

October 2015 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 13 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 state that 28 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, regulated fund and provincial agency. 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

Innovation and Advanced Education—For-profit and Cost Recovery Ventures at Post-secondary Institutions

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RECOMMENDATION 1: DOCUMENT AND COMMUNICATE EXPECTATIONS AND GUIDELINES

We recommend that the Department of Innovation and Advanced Education:

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

Implications and risks if recommendation not implemented

Without clearly defining and effectively communicating the department's expectations and guidelines on ventures, boards and management will expose their post-secondary institutions to risk that if not managed properly may result in financial loss, reputational damage and legal exposure.

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RECOMMENDATION 2: IMPROVE DEPARTMENT'S OVERSIGHT OF INSTITUTION'S RISK ASSESSMENT OF VENTURES

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

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

Implications and risks if recommendation not implemented

Without effective department oversight of whether a board is overseeing that its institution's management has appropriate policies and controls to mitigate risks on these ventures, there is an increased likelihood of unjustifiable exposure and cost to Albertans.

Innovation and Advanced Education—IT System Implementation at Olds College

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RECOMMENDATION 3: IMPROVE DETAILED PROJECT PLANNING

We recommend that Olds College develop a detailed project plan and define its criteria for each milestone to implement its enterprise resource planning system.

Implications and risks if recommendation not implemented

The college will not complete all essential project deliverables or tasks on time or to an acceptable standard without a formal approach to project planning. Implementation of the ERP system would be delayed, exceed budget or fail to meet the college's business requirements and expectations. A failed implementation would result in costly post-implementation workarounds or the need to revert to less efficient pre-implementation manual processes.

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RECOMMENDATION 4: IMPROVE BUSINESS CHANGE PLANNING

We recommend that Olds College:

- define the financial and other reporting capabilities required for implementation
- define automated business controls in the system configuration, and business controls affected by the use of the new system for training and production readiness
- develop and approve post-implementation sustainment plans and support agreements to ensure the college has adequate resources to support the new system

Implications and risks if recommendation not implemented

Without clearly designed plans for business requirements, business controls and post-implementation support, the college risks an operational failure occurring that will impede its ability to provide accurate and timely financial reporting to the college's oversight bodies.

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RECOMMENDATION 5: IMPROVE OVERSIGHT ON PROJECT RISK MANAGEMENT

We recommend that Olds College define a formal project risk management process to identify, rank and mitigate all project risks.

Implications and risks if recommendation not implemented

Without clear identification and reporting on risks, and what is being done to manage the risks, the board does not have complete information to ensure that the project implementation plan will be executed successfully.

SYSTEMS AUDITING—FOLLOW-UP AUDITS

Environment and Parks—Managing Water Act Partnerships and Regulatory Activities

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RECOMMENDATION 6: MONITOR WETLAND RESTORATION—REPEATED FROM 2010

We again recommend that the Department of Environment and Parks formalize its wetland restoration relationships and control procedures.

Implications and risks if recommendation not implemented

Without controls such as clear agreements and effective monitoring, the department cannot ensure that agencies complete wetland restoration as required. In the absence of effective monitoring of developers' wetland losses and agencies' restoration work, the government cannot know whether it is meeting its policy goals and outcomes for managing Alberta's water supply.

FINANCIAL STATEMENTS AND PERFORMANCE MEASURES AUDITING

Aboriginal Relations

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RECOMMENDATION 7: IMPROVE FINANCIAL REPORTING PROCESSES—REPEATED

We again recommend that the Department of Aboriginal 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 is at risk of 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 of users of the ministry's financial reporting.

Culture and Tourism—Travel Alberta

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RECOMMENDATION 8: ENHANCE DOCUMENTATION TO SUPPORT SENIOR MANAGEMENT EXPENSES—REPEATED

We again recommend that Travel Alberta consistently document the business reason to support senior management expenses.

Implications and risks if recommendation not implemented

Without appropriate documentation to support senior management expenses, the business reasons for the expenditure could be lost with personnel turnover. A lack of documentation may result in Travel Alberta being unable to justify an expense if questioned.

Education—Department

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RECOMMENDATION 9: ENFORCE IT CHANGE MANAGEMENT CONTROLS

We recommend that the Department of Education enforce its documented IT change management processes and demonstrate that all changes are appropriately classified, logged and approved.

Implications and risks if recommendation not implemented

If IT change management processes are not properly followed, system outages could occur.

Education—Northland School Division No. 61

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RECOMMENDATION 10: IMPROVE FINANCIAL REPORTING—REPEATED

We again recommend that the Northland School Division No. 61 improve its financial reporting by:

- regularly reviewing and reconciling general ledger accounts
- preparing year-end financial statements promptly

Implications and risks if recommendation not implemented

Management and the official trustee will not have reliable financial information with which to make decisions.

Environment and Parks

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RECOMMENDATION 11: IMPROVE FINANCIAL REPORTING PROCESSES

We recommend that the Department of Environment and Parks improve its process for preparing timely and reliable financial statements by:

- improving the quality of documentation and analysis to support financial statement items and disclosures
- preparing reconciliations for key financial statement balances
- scheduling and evidencing management reviews of financial statements, analysis and supporting documentation before finalizing draft financial statements

Implications and risks if recommendation not implemented

Without an effective financial statement reporting process, the department cannot accurately and promptly report its financial results. Weak processes increase the risk that the financial statements will have material misstatements. Ineffective processes contribute to inefficiencies that impair the ability of the department to receive a cost effective audit.

Health—Department

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RECOMMENDATION 12: ESTABLISH A PROACTIVE CHECK TO ENSURE THAT INDIVIDUALS WITH AN ALBERTA HEALTHCARE NUMBER CONTINUE TO MEET RESIDENCY REQUIREMENTS

We recommend that the Department of Health improve its processes by establishing a proactive check to ensure that individuals who have been issued an Alberta healthcare number continue to meet the residency requirements specified in the *Alberta Health Care Insurance Act and Regulation*.

Implications and risks if recommendation not implemented

The department may pay for healthcare for people who do not meet Alberta residency requirements.

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RECOMMENDATION 13: ENHANCE PROCESSES TO CHECK FOR RECEIPT OF SERVICES FOR WHICH PHYSICIANS BILLED

We recommend that the Department of Health enhance the processes it uses to check whether:

- patients received the medical services for which physicians billed the department
- payments are being made in accordance with the provisions of the *Alberta Health Care Insurance Act*

Implications and risks if recommendation not implemented

The department may pay health service claims for services not provided or for services billed incorrectly.

Health—Alberta Health Services

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RECOMMENDATION 14: DEVELOP A DETAILED PLAN FOR IMPLEMENTING RISK-BASED DISASTER RECOVERY PROCESSES

We recommend that Alberta Health Services develop and follow a comprehensive plan for implementing risk-based disaster recovery processes, including the necessary IT infrastructure.

Implications and risks if recommendation not implemented

Without a comprehensive plan for implementing its disaster recovery program, AHS cannot know if the steps it is taking will help ensure patient care and maintain their safety if IT infrastructure suddenly becomes unavailable.

Innovation and Advanced Education

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RECOMMENDATION 15: IMPROVE ENTERPRISE RISK MANAGEMENT

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

Implications and risks if recommendation not implemented

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

Municipal Affairs

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RECOMMENDATION 16: IMPROVE SYSTEMS FOR UPDATING THE ESTIMATED DISASTER RECOVERY PROGRAM LIABILITY

We recommend that the Department of Municipal Affairs develop and implement an improved method for updating and supporting its estimated disaster recovery program liability.

Implications and risks if recommendation not implemented

Management can expect and accept some uncertainty in estimates for the cost of recovering from a disaster. However, the degree of uncertainty increases unacceptably when the estimate is based on poorly designed systems. Inaccurate estimates affect the financial reports that users rely on for many types of decisions. Decision makers may not have the information they need to make the best decisions.

Treasury Board and Finance

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RECOMMENDATION 17: IMPROVE COMPLIANCE SYSTEMS FOR UNFILED CORPORATE INCOME TAX RETURNS

We recommend that the Department of Treasury Board and Finance improve its compliance systems to deal with unfiled corporate income tax returns.

Implications and risks if recommendation not implemented

The department will not take appropriate actions to ensure corporations file their returns and pay corporate taxes owing.

OCTOBER 2015 RECOMMENDATIONS