic objectives of the lending program; these objectives should be consistent with AFSC's legislative mandate
- clearly articulate the credit needs of the agriculture sector in Alberta, which should drive its lending activities
- develop a process to periodically re-evaluate the relevance of the lending products it offers to ensure they continue to be relevant

IMPLICATIONS AND RISKS IF RECOMMENDATION NOT IMPLEMENTED

Without a clear definition of the purpose of the lending program and its strategic objective, AFSC's lending activities could easily deviate from its development focus and replicate what other commercial lenders provide, rendering the lending program ineffective.

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RECOMMENDATION 2: DEFINE OVERSIGHT RESPONSIBILITIES

We recommend that the Department of Agriculture and Forestry and the board of directors of the Agriculture Financial Services Corporation clearly define the oversight responsibilities of both parties for the lending program.

IMPLICATIONS AND RISKS IF RECOMMENDATION NOT IMPLEMENTED

In the absence of proper oversight, Albertans cannot be assured that AFSC is delivering the results expected from its lending program.

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RECOMMENDATION 3: DEVELOP A FUNDING MODEL AND COSTING SYSTEM

We recommend that the Agriculture Financial Services Corporation:

- develop a product-specific government funding model
- develop a costing system capable of allocating, tracking and reporting product-specific costs

IMPLICATIONS AND RISKS IF RECOMMENDATION NOT IMPLEMENTED

In the absence of a clear funding model, the accountability framework and the sustainability of the lending program are hampered.

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RECOMMENDATION 4: MONITOR THE PERFORMANCE OF THE LOAN PORTFOLIO

We recommend that the Agriculture Financial Services Corporation set up an independent function to monitor the performance of the loan portfolio.

IMPLICATIONS AND RISKS IF RECOMMENDATION NOT IMPLEMENTED

Without an independent loan review function, AFSC lacks a key monitoring control for its loan portfolio.

Human Services—Systems to Manage the Assured Income for the Severely Handicapped (AISH) Program

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RECOMMENDATION 5: IMPROVE PROGRAM ACCESSIBILITY

We recommend that the Department of Human Services ensure its application processes are user friendly.

IMPLICATIONS AND RISKS IF RECOMMENDATION NOT IMPLEMENTED

If the department does not improve its application process for the AISH program, Albertans with a severe disability will continue to have difficulty accessing the program and may not receive the supports they need.

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RECOMMENDATION 6: SET SERVICE STANDARDS AND IMPROVE ELIGIBILITY PROCEDURES AND GUIDELINES

We recommend that the Department of Human Services:

- set service standards for application processing times and regularly monitor against these standards
- improve procedures and guidelines to ensure staff apply policy in a consistent manner

IMPLICATIONS AND RISKS IF RECOMMENDATION NOT IMPLEMENTED

Eligible Albertans may not be able to support themselves and may face unnecessary hardship while waiting for benefits. In addition, there is the potential that denied applicants are eligible and should be receiving benefits.

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RECOMMENDATION 7: IMPROVE REPORTING ON EFFICIENCY

We recommend that the Department of Human Services improve its processes to measure, monitor and report on the efficiency of the AISH program.

IMPLICATIONS AND RISKS IF RECOMMENDATION NOT IMPLEMENTED

In the absence of robust measuring, monitoring and results analysis reporting, management will not have adequate information to analyze performance and make required improvements to the program. In addition, management and stakeholders will not receive enough information to assess whether the program is achieving its desired results.

SYSTEMS AUDITING—FOLLOW-UP AUDITS

Executive Council—Contracting Processes Follow-up

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RECOMMENDATION 8: IMPROVE CONTRACTING PROCESSES—REPEATED

We again recommend that the Department of Executive Council improve its contracting processes by documenting:

- the rationale for contracting services and selecting vendors when entering into sole-sourced contracts
- its assessment of whether proposed contract rates are reasonable, and ensuring contracts are authorized and in place before contracted services are received

IMPLICATIONS AND RISKS IF RECOMMENDATION NOT IMPLEMENTED

Without strong processes in place to manage contracting, the department is at risk of not receiving the best value for money.

FINANCIAL STATEMENT AUDITS

Advanced Education—Athabasca University

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RECOMMENDATION 9: ESTABLISH INFORMATION TECHNOLOGY RESUMPTION CAPABILITIES—REPEATED

We again recommend that Athabasca University:

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

IMPLICATIONS AND RISKS IF RECOMMENDATION NOT IMPLEMENTED

Without a functional disaster recovery plan and appropriate recovery facilities and equipment, the university will not be able to systematically recover data or resume critical business and student services within the required time frames.

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RECOMMENDATION 10: IMPROVE PROCEDURES TO MONITOR AND REPORT ACCESS AND SECURITY VIOLATIONS—REPEATED

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

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

IMPLICATIONS AND RISKS IF RECOMMENDATION NOT IMPLEMENTED

Failure to actively monitor access and security violations allows an intruder to probe for weaknesses or entry points to the university's financial information systems. Access and security violations would go undetected or not be properly dealt with, causing security threats to the university's financial applications and information resources.

Agriculture and Forestry – Agriculture Financial Services Corporation

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RECOMMENDATION 11: ENSURE COMPLIANCE WITH ESTABLISHED POLICIES

We recommend that the Agriculture Financial Services Corporation:

- ensure that agreements between AFSC and its employees comply with the corporation's established policies. If deviations from policies are necessary, adequate justification and support should be documented
- improve its training policy and reimbursement agreements to make them more specific and in line with the guidance by Government of Alberta Corporate Human Resources
- consider recovering expenses that do not comply with AFSC's policies

IMPLICATIONS AND RISKS IF RECOMMENDATION NOT IMPLEMENTED

In the absence of adequate review and approval processes of agreements with its employees, AFSC may not be able to enforce the terms of its agreements and protect its rights. The corporation may pay for expenses that have no business purpose.

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RECOMMENDATION 12: STRENGTHEN PROCESSES TO REPORT SENIOR EXECUTIVES' EXPENSES TO THE BOARD OF DIRECTORS

We recommend that the Agriculture Financial Services Corporation regularly report to its board of directors on the expenses of senior executives.

IMPLICATIONS AND RISKS IF RECOMMENDATION NOT IMPLEMENTED

Without effective oversight processes, AFSC is exposed to increased financial and reputational risk. Further, the board won't have the information necessary to consider and potentially challenge expenses that may not be appropriate.

Culture and Tourism

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RECOMMENDATION 13: IMPROVE FINANCIAL STATEMENT PREPARATION PROCESSES

We recommend that the Department of Culture and Tourism improve its financial statement preparation processes for transactions that do not occur regularly.

IMPLICATIONS AND RISKS IF RECOMMENDATION NOT IMPLEMENTED

Transactions that do not occur regularly are inherently risky. Without an appropriate analysis and assessment of such transactions, there is a risk that financial statements are materially misstated and misleading.

Economic Development and Trade

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RECOMMENDATION 14: IMPROVE FINANCIAL REPORTING PROCESSES

We recommend that the Department of Economic Development and Trade improve its internal controls and quality review processes to ensure prompt preparation of accurate financial reporting.

IMPLICATIONS AND RISKS IF RECOMMENDATION NOT IMPLEMENTED

Without effective financial reporting processes, management risks making critical operating decisions based on inaccurate financial information.

Economic Development and Trade (cont'd.)

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RECOMMENDATION 15: ASSESS INVESTMENT IMPAIRMENT LOSSES

We recommend that the Alberta Enterprise Corporation develop and implement policies and procedures to assess investment impairment losses.

IMPLICATIONS AND RISKS IF RECOMMENDATION NOT IMPLEMENTED

Without adequate policies and processes to identify and account for impairments in investment value, management risks making decisions based on inaccurate financial information.

Energy

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RECOMMENDATION 16: IMPROVE CONTROLS OVER ACCESS TO KEY BUSINESS SYSTEMS

We recommend that the Department of Energy document conflicting roles within its key business systems and ensure appropriate controls are in place where conflicting roles are identified

IMPLICATIONS AND RISKS IF RECOMMENDATION NOT IMPLEMENTED

If the department does not identify the conflicting roles in its key business systems and ensure that there are controls in place to reduce the risk from conflicting roles to an acceptable level, users of business systems could manipulate data and impair its integrity, either by intent or error. Impairing data in this way can have a material impact on the department.

Environment and Parks

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RECOMMENDATION 17: IMPROVE CAPITAL ASSET MONITORING AND RECORDING PROCESSES

We recommend that the Department of Environment and Parks improve its processes for monitoring and recording dam and water management structure assets by:

- reconciling the Environment Infrastructure Management System with the asset management accounting system so that the assets listed in one reasonably correspond to those in the other
- completing a comprehensive analysis of assets to verify existence, completeness and valuation in order to maintain reliable accounting records
- applying criteria to decide when to write down an asset, and documenting the assessment of such decisions

IMPLICATIONS AND RISKS IF RECOMMENDATION NOT IMPLEMENTED

Without effective monitoring and recording processes, the department cannot accurately report the book value of assets in its financial statements. If the department does not make the improvements we recommend, there will continue to be an increased risk that the financial statements will have material misstatements in relation to capital assets.

Indigenous Relations

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RECOMMENDATION 18: IMPROVE FINANCIAL REPORTING PROCESSES – REPEATED

We again recommend that the Department of Indigenous Relations improve its financial reporting processes to ensure its estimates are reasonable and properly supported.

IMPLICATIONS AND RISKS IF RECOMMENDATION NOT IMPLEMENTED

Regardless of the complexity of the estimate to be made, management risks making improper conclusions if processes are not in place to appropriately obtain, understand and analyze the information used to make estimates. Estimates are often material to the decision making processes used in the ministry's financial reporting.