AUDITOR GENERAL
Alberta

Report of the Auditor General of Alberta

JULY 2013

Mr. Wayne Cao, MLA
Chair
Standing Committee on Legislative Offices

I am honoured to send my *Report of the Auditor General of Alberta—July 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

Edmonton, Alberta
June 27, 2013

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REPORT OF THE AUDITOR GENERAL OF ALBERTA

July 2013

Auditor General's Message

We are the auditors of every ministry, department, fund and provincial agency, including universities, colleges and Alberta Health Services. Our audit work focuses on areas that improve governance and ethical behaviour, the safety and welfare of Albertans, and the security and use of the province's resources. Within this scope are six lines of interrelated but different types of auditing—financial statements, compliance with laws, systems, performance measures, results analysis and research, and advice.

This report contains work related to our systems auditing, sometimes referred to as value-for-money auditing. Systems audits can take the form of a stand-alone audit, which looks at major programs or initiatives necessary to achieve organizational goals, or they can be by-products of other audit work. For both stand-alone and by-product systems audits, our goal is to add value by identifying the root causes of inadequate systems and making recommendations for improvement.

NEW AUDITS

Of particular note in this report:

Aboriginal Relations—Systems to Assess First Nations Development Fund Grants (page 17)

The First Nations Development Fund is a lottery grant program for First Nations in Alberta, supported by revenue from government-owned slot machines in First Nation casinos. In February 2012, the Enoch Cree Nation applied for a grant of $317 million over seven years to refinance and operate the River Cree Resort and Casino. We examined whether the department's systems used to assess the eligibility of the Enoch Cree Nation grant application were followed and were consistent with the grant program and grant agreement. We also included other First Nations' projects during the audit and concluded that improvements could be made to the department's systems.

We found that the department has a process to make informed decisions on funding uses; however, it did not always follow the process. We also found that the department needs to formalize and communicate its interpretation of eligible uses of grant program funds. Further, the department needs to consistently monitor and correct non-compliance with grant agreements.

Consistent and appropriate eligibility decisions by the department on these grant applications will give Albertans, particularly First Nations members, confidence that the grant program supports social, economic and community projects that enable First Nation communities to fully participate in Alberta's economy.

Enterprise and Advanced Education—Collaborative Initiatives Among Alberta's Post-secondary Institutions (page 41)

The government wants Alberta's 26 post-secondary institutions to collaborate—a goal referred to as Campus Alberta. The goal is to provide accessible and affordable learning opportunities for students, to avoid duplication and to reduce overall costs.

We examined three non-academic collaborative initiatives to assess if the institutions had well-designed systems to plan, govern, implement and sustain them. We found institutions do not clearly understand how the Minister of Enterprise and Advanced Education's wants to achieve the Campus Alberta goals.

Senior management at institutions lack a clear understanding of the department's strategic direction for Campus Alberta and of how specific initiatives fit. This confusion is because the department and institutions do not have a clear structure for their collaborative relationships, and institutions do not have a collective strategic or business plan for collaboration. There are no performance measures or targets for financial and non-financial reporting to determine if collaboration is working.

Without well-designed systems in place the department and institutions will not achieve the potential within Campus Alberta.

Enterprise and Advanced Education—Medicine Hat College International Education Division (page 55)

Since 2001, Medicine Hat College has sought to bring an international focus to its campus. The International Education Division offers courses at campuses in other countries and seeks to draw international students to its campus in Medicine Hat.

We examined the college's systems to deliver, evaluate and report on the division's cost effectiveness. We found that the college does not have effective systems to deliver and manage the risks of international programming. The division operated independently and largely outside the college's control systems. Board oversight of international education has failed.

Municipal Affairs—Systems to Deliver Affordable Housing Grants (page 81)

In 2007, the Alberta Affordable Housing Task Force recommended the government increase capital resources for affordable housing supply. In September 2011, the Department of Municipal Affairs reported it had met its objective of approving funding for the development of 11,000 affordable housing units for low-income Albertans. In total there was an investment of $2.2 billion—$1.1 billion from the department plus another $1.1 billion from partnerships with municipalities, non-profit groups and the private sector.

We examined the department's systems to plan, award, monitor, report on and evaluate the two affordable housing grant programs it operates. We found that the department could have better aligned grant eligibility criteria with the programs' objectives; did not document its awarding process well enough; and has not sufficiently monitored grant recipients to ensure they comply with their obligations. We also found the department does not have an evaluation strategy for its affordable housing grant programs. The questions that should be answered are: what impact did the programs have on overall provincial demand for affordable housing; was the supply targeted at the right segments of the population and in the right locations; and was value for money achieved?

Treasury Board and Finance—The Budget for Financial Reporting Purposes (page 101)

Because the fiscal approach and scope of activities used in Budget 2013 is different from the accounting standards that will be used to prepare the province's 2013-2014 financial statements, a comparison will be difficult to explain and understand as complicated adjustments and modifications will be required.

The Department of Treasury Board and Finance has informed us that it intends to construct a budget for financial reporting purposes that will be included in the province's 2013-2014 financial statements.

FOLLOW-UP AUDITS

Included in this report are a number of follow-up audits on prior recommendations to the Departments of Energy, Enterprise and Advanced Education, Environment and Sustainable Resource Development, Human Services, Justice and Solicitor General, and Treasury Board and Finance. In the main, prior recommendations have been implemented. However, we note the following:

Energy—Bioenergy Grant Programs (page 107)

Based on the evidence gathered to follow up on the original recommendation we identified areas in which the department could improve the ongoing credit program and the ongoing reports it requires for the biorefining and infrastructure programs, as they relate to emissions reductions.

Environment and Sustainable Resource Development—Natural Resources Conservation Board—Confined Feeding Operations (page 125)

To fully implement our recommendations, the NRCB must:

Groundwater—Implement a process to effectively monitor its compliance with its approaches for leak detection, water well reporting, risk-based compliance programs and responding to complaints.

Surface water—Demonstrate reasonable progress in implementing its surface water plan by evaluating the collected data and assessing whether its current surface water approach is working. Implement a process to effectively monitor internal compliance with its data collection requirements in the surface water plan.

OUTSTANDING RECOMMENDATIONS

Each year, we make about 75 recommendations for improvements or changes to government systems and financial controls. We then follow up all recommendations and report publicly whether or not they have been implemented. Follow-up audits confirm that sustainable change has taken place and are the payback on the investment of audit resources that produced the recommendation in the first place. We will repeat our recommendations when management has not satisfactorily implemented them.

Generally, we try to complete follow-up audits within three years. At October 2012, we reported 233 outstanding recommendations, of which 84 were ready for us to complete follow-up audits. This number was reduced from the 308 that we reported as outstanding in our October 2010 report. We continue to actively manage these outstanding recommendations to reduce the number to approximately 150, which represents about two years of recommendations.

We are pleased with the response from government to our recommendations. We believe that management is developing appropriate implementation plans.

July 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 15 recommendations.

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. 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.
- 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.

SYSTEMS AUDITING—NEW AUDITS

Aboriginal Relations—Systems to Assess First Nations Development Fund Grants

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RECOMMENDATION 1: FORMALIZE AND COMMUNICATE INTERPRETATION OF ELIGIBLE USES

We recommend that the Department of Aboriginal Relations formalize and communicate its interpretation of eligible uses of funds.

Implications and risks if recommendation not implemented

Without clarity on the eligibility of uses, First Nations may unnecessarily submit grant applications that are not eligible. The department may also inconsistently award projects or inadvertently approve projects that do not align with program objectives.

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RECOMMENDATION 2: IMPROVE REVIEW PROCESS

We recommend that the Department of Aboriginal Relations improve its processes to review and approve grant applications by:

- formalizing the additional review processes it developed for complex grant applications
- consistently obtaining sufficient information to support its assessment of grant applications

Implications and risks if recommendation not implemented

Without sufficient analysis to support its granting decisions and formalized procedures, the department cannot demonstrate how it approved certain uses transparently and equitably. Thus, it may award grants for uses that are inconsistent with the objective of the grant program.

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RECOMMENDATION 3: MONITOR FOR AND CORRECT NON-COMPLIANCE

We recommend that the Department of Aboriginal Relations improve monitoring processes by consistently ensuring First Nations comply with reporting requirements and acting to correct non-compliance with the grant agreement.

Implications and risks if recommendation not implemented

Without ongoing monitoring to ensure grant recipients are complying with the grant agreements, the department may not be able to determine whether:

- funds are used for the intended purposes
- projects are managed effectively

Enterprise and Advanced Education—Athabasca University Administrative Systems Renewal Project

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RECOMMENDATION 4: FORMALIZE AND IMPROVE BUSINESS CHANGE MANAGEMENT PLANNING

We recommend that Athabasca University formalize its business change management plans to ensure its business operations, staff, faculty and students are adequately prepared for the implementation of its new administrative system.

Implications and risks if recommendation not implemented

Without a formalized business change management strategy and plan, there is a risk of project failure. The university may face significant hurdles in ensuring that the new system functions as expected and does not cause significant operational failures.

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RECOMMENDATION 5: FORMALIZE AND IMPROVE PROJECT MANAGEMENT CONTROLS

We recommend that Athabasca University ensure that a formalized project management and systems development methodology and approach are clearly defined, applied and available to all staff working on the project.

Implications and risks if recommendation not implemented

Without a formalized project and systems development methodology, there is a significant risk that a control failure will occur with the project. The university may face significant hurdles in ensuring that its administrative systems renewal projects are completed on time and within budget and that they meet business requirements and expectations.

Enterprise and Advanced Education—Collaborative Initiatives Among Alberta's Post-secondary Institutions

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RECOMMENDATION 6: DEVELOP STRATEGIC PLAN AND ACCOUNTABILITY FRAMEWORK

We recommend that the Department of Enterprise and Advanced Education, working with institutions and the Campus Alberta Strategic Directions Committee:

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

Implications and risks if recommendation not implemented

Lack of strategic planning; unclear roles, responsibilities and accountabilities; and ineffective systems for collaboration all increase the risk that the department's goals for Campus Alberta may not be achieved cost-effectively or at all.

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RECOMMENDATION 7: DEVELOP PROCESSES AND GUIDANCE TO PLAN, IMPLEMENT AND GOVERN COLLABORATIVE PROJECTS

We recommend that the Department of Enterprise and Advanced Education, working with institutions and the Campus Alberta Strategic Directions Committee, develop systems and guidance for institutions to follow effective project management processes for collaborative initiatives.

Implications and risks if recommendation not implemented

Ineffective project management systems to plan, implement and govern collaborative initiatives increase the risk that the initiatives will not achieve their outcomes cost-effectively or at all.

Enterprise and Advanced Education—Medicine Hat College International Education Division

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RECOMMENDATION 8: OVERSIGHT BY THE BOARD OF GOVERNORS

We recommend that Medicine Hat College provide the Board of Governors with suitable and sufficient information regarding significant events and risks related to the college's international activities; and that the Board of Governors strengthen its processes to:

- ensure it is aware of significant risks the college faces
- monitor compliance of the college's international activities with the board's policies

Implications and risks if recommendation not implemented

If management and the board do not fulfill their respective roles, the college will be exposed to undue reputational, legal and financial risks. Without asking for and receiving timely, relevant information, the board may be unaware of risks the college is exposed to and fail to provide adequate oversight.

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RECOMMENDATION 9: STRATEGIC AND OPERATIONAL PLANNING

We recommend that Medicine Hat College implement systems to:

- clearly define the strategic and operational objectives for its international education activities
- provide business cases that assess the risks, benefits, costs and legal requirements before providing training in foreign countries
- set clear and measurable targets for planned outcomes
- periodically measure and report on progress towards achieving targets, meeting objectives and outcomes

Implications and risks if recommendation not implemented

Without a well-designed strategic planning process, the college risks not achieving its international education objectives as well as risks to its credibility. Public resources dedicated to these activities may not provide value for money.

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RECOMMENDATION 10: PROGRAM MANAGEMENT AND MONITORING

We recommend that Medicine Hat College improve its management of its international education activities by:
- assessing and clearly defining the roles and responsibilities of its International Education Division
- implementing effective program delivery and quality assurance processes at its offshore campuses
- implementing an appropriate system of internal controls, financial reporting and accountabilities for its international education activities
- implementing contract management practices to ensure risks have been appropriately managed
- aligning the structure and management of the division to reflect these changes and to ensure adequate oversight

Implications and risks if recommendation not implemented

Without adequate controls and monitoring of its offshore program delivery, the college exposes itself to significant and unnecessary legal, reputational and financial risks.

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RECOMMENDATION 11: IMPROVE CONTROLS OVER TRAVEL EXPENSES

We recommend that Medicine Hat College improve controls over travel expenses by enforcing its travel policy.

Implications and risks if recommendation not implemented

Without appropriate documentation supporting the business purpose of international travel and regular reporting to measure its success in achieving outcomes, the college cannot ensure it receives value for the funds and time allocated to international travel. A lack of documentation also limits independent review and increases the risk that non-compliant expenses may be paid.

Municipal Affairs—Systems to Deliver Affordable Housing Grants

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RECOMMENDATION 12: IMPROVE MONITORING PROCESSES

We recommend that the Department of Municipal Affairs improve its monitoring processes to ensure affordable housing grant recipients comply with their grant agreements by:
- developing and conducting risk-based monitoring activities
- following procedures and processes when performing monitoring activities

Implications and risks if recommendation not implemented

Without effective monitoring, the department cannot know whether the grant recipient is complying with the grant agreement and whether funds have been spent cost effectively.

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RECOMMENDATION 13: DEVELOP AN EVALUATION SYSTEM

We recommend that the Department of Municipal Affairs improve its evaluation processes by:
- developing performance measures and adequate information systems so that the department can better evaluate and report on its affordable housing grant programs
- completing periodic evaluations of its affordable housing grants programs

Implications and risks if recommendation not implemented

Without effective evaluation and performance measurement systems, it is difficult for the department to:
- assess whether its programs meet their objectives
- identify lessons learned that should be considered as part of future program delivery

SYSTEMS AUDITING—FOLLOW-UP AUDITS

Energy—Bioenergy Grant Programs

Page 111

RECOMMENDATION 14: ESTABLISH ADHERENCE TO NINE-POINT BIOENERGY PLAN—BIOENERGY PRODUCER CREDIT PROGRAM

We recommend that the Department of Energy require bioenergy producer credit grant program applicants to demonstrate their product's positive environmental impact relative to comparable non-renewable energy products.

Implications and risks if recommendation not implemented

Without an assessment of the environmental impact of these projects, the department cannot know if the projects contribute to Alberta's climate change strategy. The environmental costs of some projects may exceed their benefits.

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RECOMMENDATION 15: CLARIFY REPORTING GUIDELINES FOR GRANT RECIPIENT REPORTING

We recommend that the Department of Energy clarify its guidelines for annual reporting by bioenergy grant recipients to ensure it has the information required to appropriately assess and estimate bioenergy project emissions.

Implications if recommendations not implemented

Without clear guidance to project developers, the department may not obtain the data it needs to appropriately assess greenhouse emissions.

AUDITOR GENERAL
Alberta

Systems Auditing—New Audits

REPORT OF THE AUDITOR GENERAL OF ALBERTA

July 2013

Aboriginal Relations—Systems to Assess First Nations Development Fund Grants

SUMMARY

What we examined

The First Nations Development Fund is a lottery grant program available exclusively to First Nations in Alberta. It is supported by a portion of revenues from government-owned slot machines in Alberta First Nation casinos. Since 2006, the Department of Aboriginal Relations has allocated over $600 million in FNDF grants to support hundreds of social, economic and community development projects in Alberta's First Nation communities.

In February 2012, the Enoch Cree Nation applied to the department for a FNDF grant of $317 million over seven years. The grant application stated that ECN intends to use these funds to pay for refinancing and operating costs of the River Cree Resort and Casino. Our objective was to determine whether the department's systems to assess the eligibility of the ECN's application were followed and were consistent with the objectives of the FNDF grant program and the FNDF grant agreement. During the course of the audit, we included other First Nations' projects and concluded on improvements that could be made to the overall systems.

What we found

The department developed additional processes to improve its existing system to review, assess and approve complex grant applications. When followed, the department made informed decisions that funding uses were consistent with the program objectives and grant agreement. When the process was not followed, its analyses were incomplete and insufficient for some approved funding uses.

We also found that the department did not formalize and communicate its interpretation of eligible uses of funds. It also did not consistently monitor for and correct non-compliance with the grant agreement.

What needs to be done

We made the following three recommendations that apply generally to the FNDF grant program:

Formalize and communicate interpretation of eligible uses—We recommend that the Department of Aboriginal Relations formalize and communicate its interpretation of eligible uses of funds.

Improve review process—We recommend that the Department of Aboriginal Relations improve its processes to review and approve grant applications by:
- formalizing the additional review processes it developed for complex grant applications
- consistently obtaining sufficient information to support its assessment of grant applications

Monitor for and correct non-compliance—We recommend that the Department of Aboriginal Relations improve monitoring processes by consistently ensuring First Nations comply with reporting requirements and acting to correct non-compliance with the grant agreement.

Why this is important to Albertans

Albertans, especially First Nations people in Alberta, need to have confidence the FNDF program supports social, economic and community projects that enable First Nation communities to participate in Alberta's economy.

AUDIT OBJECTIVE AND SCOPE

Our objective was to determine whether the department's systems to assess the eligibility of ECN's application were followed and were consistent with the objectives of the FNDF grant program and the FNDF grant agreement.

We focused on the systems the department used to make its funding recommendation for the ECN grant application. We also reviewed other First Nations' projects during our audit. We did not assess whether the proposed uses of FNDF funds were eligible as we would be assuming management's role.

We conducted our field work from March 2012 to April 2013. We substantially completed our audit on May 30, 2013. 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

The department promotes social and economic opportunities to enhance the quality of life of Aboriginal people in Alberta[1] through various programs and initiatives. The FNDF, available exclusively to First Nations, supports this goal by allocating funds to projects that promote social, economic and community development. The FNDF is funded through a portion of slot machine revenues from First Nation casinos in Alberta. Since 2006, the FNDF has allocated over $600 million to support hundreds of projects ranging from housing and equipment purchases to employment, youth and elder programs.

The department's First Nations and Métis Relations branch is responsible for the FNDF grant program. It administers the program under the *Gaming Grants Regulation*[2] and grant agreements with First Nations in Alberta. The branch and its program staff are responsible for:

- working with First Nations that are preparing grant applications
- receiving, reviewing and assessing grant applications
- monitoring and auditing projects

First Nations can apply for FNDF grants by submitting an application that complies with the terms of their grant agreement.

First Nations gaming policy

In January 2001, the Government of Alberta announced its First Nations Gaming Policy. The policy permits construction of casinos in First Nation communities and includes a gaming revenue model for First Nation casinos. Host First Nations[3] in Alberta currently operate five casinos, in Alexis Nakota Sioux, Enoch Cree, Cold Lake, Stoney Nakoda[4] and Tsuu T'ina First Nations. First Nation casinos operate under the same general terms as other casinos in Alberta, with two key differences: the charity that

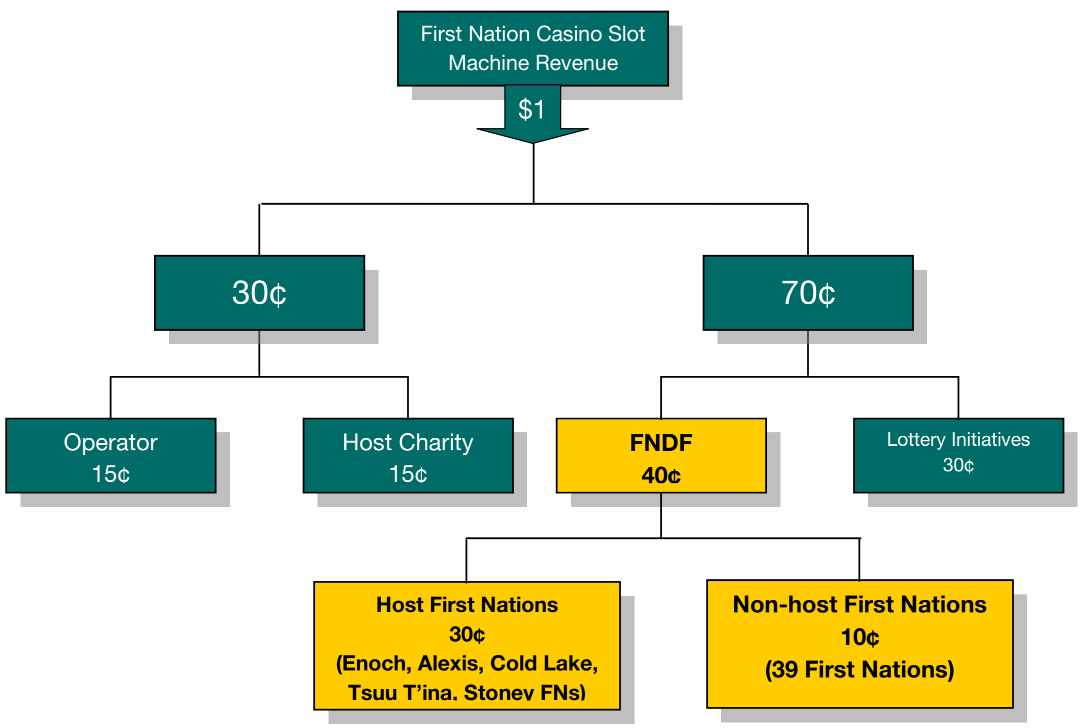
[1] http://www.aboriginal.alberta.ca/index.cfm
[2] AR 29/2004
[3] The grant agreement defines "Host First Nations" as an Alberta First Nation that is a signatory to the grant agreement and that has an Alberta First Nation casino located on its land.
[4] The three Stoney Nakoda tribes – Bearspaw, Chiniki and Wesley – are considered one host First Nation for the purposes of the FNDF program.

benefits from slot machine revenue is the host First Nation and a portion of slot machine revenue is allocated to the FNDF program.

The host First Nation is itself designated as the host charity. As it is both the casino licensee and the charity that receives casino revenue, the host First Nation must keep its casino and charity operations as separate and distinct entities.

For non-First Nation casinos, the Government of Alberta allocates 70 per cent of net slot machine revenue to the Alberta Lottery Fund. The Alberta Lottery Fund uses gaming revenue from slot machines, VLTs, lottery tickets and electronic bingo to fund Alberta community initiatives such as skating rinks and playgrounds. For the five First Nation casinos, the government allocates 70 per cent of net slot machine revenue to the Alberta Lottery Fund, with 40 per cent to First Nation communities through the FNDF program and 30 per cent to Alberta Lottery Fund initiatives.

Of the amount allocated to the FNDF, 75 per cent is available to host First Nations and 25 per cent is available to non-host First Nations. The allocation for every $1 of net slot machine revenue is illustrated in the chart that follows.



Source: First Nations Development Fund Grant Program Annual Results 2010–2011

The department allocates funds to First Nations for approved projects after each fiscal quarter, based on Alberta Gaming and Liquor Commission's verification of slot machine revenues. The department determines the exact annual allocation following the end of the fiscal year, after actual slot machine revenue has accumulated. The FNDF has allocated over $600 million since its inception (see table on next page).

	First Nations Development Fund Paid Amounts ($ millions)							
	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	Total*
Treaty 6 FNs	11.8	38.8	54.5	56.0	55.7	63.0	66.7	**346.5**
Treaty 7 FNs	0.5	10.9	35.2	36.4	34.8	36.3	38.1	**192.2**
Treaty 8 FNs	1.3	6.7	11.8	12.4	12.3	13.5	14.2	**72.2**
Total *	**13.6**	**56.4**	**101.5**	**104.8**	**102.8**	**112.8**	**119.0**	**610.9**

*Differences are due to rounding
Source: Provided by the department (unaudited)

FNDF grant agreement

The Government of Alberta and Alberta First Nations[5] (see Appendix A: Treaty 6, 7 and 8) approved the FNDF grant agreement in 2004. To access the funds, each First Nation must sign a grant agreement. Key to the grant agreement is the definition of eligible and ineligible uses of FNDF funds. Eligible uses support economic, social and community development projects, such as addictions programs, education, health and infrastructure. Ineligible uses include funds to operate or finance a casino, for per capita distributions or for security against loans or debt.

Enoch Cree Nation's 2005 grant application

In 2005, the ECN proposed to build a destination casino, hotel and entertainment complex at a projected cost of over $400 million. At the time, they submitted a $212 million FNDF grant application for funding over seven years[6] to assist with non-gaming costs to develop and operate the River Cree Resort and Casino complex. The project was, and continues to be, owned and operated by Enoch/Paragon Limited Partnership.[7] Paragon Gaming EC Company, a corporation based in Las Vegas, Nevada, holds a 45 per cent interest and is the general partner. The ECN, through the Enoch Cree Nation Business Trust, owns a 55 per cent interest and is the limited partner. The Enoch Community Development Corporation is the operating parent company of a group of companies that provide oversight, due diligence and management of the ECN's interest in the complex.

[5] Alberta First Nations are members of three treaty organizations: Confederacy of Treaty 6 First Nations, Treaty 7 Management Corporation, Treaty 8 First Nations of Alberta.
[6] The grant application requested funding for fiscal years 2006–2007 to 2011–2012.
[7] A limited partnership is a business organization with one or more general partners who manage the business and assume legal debts and obligations, and one or more limited partners who are liable only to the extent of their investments. Sourced from http://www.investorwords.com.

The Ministry of Gaming, responsible for the FNDF program at the time, approved funding for four items related to the non-gaming parts of the complex:
- principal and interest on long-term debt to finance the development of the complex
- operating and overhead costs
- capital reserves for future improvements/expansion
- project and/or management fees to the ECN's business partners

By December 2012, the department, through the FNDF, had disbursed the entire $212 million to ECN relating to the 2005 application. This amount represents 35 per cent of total FNDF funds allocated from 2006–2007 to 2012–2013.

Enoch Cree Nation's 2012 grant application

The timeline below provides a chronology of key events related to the ECN's 2012 grant application.

February 2012	June 2012	November 2012	December 2012
ECN submitted an application requesting $317 million.	Department approved principal and interest of loan to retire debt, capital reserves and ECDC expenses. Department did not approve partner fees.	ECN requested additional funding of $8.8 million.	Department approved a total of $128 million based on its June 2012 decision and its review of the November 2012 request.

ECN's submitted application

In February 2012, the ECN applied to the department for $317 million over seven years, to pay for costs associated with refinancing and operating the complex. The ECN proposed to use the funds as follows:

Funding Use	Requested Funding ($ millions)
Principal and interest on a loan to retire the debt of the complex, pay a mezzanine debt[8] to Paragon, pay for debt transaction costs, pay past general partner fees and an advance of future limited partner fees	130.6
Principal and interest loan for current general partner fees	8.9
Capital reserve for improvements such as restaurant renovations, paint and ventilation upgrades	18.0
Enoch Community Development Corporation expenses such as salaries, professional fees, training and other operating expenses	10.5
General and limited partner fees to Enoch Cree Business Trust and Paragon for their initial investment in the complex	149.0
Total	**317.0**

[8] Mezzanine debt is a hybrid debt and equity financing with high interest rates and no borrower collateral. The lender has the right to convert their stake to an ownership or equity interest in the company in the event of default.

Department's initial review and approval

In June 2012, the department decided to review the application in two parts. The department approved funding for all of the capital reserves and 90 per cent, the non-gaming portion, of Enoch Community Development Corporation's expenses. It also approved 79 per cent, the non-gaming portion, of the principal and interest of the loan to retire the debt of the complex, the mezzanine debt and debt transaction costs. At the time, the department did not have the exact principal and interest to approve because the amount could vary depending on the terms of the loan. The approval was subject to the ECN submitting the financing documents.

The department then assessed all past, current and future general and limited partner fees separately. The department did not approve any of the partner fees. It determined that partner fees are capital returns or profits to investors and, as a result, are not an eligible use of funds.

ECN's additional funding request

In November 2012, the ECN submitted the financing documents and requested additional funding to be included in the loan to retire the debt of the complex as follows:

- $6.8 million to reimburse partner fees related to the ECN's 2005 application, which the bank applied toward the ECN's outstanding debt to finance the complex
- $2 million for additional legal expenses, of which a significant portion is related to legal disputes

Department's final review and approval

In December 2012, the department reviewed the additional funding requests and banking information. It approved the legal fees but did not approve the reimbursement of partner fees. As a result of this and the June 2012 decision, the department approved a total of $128 million for the principal and interest related to the non-gaming portion of the debt,[9] the non-gaming portion of the Enoch Community Development Corporation expenses and all of the capital improvements. It did not approve any of the partner fees. The following table shows the final approved funding.

Funding Use	Approved Funding ($ millions)
Principal and interest on various long term debts	100.5
Principal and interest loan for current general partner fees	-
Capital reserves for improvements	18.0
Enoch Community Development Corporation expenses	9.5
General and limited partner fees	-
Total	**128.0**

FINDINGS AND RECOMMENDATIONS

Clear objectives and terms and conditions

Background

In its business plans and annual reports, one of the department's goals is "Aboriginal communities and people fully participating in Alberta's economy and society." On its website, the department states that the FNDF program contributes to promoting healthy and vibrant First Nation communities, fully participating in the opportunities of a prosperous and diverse Alberta.[10]

[9] The department approved principal and interest for the four-year term of the loan rather than the seven years as submitted in the grant application. The loan includes an amount to retire the debt of the complex, the mezzanine debt and debt transaction costs. The debt transaction costs include the additional legal costs requested in November 2012. It did not approve loan amounts related to the general and limited partner fees.

[10] http://www.aboriginal.alberta.ca/895.cfm

The grant agreement's terms and conditions contain provisions for payment and release of funds, banking arrangements, reporting, repayment, change in use and dispute resolution. The grant agreement also specifies the department's responsibility for reviewing and approving grant applications and defines eligible and ineligible uses of the grant funds. FNDF grants can only be used for economic, social and community development projects, and cannot be used for operating or financing costs of a casino or other gaming facility/equipment, for per capita distributions, or as security against loans or debts.

RECOMMENDATION 1: FORMALIZE AND COMMUNICATE INTERPRETATION OF ELIGIBLE USES

We recommend that the Department of Aboriginal Relations formalize and communicate its interpretation of eligible uses of funds.

Criteria: the standards for our audit

The department should have clearly stated grant program objectives and terms and conditions, which includes eligible and ineligible uses of FNDF funds.

Our audit findings

KEY FINDING

The department has not formalized and did not fully communicate its interpretation of eligible use of funds to all First Nations.

The department stated the program objectives in its business plans, annual reports and website. It also has standard terms and conditions, including eligible and ineligible uses, in its grant agreement. However, when the department exercised discretion to determine whether certain uses, applicable to all First Nations, are eligible, it did not formalize and fully communicate its interpretation to all First Nations.

The eligible use of FNDF for economic, community and social development is broad. Therefore, the department exercised discretion to interpret whether certain uses fit under these purposes. The department determined that the non-gaming operating costs of a business are not eligible, as they do not contribute to development or growth in the community. It further clarified that uses promoting development and growth, such as feasibility studies, market research, initial seed funding or business expansions, are eligible. However, program staff told us they did not communicate this decision to all First Nations.

Implications and risks if recommendation not implemented

Without clarity on the eligibility of uses, First Nations may unnecessarily submit grant applications that are not eligible. The department may also inconsistently award projects or inadvertently approve projects that do not align with program objectives.

Review and approval

Background

The department assesses grant applications according to its grant application approval procedure, which identifies staff responsible for receipt, review and approval of grant applications. The liaison officer at the department reviews each grant application to ensure that it complies with the grant agreement and, more specifically, to verify that the application has:

- a valid band council resolution
- identified eligible uses of the funds
- been signed by an authorized person
- a clear project description including start and end dates
- identified project revenues and expenditures

Each grant application is reviewed by the director and executive director. An approval package is sent to the assistant deputy minister and deputy minister who recommend approval to the minister.

RECOMMENDATION 2: IMPROVE REVIEW PROCESS

We recommend that the Department of Aboriginal Relations improve its processes to review and approve grant applications by:
- formalizing the additional review processes it developed for complex grant applications
- consistently obtaining sufficient information to support its assessment of grant applications

Criteria: the standards for our audit

The department should have systems and processes to review and approve the grant application.

Our audit findings

KEY FINDINGS
- The department developed and implemented additional processes to review and approve complex grant applications. However, these processes have not been formalized.
- The department did not have complete and sufficient analysis for some approved funding uses.

Formalizing review procedures

As the ECN grant is complex, the department developed additional procedures and processes. However, these have not been formalized for future grant applications.

In response to the complexity of the ECN grant application, the department asked Alberta Justice to provide legal advice on the review process for the ECN grant application. The department developed a form its staff used to assess whether the:
- application is complete
- project is consistent with the grant program—specifically, whether the use of funds is eligible or ineligible
- project is properly described
- First Nation provides project revenues and expenditures
- First Nation provides a rationale for costs in excess of costs of a similar project
- First Nation obtained adequate professional advice

The department, through the form, supported its rationale for most of the significant funding uses. Following consultation with its specialists, it assessed that payments towards partner fees would constitute a share of profit or a reduction of capital or equity of an already profitable enterprise, which is not consistent with the objectives of FNDF.

The department also obtained the services of skilled specialists to evaluate the complex legal and financial transactions within the ECN grant application. It brought in legal, accounting, finance and audit specialists. For example, the department obtained advice to determine the eligible non-gaming allocation to apply to ECN's loan to retire the debt of the complex, the mezzanine debt and debt transaction costs. The consultant used construction costs for the non-gaming areas of the complex (for example, restaurant, ice rink) to arrive at a 79 per cent non-gaming allocation that the department applied to the debt.

The department developed and adopted additional processes and procedures to systematically review and approve the grant application. As it may continue to receive complex grant applications that will require similarly rigorous reviews, the department should formalize these processes to deal with such applications, where appropriate. In its implementation, the department should consider which projects merit the additional review.

Supporting analysis
The department had supporting analysis to deny the request for partner fees and approve the request for principal and interest on the loan to retire debt. However, it did not have sufficient analysis to support its funding decisions for the other uses it approved.

The department did not obtain complete information to support its approval of $18 million for capital reserves. The ECN requested capital reserves for improvements (for example, re-carpeting, ventilation systems, restaurant renovations, general maintenance); however, it did not provide estimated costs or timing for the capital improvements. The department did not request this information yet it determined that all of the capital reserves were properly described, reasonable and eligible for FNDF.

Similarly, the department approved 90 per cent, the non-gaming portion that ECN requested, of Enoch Community Development Corporation's annual expenses of $1.5 million. The corporation's responsibilities include:

- overseeing and managing the ECN's interest in the development and operation of the complex
- promoting the development and growth of economic opportunities
- providing training and development to its members

The department's assessment supports that the corporation's annual expenses are an eligible funding use. However, the department did not have analysis to support the non-gaming allocation of 90 per cent. The department also did not analyze whether the directors' salaries, which make up over 50 per cent of the annual expenses, are reasonable.

The ECN requested an additional $2 million for legal fees that were mainly related to its legal disputes. The department initially determined that these legal fees were not an eligible use. The ECN explained that the legal costs were related to the refinancing of the debt and the legal disputes. Without further analysis, the department accepted the ECN's rationale and approved the legal fees.

The department's additional processes and procedures are designed to bring more rigour when reviewing complex grant applications. Management explained that some of these funding uses are immaterial relative to the ECN's total funding request. However, we observed that these funding uses are material relative to funds allocated to other First Nations.

Implications and risks if recommendation not implemented

Without sufficient analysis to support its granting decisions and formalized procedures, the department cannot demonstrate how it approved certain uses transparently and equitably. Thus, it may award grants for uses that are inconsistent with the objective of the grant program.

Monitor and audit

Background

Monitoring and auditing helps the department identify and take action where there is a gap between planned and actual performance and non-compliance with the grant agreement.

The department monitors all First Nations to ensure compliance with reporting requirements. The grant agreement requires all First Nations to submit an approved financial report annually on June 30 and within 90 days of completion of each project. Each First Nation must report:

- revenues from all sources, including interest income
- costs and any donated labour, services, material and equipment received
- explanations for significant variances or delays

The department is required to review the eligibility of expenses and compare actual expenses to the approved application. If the First Nation does not comply with the requirements of the grant agreement, the department may withhold future payment or suspend the First Nation's grant agreement.

The department audits each First Nation to ensure compliance with the grant agreement and to specifically determine whether the grants funds are used for approved purposes. The department performs a risk assessment of all approved FNDF projects. It assesses each project based on the funding amount, type of project (for example, purchase or construction of an asset versus purchase of services) and the adequacy of controls. Based on its risk assessment, the department prepares a three-year audit plan that ensures all First Nations are audited during this period.[11] It audits all First Nations at least once every four years and host First Nations every two years.

The department conducts audits according to the audit manual, which outlines procedures to assess:

- eligibility of the use of FNDF grants
- compliance with reporting requirements
- change in use of FNDF grants

The department also tracks findings and recommendations of prior audits, and uses this information to plan future audits.

RECOMMENDATION 3: MONITOR FOR AND CORRECT NON-COMPLIANCE

We recommend that the Department of Aboriginal Relations improve monitoring processes by consistently ensuring First Nations comply with reporting requirements and acting to correct non-compliance with the grant agreement.

Criteria: the standards for our audit

The department should monitor and audit the approved grant application to ensure compliance with the agreement.

Our audit findings

KEY FINDINGS

- The department did not consistently monitor First Nations for or take action to correct non-compliance with the grant agreement.
- The department did not document its analyses to compare actual to budget project costs or obtain explanations for variances.

We found that the department had good systems for auditing the First Nations. The department prepared a three-year audit plan using this risk assessment and audited the First Nations according to the required frequency. Specific to the ECN, the department audited its 2005 grant application in December 2009 and February 2011.

[11] The department prepared three-year audit plans for 2010–2012 and 2013–2015.

We found that the department did not consistently monitor First Nations to ensure they are complying with reporting requirements, and it did not take action to correct non-compliance. We reviewed the department's summary of reporting status for First Nations[12] and found that a significant number of First Nations have not submitted the required reporting. The annual number of overdue reports increased significantly over this time. Specifically, the ECN submitted its 2009 report a year late. The department rejected this report because it did not meet reporting requirements. The department also rejected the ECN's 2010 report several times because the report was not in the required reporting template and was submitted by Paragon, who is not party to the grant agreement. In April 2013, the department received the ECN's 2012 report, which was due in January 2013. Despite the late and unacceptable submissions, the ECN continued to receive funding with no consequence for not complying with the grant agreement.

The department developed a process to withhold payments for those First Nations that do not comply with reporting requirements. Under the process, the department will send notifications to First Nations to follow up on overdue reports. If the First Nation does not comply, the department will withhold future payments. It has been applying this process and the number of outstanding reports has decreased.

For those reports that were submitted, including the ECN's, the department did not document its analysis to compare actual to budget project costs and obtain explanations for variances, as required. Therefore, it is difficult to determine whether any analysis was performed. We also found that the department's reporting template does not include the budgeted amounts for the project expense categories and explanations for variances. This further exacerbates the problem, as department staff do not have the necessary information to analyze project costs and follow up on variances.

Implications and risks if recommendation not implemented

Without ongoing monitoring to ensure grant recipients are complying with the grant agreements, the department may not be able to determine whether:

- funds are used for the intended purposes
- projects are managed effectively

[12] In July 2012 and February 2013, the department provided the summary of reporting status from 2007–2008 to 2011–2012.

APPENDIX A

TREATY 6, 7 AND 8—FIRST NATIONS

This is a list of Alberta First Nations that participate in the FNDF program.

Treaty	Member First Nations
Treaty 6	Alexander, Alexis, Beaver Lake, Cold Lake, Enoch Cree, Ermineskin, Frog Lake, Heart Lake, Kehewin, Louis Bull, Montana, O'Chiese, Paul, Saddle Lake, Samson Cree, Sunchild, Whitefish (Goodfish)
Treaty 7	Blood, Chiniki (Stoney), Piikani, Siksika, Tsuu T'ina, Wesley (Stoney), Bearspaw (Stoney)
Treaty 8	Athabasca Chipewyan, Beaver, Bigstone Cree, Chipewyan Prairie, Dene Tha', Driftpile, Duncan's, Fort MacKay, Fort McMurray #468, Horse Lake, Kapawen'o, Little Red River, Loon River, Mikisew Cree, Sawridge, Smith's Landing, Sturgeon Lake, Sucker Creek, Swan River, Tallcree, Whitefish Lake, Woodland Cree

Source: http://www.aboriginal.alberta.ca/documents/2012_AboriginalOrganizationGuide.pdf

Enterprise and Advanced Education—Athabasca University Administrative Systems Renewal Project

SUMMARY

Athabasca University plans to replace its aging financial, payroll and student systems with an enterprise resource planning system. In 2011, the university's board approved a budget of $5.1 million for the administrative systems renewal project. The university started working on the project in 2011 and plans to begin implementing the new computer system modules and business processes in 2013.

What we examined

Our objective for the audit was to perform an early-warning assessment[1] of project controls used to plan for and manage project risks. We assessed whether management had the appropriate risk management systems in place with defined project controls for:

- business change management
- project management
- project governance

We examined the quality and completeness of the design[2] of project controls (documented plans and procedures) as an early indicator of management's ability to manage the risks of implementing the new system into its operations.

We did not audit the operational effectiveness of these project controls. A weakness in design would be sufficient to determine if its related risk was not being managed appropriately. This approach allowed us to promptly advise the university's board and management. It also allowed us to use our audit resources more effectively.

What we found

The university does not have well-designed project controls to manage the risks to the administrative systems renewal project. The university had not developed clear plans and strategies to ensure the business is ready for the new system. We found the following significant control weaknesses.

[1] Early warning assessment is a review of a project's health in relation to how the project is effectively managing its risks to achieving its stated objectives.
[2] The evaluation of the design of a control is to ensure that the control, individually or combined with other controls, can effectively prevent or detect exceptions—testing its operating effectiveness means to evaluate if the control is doing what it was designed for.

Business change management risks

The university had not defined its:

- internal controls to support the new system tools and business processes
- new business processes and changes to current processes
- data conversion strategy and conversion plans
- training strategy and end-user training materials
- detailed testing plans and testing scenarios
- human resource staffing strategy and accountability plan for the project teams

In addition, staff assigned to the project continued to be responsible for their regular jobs.

Project management risks

The project planning documents did not:

- clearly define the project management and system development methods being applied
- include the cost of internal business staff, new infrastructure and additional reporting in the project's budget
- clearly define project change management control procedures
- have an organized and well-maintained project file/repository
- have complete implementation criteria for the finance module
- define a gating strategy[3] and process to manage the project plans
- define a post-implementation sustainment strategy and plans

Project governance risks

Management responsible for project oversight had not had an independent health check[4] review of its project management and governance methodologies and practice for the project to determine if their project risk management plans and control activities were adequately designed and working effectively.

Early warning assessment results—project score card

The scorecard that follows summarizes the significance of the control weakness we found. We assessed 10 project risk management systems and assigned indicators to highlight where control deficiencies exist. If the university does not resolve these weaknesses, it may not meet the project's business objectives, timelines and budget, and may experience operational problems with the new system.

[3] Gating strategy is an IT project management approach to ensuring critical milestones are met and key project deliverables are completed and approved by governance bodies before the project proceeds to the next phase or steps within the project plan.
[4] A review by the university's internal audit team was scheduled but not done during this audit.

◆ **Red:** Management must make significant improvements immediately.
△ **Yellow:** Project controls require more rigour to ensure project managers and governance boards are alert to potential impacts to the project.
● **Green:** Control is formalized—a re-assessment may be required later in the project to ensure it continues to effectively mitigate the risk.

Project Risk Management Systems (control design only)	**Assessment**	**Oversight Process**
Business readiness and transformation	◆	Business change management
Scope and objectives	△	Business change management
Staff engagement	△	Business change management
Internal controls	◆	Business change management
Go/no-go implementation criteria	△	Business change management
Project management standards	◆	Project management
Systems development standards	△	Project management
Roles and responsibilities	◆	Project management
Sustainment plan	◆	Project management and project governance
Executive oversight	△	Project governance

What needs to be done

With the implementation of the finance module approaching, these control weaknesses could impair the university's ability to achieve its goals. University management must take immediate steps to ensure the project controls are well designed and operating throughout the remaining course of the project.

The university needs to do the following:

- Develop formal business change management plans to ensure that it is effectively prepared for new business processes and changes to its internal controls, and that it provides staff with appropriate training and skills for using new system tools and processes.
- Identify formal project management and systems development methods and standards to ensure that project controls are in place and consistently followed, and that new system tools are properly configured and meet business requirements before implementation.
- Ensure that an independent project review is performed periodically to confirm that project managers have identified project risks early in the project process and have adequately designed and implemented project controls that effectively mitigate project risks.

Management did take action

Because of the significance of our findings, senior management took the following immediate actions:

- Postponed the implementation of the finance module (originally scheduled for April 1, 2013) until after its finance year-end activities have been completed, and management is confident that the project is ready to implement the new finance module, and the finance and administration business unit is ready to use the new system—a new date has not yet been identified.
- Assigned a new project manager.
- Began working to complete project plans and strengthen project controls for business readiness and project management.

Why this is important to Albertans

Albertans want to know that publicly funded institutions are making the best use of the funds that taxpayers provide to educate post-secondary students. The university is an online post-secondary institution that offers courses to students around the world—over 750 programs to more than 30,000 students per year. It depends heavily on computer technology to deliver learning programs and manage administrative systems. A failure with the new system could impair its operations.

AUDIT OBJECTIVE AND SCOPE

The objective of the audit was to evaluate the university's project risk management systems and controls so that that the university could mitigate the problems before they delay or cause the project to fail. Our audit included the project's business change management controls and the university's plans to prepare for implementing the new system.

We had planned to rely on a review of project management controls and project governance by the university's internal audit team. However, their work had not been completed at the time of our audit.

Audit approach and criteria

We interviewed key project participants, including senior management, and reviewed project documents and deliverables related to the university's project risk management systems. We developed our audit criteria using PMBOK[5] and COBIT5[6] project control procedures and standards.

Audit criteria

Management should have effective systems in place to ensure they are identifying and mitigating risks that can cause the project to fail.

[5] Project Management Body of Knowledge is an industry standard on IT project management controls that is published by the Project Management Institute.
[6] Control Objectives for Information Technology Version 5 is an industry standard on IT risk management controls published by the Information Systems Audit and Control Association.

To define our audit criteria, we first identified the project controls and oversight processes that would help mitigate the following 10 critical project risks that, in our experience, if not managed can lead to project failure:

- business not ready to receive new system tools and processes
- scope and objectives not clear
- staff not engaged in the project and unaware of impacts to the university
- business controls to support the internal control framework not defined
- go/no-go criteria for implementation not defined
- project management standards not consistently applied
- system development standards not consistently applied
- roles and responsibilities not clear
- sustainment plan to support new system tools and processes not defined
- lack of executive oversight

We conducted our field work from September 2012 to December 2012. We substantially completed our audit on January 15, 2013. 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

The university is an online post-secondary institution that offers courses to students around the world—over 750 programs to more than 30,000 students each year. The university depends heavily on computer technology to deliver learning programs and manage its administrative systems.

The university initiated the administrative systems renewal project in the fall of 2011 with a budget of $5.1 million. Its goal was to replace aging financial, payroll and student systems with a new enterprise resource planning system. The system consists of integrated student, finance and human resource/payroll modules. The university contracted with an external vendor to provide the upgraded software and integration and project management services.

Although the university plans to resolve operational inefficiencies as part of the project, the project's scope is broader. The university also plans to implement enhanced administrative services for students and staff in the new system. The university is following a phased implementation strategy. It is currently working on the finance module. At the time of the audit the implementation schedule was:

- Finance sub-project—April 1, 2013 (now delayed)
- HR/payroll sub-project—December 31, 2013
- Student sub-project—March 1, 2014

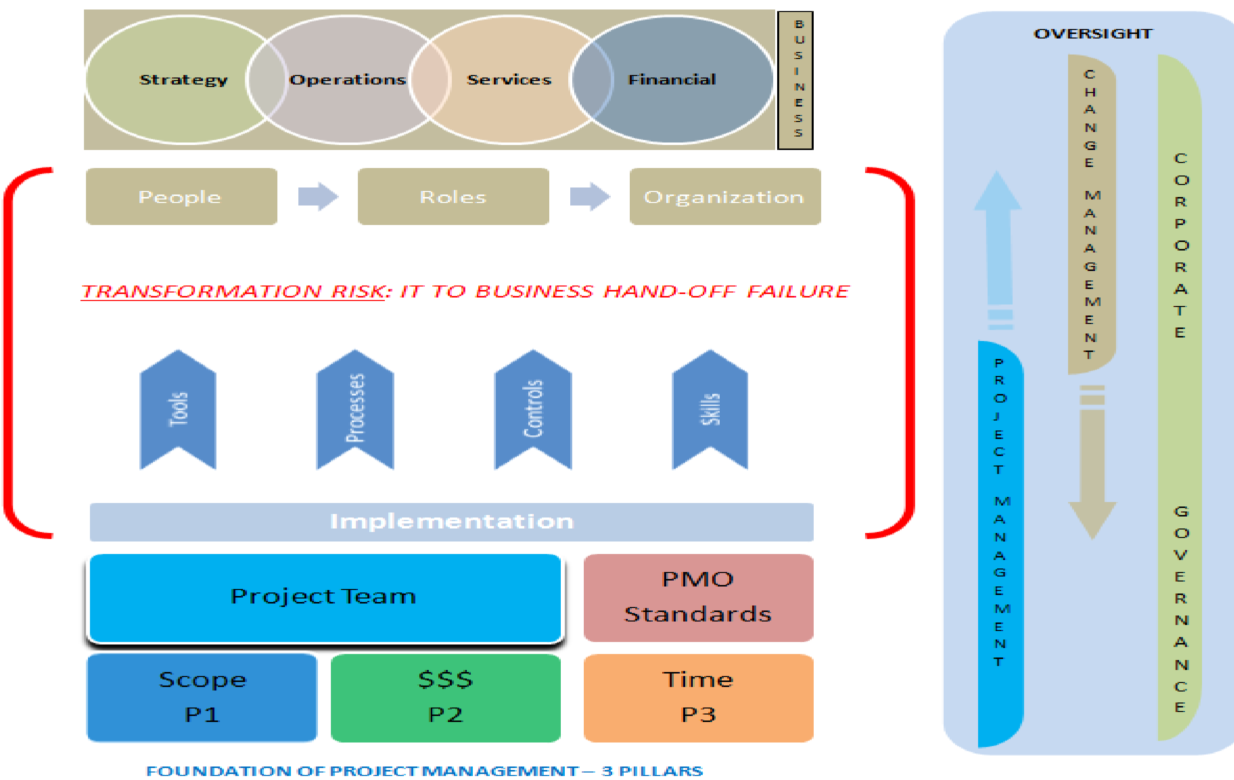
Enterprise resource planning system projects—inherent risk

Enterprise resource planning system projects can deliver complex and integrated technologies and business processes across the corporation. As a result, significant effort is required by project teams and project governance bodies to identify early in the project process the risks and impacts to the organization. These complex systems require project managers to extend risk management efforts for business change management, project management and project governance beyond their typical boundaries.

Business change management—planning needs to be more formalized during the project and before implementation, to ensure the business is ready for and capable of using the new systems tools, processes and internal controls to support its operations.

Project management—Formal controls need to be in place during the project and continue after implementation to ensure that the organization can sustain the new business processes and systems.

Project governance—Governance by organization leaders needs to be in place from the start of the project, from business case development through to implementation and business sustainment, to ensure that project objectives are achieved and in line with business goals and that planned changes to business enhance its operations, not impede them.



This diagram highlights where these project oversight processes need to be enhanced, to ensure adequate governance on risk management systems is in place.

FINDINGS AND RECOMMENDATIONS

Business change management risks

Background

Business change management involves the planning and implementing of changes to business processes, internal policies and controls and how systems are used to support the business's transformation to a new business model and services. This includes managing the effects of change on its business strategy, services, staff and organizational structure, to ensure a smooth transition from the old ways to the new.

This new system will affect all business processes, including financial processes such as purchasing and expense claims throughout the university.

RECOMMENDATION 4: FORMALIZE AND IMPROVE BUSINESS CHANGE MANAGEMENT PLANNING

We recommend that Athabasca University formalize its business change management plans to ensure its business operations, staff, faculty and students are adequately prepared for the implementation of its new administrative system.

Criteria: specific to this recommendation

University management should ensure that it has:

- formalized and integrated its project management plans with its business change management plans, to ensure that it is effectively managing the risks of new business processes, controls and tools to its operations, staff and students
- designed, documented and trained its staff on all new automated and manual business controls before implementation
- adequately assessed the risk of its implementation approach to ensure that the business can effectively manage the hand-off of the new system and processes without negatively impacting its business operations—This includes formal criteria to ensure key project milestones are achieved and key project deliverables completed, thoroughly tested and signed off by its business stakeholders before implementation of the new system modules.
- formalized testing and training plans to ensure that the system functions as expected to meet business needs and that all staff and students affected by the new system are adequately trained on the new system tools and business processes

Our audit findings

KEY FINDING

Finance and administration operations are not ready for the new system:

- business change management plans are not formalized
- internal controls added from the project or changed are not formalized
- a testing, conversion and training strategy and plans are not formalized

Internal controls not formalized

We found that the university had not documented automated controls in the new system or identified and documented changes to existing controls that will be needed to implement the new systems and processes. The project team acknowledged that the software training materials identify some automated controls that can be turned on. However, there is no documentation to finalize and approve which automated controls the university will use when the new system goes live. For example, key controls are not defined for assigning user access permissions for new system functions, approving of certain financial activities and segregating duties.

Business process changes and new system designs not formalized

We found that the project team reviewed its current business processes early in the project, before receiving formal training from the software vendor. The team performed a gap analysis review to assess the differences between its current and planned new processes. However, it had not formally identified changes needed to adapt the university's business processes from its current state to new processes required for the new system. Formal definition of business process changes will help ensure that everyone affected by the new system fully understands the operational impacts and the changes that will be necessary to implement the new system and new business processes.

Although the project team has started to document some process design changes, there was no formal template to define these changes. The university still has no official design document for all system and business process changes that it plans to implement.

Data conversion strategy and plan not formalized

There is no data conversion strategy or detailed conversion plan for each sub-project. The project plan task lists identify data conversion activities and the vendor had provided some conversion instructions and conversion software script. However, there are no documented details on how the team will review data in the current systems that will be replaced. A review is needed to determine if bad data must be removed before moving the data into the new system databases. There are also no details on how the data will be moved from the old to the new systems. Detailed plans to test conversion results and how the reconciling of historical data will be done are not defined—the project conversion activities and business stakeholder review and approval processes are not defined.

Training strategy and plan not formalized

At the time of the audit, there were no documented training plans for business end-users and students. The project vendor provided training to the project team, which included training materials. However, with the implementation of the financial module fast approaching there are no formal plans to detail end-user training requirements, training content and processes.

Testing strategy and plan not formalized

Although there is a draft testing strategy, it is neither complete nor approved. There are no detailed testing plans for the new system modules. Testing of the transition to the new system should include:

- scripts on testing scenarios and defined test data for module unit testing to verify system configuration settings
- system end-to-end testing to verify that all system modules are working together
- user acceptance testing to verify that the new system is working as expected and includes the business requirements defined at the start of the project
- performance testing to ensure the system's response times and transaction processing times are acceptable to the operational users

Staff resourcing and engagement not sufficient

Business staff working on the project are still responsible for their daily operational duties. The university has not provided sufficient backup resources. Internal staff costs for time spent on the project are not captured and allocated back to the project's budget. Any impacts to their operational duties are not tracked.

There is no documented staff resourcing plan to explain how business project team members will manage two jobs at the same time. There are no plans to define how job duties and responsibilities are expected to change with the new system. Roles, responsibilities and accountabilities during the project and after implementation are not clearly defined.

During the course of our audit, two key project managers resigned from the university. The administrative systems renewal project manager, who was also the project manager for the finance module; and the project manager for the human resources/payroll module, both left the university at a critical time in the project.

Business stakeholder involvement not adequate

The key financial business stakeholder responsible for business change management planning and implementation for the finance project was unavailable during a critical time in the project. Any plans for business change readiness that were being considered were not formally transitioned to the project team or its business stakeholders and steering committees.

As a result, the executive responsible for finance and administration began to take a more active role. Concerns were raised regarding the lack of training, testing and readiness plans. As well, the risks and impacts of implementing the new finance system during the finance year-end process was not assessed.

Implications and risks if recommendation not implemented

Without a formalized business change management strategy and plan, there is a risk of project failure. The university may face significant hurdles in ensuring that the new system functions as expected and does not cause significant operational failures.

Project management risks

Background

Project management is the discipline of planning, organizing, managing, leading and controlling resources to achieve specific goals and outcomes. A project management methodology is a collection of project activities that encompass best practice standards, such as PMBOK and COBIT5, to establish controls that can help achieve the project's desired results and expectations.

The administrative systems renewal project includes three main sub-projects: finance, human resources/payroll and student services. The project has a manager to provide oversight and coordination on the project as a whole. Each sub-project has a manager responsible to manage the delivery and implementation of each new system component and a business team-lead to ensure business needs are included and changes to operations are effectively planned for and implemented. All of these roles are filled by university staff. The software vendor has provided a program manager, who works only part-time on the project.

RECOMMENDATION 5: FORMALIZE AND IMPROVE PROJECT MANAGEMENT CONTROLS

We recommend that Athabasca University ensure that a formalized project management and systems development methodology and approach are clearly defined, applied and available to all staff working on the project.

Criteria: specific to this recommendation

University management should ensure that it has:

- formalized its project management methodology to ensure the project team applies and follows it consistently
- put performance measurements in place to demonstrate that the project is on track and achieving objectives within budget

- formalized its systems development methodology to ensure all project deliverables are complete and ready for implementation
- formalized and integrated its project management plans with its business change management and readiness plans, to ensure that it is effectively managing the risks of new business processes, controls and tools for its business operations, staff and students, arising from the implementation of the new system
- adequately assessed the risk of its implementation approach to ensure that the business can effectively handle the hand-off of the new system and processes without negatively impacting its business operations—This includes formalizing criteria to ensure the project team achieves key project milestones and completes key project deliverables. Business stakeholders should thoroughly test and sign off new business processes and operational procedures before the team implements each new system module.
- formalize its post-implementation sustainment plans to ensure there is adequate IT and business support to resolve any issues that may arise with the new system or business operations

Our audit findings

KEY FINDINGS

- The project management and systems development approach are not clearly defined and consistently applied.
- Internal staffing, infrastructure and reporting costs are not included in the project's budget.
- A formal change management process is not in place.
- Implementation criteria and project gating process are not formalized.
- Project files are not organized and are not kept current.
- A sustainment plan for business and technical support after implementation has not been formalized.

Project management and systems development methodology not formalized

There is no formally defined project and systems development methodology being applied by the university's project team. Although the university has a high level project management strategy, our audit could not find evidence that its guidelines were being applied consistently within the project.
The vendor proposed its systems development methodology for the project, but the project team had not been fully trained on this approach. We found little evidence in the project files to indicate that the team is using any formal systems development methodology. There were no templates or expected criteria defined for:

- a functional design blueprint—to identify how the system will be used
- a technical design solution blueprint—to detail system configuration and software add-ons and how the system features will work
- internal controls (automated and manual)
- strategies and detailed plans for data conversion, testing and training

Project budget and costs not complete

The official project budget is $5.1 million. This is for the software licence (fixed price) and vendor services (time and materials) fees.

Internal costs—Internal costs for IT and business project team members are not summarized as a project expense and included in the budget. The university does not have the systems in place to report overall internal resource usage. The university indicated that these additional costs could be significant. Management estimated the cost of internal resources for the project to be an additional $1.5 million. The cost of internal labour should have been included in the overall project budget or reported as additional internal expenses, to more accurately reflect the true cost to the university to implement the new system.

Finance staff performing double duty—Finance staff, who are working on the project and continuing with their regular business responsibilities, may not be able to sustain both these roles as the financial module implementation approaches. Financial year-end stresses along with project demands could impair project quality and cause operational delays. As well, it is difficult for management to effectively plan for and mitigate these risks, because there are no systems in place to track staff time or identify where and when stress points can and will occur.

Computer costs—Additional computer infrastructure costs are not included in the project budget. These include new virtual server components[7] required to support the development, test and production computer operations for the new system. Management stated that these costs are being shared and used by other IT services. However, additional hardware components that are specifically labeled for the new system should be allocated to the project budget. Purchasing materials received from management identified that the overall costs for new computer hardware upgrades are approximately $350,000. However, there is no breakdown to identify how much should be allocated to the project.

Reporting services—The project team informed us that it requires additional reporting services because of the reporting limitations with the new software. This additional project activity is not included in the budget. The cost for an additional reporting system and tools is unknown at this time and there was no detailed information in the project files.

Project change management not formalized

The vendor provided a documented change management request process, which includes a change log and provides for approvals and testing results. However, the project team is not using this process. Instead, they are using existing university IT change management forms to record changes.

There has been only one documented change request to date—to remove the relationship module from the new software install (it is obsolete and will be replaced with another solution in future). However, there have been other significant changes to the finance project scope, such as additional reporting and document imaging requirements and interface changes. These changes did not have a documented change request.

All project changes should be tracked, regardless of whether there is a cost for the change, so that the project team can assess how the change will affect business change management plans and business controls. We found that the project team is not reporting all project changes to the project's governance bodies and business stakeholders.

Implementation criteria "go/no-go" gating process not formalized

Although the project team has started to prepare an implementation criteria document for the finance module's implementation, it is an incomplete draft. There is also no formal strategy or process to identify significant milestones or critical events or deliverables as complete, signed off and ready to proceed through the project plan, as criteria for implementation.

[7] Virtual server components are computer memory and network components that are added to a server to increase its multi-processing capacity.

Project files not organized

Project plans and working papers are kept in two separate project repositories and are not always current. The first repository the project team used was the university's new project management document folder tool. The team informed us that it uses this tool for final and approved project plans and project deliverables. The second project repository was an internal file share for all working documents for the project. The document migration process, as described by the project team but not documented, is that when project documents became final and approved they are moved to the project document folder tool.

Our review of both project file stores found that the new project folder did not contain recent and approved project plans. Project plans and schedules in this folder had earlier implementation dates that were no longer relevant. Our review of the project file share also found that it contained other project information related to earlier upgrades of the existing systems, mixed in with current project materials. It was difficult to locate documents and navigate through the file structures.

Keeping project documentation well organized and current helps to ensure that information required by the various project teams is readily available during the project and available to support sustainment efforts after implementation.

Sustainment plan not formalized

There were no defined or documented sustainment plans to identify the project's IT and business support strategy, processes and required resources.

The university's management should ensure that implementation planning extends beyond turning the system modules on, that plans are developed to ensure that new system tools and business processes and operations can be effectively supported and budgeted for, after implementation.

Implications and risks if recommendation not implemented

Without a formalized project and systems development methodology, there is a significant risk that a control failure will occur with the project. The university may face significant hurdles in ensuring that its administrative systems renewal projects are completed on time and within budget and that they meet business requirements and expectations.

Project governance risks

Independent project reviews not performed

Our audit had planned to leverage the project review by the university's internal audit team to assess the project's project management and governance controls.

The internal audit review had not been done at the time of our audit. The university's project management office informed us that it had planned the internal audit review as its project's health check and that they were still awaiting its start.

The university's management should ensure that planned project reviews, like the internal audit review or other third-party reviews, are performed frequently or at major project milestones, to provide assurance to the project's governance bodies that risks to achieving project outcomes and success are managed effectively.

Enterprise and Advanced Education—Collaborative Initiatives Among Alberta's Post-secondary Institutions

SUMMARY

What we examined

The Government of Alberta wants Alberta's 26 post-secondary institutions[1] to collaborate and they have done so in several cases. We audited three non-academic collaborative initiatives to assess if the institutions had well-designed systems to plan, govern, implement and sustain the initiatives:

- Apply Alberta[2]—an online system that allows undergraduate students to apply to any institution and to request and transfer transcripts
- Lois Hole Campus Alberta Digital Library[3]—an online repository of commercially licensed electronic learning resources that gives students at participating institutions access to the same resources
- IT management (ITM) control framework—a set of IT policies, procedures and templates to help institutions implement effective controls over their information technology systems

We assessed how the three initiatives fit into the minister's plans for institutions to work together to provide learning opportunities for Albertans in a cost-effective and sustainable way. Campus Alberta is a coordinated and integrated system approach wherein institutions collaborate to develop and deliver high quality learning opportunities.[4] We identified lessons and critical success factors to improve future Campus Alberta initiatives.

What we found

The department and institutions implemented all three initiatives several years ago, with significant effort from staff at the institutions. However, we concluded that the department and institutions do not have well-designed systems to plan, govern, implement and sustain collaborative initiatives. With better systems and processes for collaboration, service to students will improve and make the advanced education system more efficient, effective and sustainable.

We have findings at two levels:

- collaboration generally
- specific collaborative initiatives

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[1] 21 public post-secondary institutions and five private colleges. Private colleges were not included in the scope of our audit.
[2] https://www.applyalberta.ca/pub/
[3] www.lhcadl.ca
[4] *Post-secondary Learning Act,* pages 6-7.

Key findings on collaboration generally
The root causes of several problems with the initiatives relate to the overall systems for collaboration. Senior management at institutions lack a clear understanding of the department's strategic direction for Campus Alberta and of how specific initiatives fit into it. That is because:

- the department and institutions do not have a clear structure for mandates, roles and responsibilities, accountability and relationships among collaborating partners
- the department and institutions do not have a collective strategic plan or a business plan for collaboration

The department and institutions lack clarity on the mandates, roles, responsibilities, accountabilities, and interrelationships of collaborative entities and committees. For some initiatives, institutions created separate legal entities to collaborate, but these entities are not accountable to the minister. These new entities seemingly do not have to meet the same accountabilities, legislation, policies and directives that institutions and other provincial agencies must meet, even though institutions' senior management are on these entities' boards and committees, and the department and institutions also fund these entities.

Without a clear, complete understanding of who does what and who accounts to whom, the department and institutions risk further duplicating their efforts, paying more than necessary and not effectively managing the risks, resources and benefits of collaboration. For example, the ITM control framework steering committee learned, about six months after starting its project, that another sub-committee of academic officers in the sector was also developing IT governance policies.

The department and institutions lack a collective strategic or business plan for collaboration. Such a plan would identify clear outcomes, strategic initiatives to achieve them, budgets to implement and operate the initiative, funding sources, performance measures and targets, and public reporting. Instead, they have developed initiatives on a case-by-case basis. That precludes effectively evaluating, ranking and approving initiatives and providing adequate resources to implement and sustain them. In 2012, for example, the online learning resources in the Lois Hole Campus Alberta Digital Library were reduced from 65 to nine, because funds were lacking to sustain the initiative. The Government of Alberta created the initiative to give students at all institutions, including private and First Nations colleges, access to the same resources. Without funding to sustain it, the digital library may not continue to provide all students with access to the same resources.

Key findings on specific initiatives
In the three collaborative initiatives we examined, the institutions could have improved their systems to plan, govern, implement, monitor and report on the success of these initiatives.

Planning—The institutions generally had clear plans for the ITM control framework and digital library, setting out what they hoped to achieve, how to achieve it and the cost to do so. They lacked such plans for Apply Alberta, which was implemented two years late, with significant problems during the planning and development. In addition, the institutions did not identify funding at the start to sustain these three initiatives.

Governing—Generally, the institutions had defined roles and responsibilities to govern individual initiatives. However, they used complex governance structures to implement and operate the initiatives, which in turn complicated their efforts to communicate with each other and hold each other accountable.

Monitoring and reporting on initiatives—The institutions developed performance measures for the ITM control framework and digital library. However, they did not set targets for the measures, which made it impossible to know if they had met or could sustain their goals. No performance measures or targets exist for Apply Alberta. The department and institutions have not publicly reported the measures, results and cost to implement and sustain the three initiatives.

What needs to be done

The Department of Enterprise and Advanced Education, working with institutions and the Campus Alberta Strategic Directions Committee, should:

- develop and communicate a strategic or business plan that clearly defines:
  - the outcomes the department expects Campus Alberta to achieve
  - the initiatives needed to achieve those outcomes
  - the resources and funding needed to carry out the plan
- develop relevant performance measures and targets to assess if outcomes are met
- publicly report the results and the cost of the initiatives
- review and clarify the accountability structures to govern collaborative initiatives
- develop processes and guidance to ensure institutions effectively manage collaborative projects and their risks

Why this is important to Albertans

Alberta's 21 public post-secondary institutions spend about $4.8 billion annually. They contribute to the government's priorities of building a knowledge-based economy and improving the social well-being of Albertans. The government wants these institutions to collaborate[5] in an effort to improve services to students and to make the advanced education system more efficient, effective and sustainable.

AUDIT OBJECTIVE AND SCOPE

Our objective was to assess if the department and public post-secondary institutions collectively have well-designed systems to plan, govern, implement and sustain collaborative initiatives. We audited the following collaborative initiatives:

- Apply Alberta—an online system that allows undergraduate students to apply to any institution, and to request and transfer transcripts
- Lois Hole Campus Alberta Digital Library—an online repository of commercially licensed electronic learning resources that gives students at participating institutions access to the same resources
- IT management (ITM) control framework—a set of common IT policies, procedures and templates to help institutions implement effective IT controls over their information technology systems

We assessed how these three initiatives fit into the department's broader strategy, plans and systems to achieve the outcomes it expects from Campus Alberta initiatives. We did not audit the department's policy framework for Campus Alberta. We also did not audit the governance and systems of individual entities that institutions created as a way to collaborate.

We surveyed senior executives from public post-secondary institutions on their understanding of Campus Alberta's objectives and the systems for collaboration to achieve them. We received 72 responses to the survey, an overall participation rate of 59 per cent. Two institutions submitted a single response for their executives; two other responses were from Campus Alberta entities.

[5] The department has several policy frameworks that highlight the importance of collaboration among institutions: Campus Alberta – A Policy Framework; A Learning Alberta; and the Roles and Mandates Policy Framework.

We also wanted to identify lessons that the department and institutions can apply to improve future collaboration.

Our field work was from October 2011 to February 2013. We substantially completed our audit on May 1, 2013. 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

Why collaboration among post-secondary institutions is important

The department's policy framework for Campus Alberta, released in 2002, was a major development for Alberta's post-secondary institutions.[6] The framework views Alberta's public post-secondary institutions from a holistic perspective—a Campus Alberta. Under Campus Alberta, the minister envisions institutions working together, as well as individually, to meet students' needs and reduce the overall cost of Alberta's post-secondary sector.

In 2006, the government proposed a 20-year strategic plan for the advanced education system.[7] The plan, A Learning Alberta, highlights the importance of collaboration among institutions to achieve its objectives. The government released a policy framework for roles and mandates[8] in 2007. The framework established a resource, now called the Campus Alberta Planning Resource, which provides provincial and regional data on demographics, high school to post-secondary transition rates, affordability of education, the Alberta economy, post-secondary participation rates, educational attainment levels, and immigration and interprovincial migration rates.[9] Institutions use this data to prepare their comprehensive institutional plans, which the minister requires to show how each institution will meet the ministry's goals for access. In 2012, the department used the Campus Alberta Planning Resource to identify three priorities for post-secondary education:

- support Alberta's economic and social progress
- focus on outcomes
- enhance system collaboration and partnerships among institutions

The government believes that collaboration among institutions is key to providing accessible and affordable learning opportunities for students, to avoid duplication and reduce the overall costs for post-secondary education. For example, 16 Alberta institutions are collaborating through eCampus Alberta to provide online learning opportunities for students using a common IT infrastructure. Working alone, each institution would need to implement its own IT infrastructure to provide online learning. This individual approach could lead to relatively higher costs for the sector, compared to the cost of collaborating to implement a common IT infrastructure.

An example of post-secondary institutions in Canada collaborating to provide administrative services is Interuniversity Services Inc.,[10] a not-for-profit company incorporated in 1984 by four independent universities in Atlantic Canada. ISI currently provides administrative services to 19 post-secondary institutions in Nova Scotia, New Brunswick, Prince Edward Island and Newfoundland.

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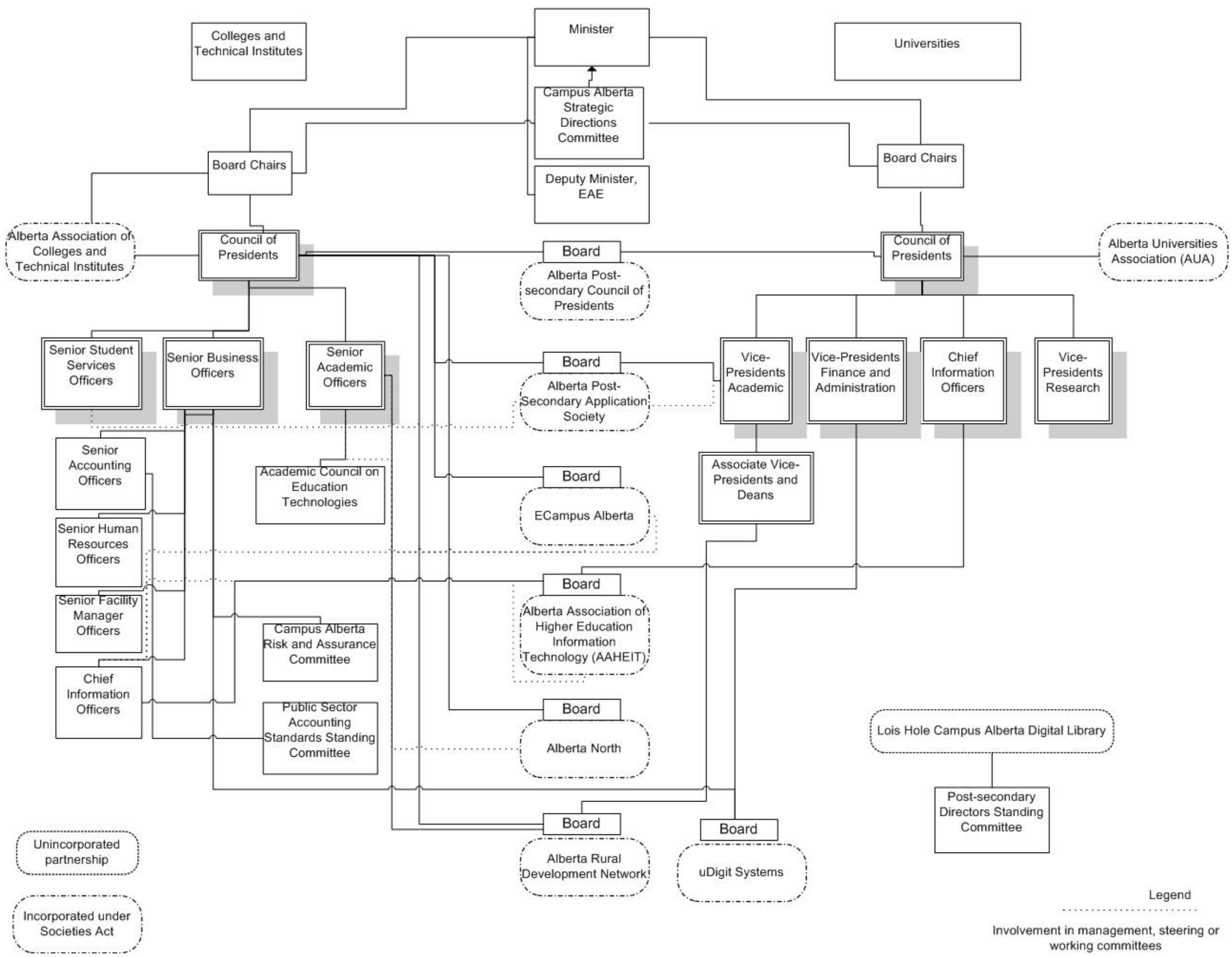
[6] http://eae.alberta.ca/media/134142/campusalbertframework.pdf
[7] http://eae.alberta.ca/post-secondary/policy/alearningalberta.aspx
[8] http://eae.alberta.ca/post-secondary/policy/roles.aspx
[9] http://eae.alberta.ca/media/343180/capr2012fulltext.pdf
[10] http://www.interuniversity.ns.ca/

How institutions collaborate and who is involved

Universities, colleges and technical institutes are the main participants in Campus Alberta, but institutions also collaborate through other committees and separate legal entities. We prepared the following diagram to understand how they collaborate and who is involved in collaborative initiatives. The lines in the diagram indicate involvement in various committees and sometimes may also indicate accountability. It illustrates the complex environment in which collaboration occurs. This list might not include all committees and entities, because neither the department, nor institutions have a comprehensive list of committees and entities.[11]



Note: Alberta North merged with eCampus Alberta in July 2011

[11] See our recommendation in the *Report of the Auditor General of Alberta—October 2012*, no. 17, page 102.

Background on the specific initiatives we reviewed

Apply Alberta

In 2005, the Government of Alberta passed the *Access to the Future Fund Act,*[12] which required Alberta's post-secondary institutions to develop an online system that lets students apply to any post-secondary institution. They developed Apply Alberta to also allow for the electronic transfer of student transcripts between institutions and between Alberta Education and institutions without charging students. The project had an initial budget of $4.5 million. The department provided $16 million to develop the Apply Alberta system and to help public institutions adapt their systems to interface with it. Institutions contributed about $4.5 million towards the project's $20.5 million budget.

Institutions initially planned to implement the online system by October 2007. The website was officially launched in February 2010. Although some institutions implemented it in the fall of 2009, most implemented it in the fall of 2010. Institutions created the Post-secondary Application Society to operate and maintain the Apply Alberta system. Institutions fund the society based on number of applicants for each institution. Students can also apply to three private institutions through the Apply Alberta system.

Lois Hole Campus Alberta Digital Library

The government announced the Lois Hole Campus Alberta Digital Library in the 2005 Speech from the Throne. The speech highlighted a vision for "an Alberta-wide digital library that will allow all students and faculty, wherever they are located in the province, to access the resources and knowledge currently held in the individual libraries of our post-secondary institutions."[13]

Before the launch of the digital library, some institutions were members of The Alberta Library, or TAL, a not-for-profit consortium of public, post-secondary, special, government and regional libraries. TAL also receives operating grants from the Department of Municipal Affairs to operate the Alberta Public Library Electronic Network and from the Department of Education to operate the Online Reference Centre.

The digital library consists of the following:

- digitized material previously held in university libraries, such as monographs, journals, manuscripts, art, maps, artifacts and specimens
- licensed learning resources and other specialized information resources

This digital collection allows students at all institutions, including First Nations colleges and private institutions, to access the same learning resources. By the end of 2008, the digital library had obtained licences for 65 products to support learning in science and technology, medicine and health, business, education, fine arts, humanities and social sciences. Institutions reported that instructors had also incorporated some of the resources into their courses.

Alberta's post-secondary institutions collaborated with TAL to establish the digital library. The department provided $5.3 million to the University of Alberta in March 2006 to support the initial operating costs and licensing of electronic resources. The university forwarded the funds to TAL, which incurred expenses for licences and administrative costs. The department provided about $5 million annually in 2008 and 2009, $2.8 million for 2010 and $1.9 million for 2011, for the University of Alberta to administer. In a separate but related initiative, the department provided funds to give First Nations colleges' access to the digital library.

[12] http://www.qp.alberta.ca/1266.cfm?page=A01P5.cfm&leg_type=Acts&isbncln=9780779728190

[13] http://www.assembly.ab.ca/ISYS/LADDAR_files/docs/hansards/han/legislature_26/session_1/20050302_1500_01_han.pdf, page 9.

To reduce annual administrative costs of about $500,000 it transferred to TAL, the University of Alberta took over the administration of the digital library in September 2009. The university agreed to cover the library's administrative costs. Up to December 31, 2010, a grant from the department paid for a core group of licences for resources under TAL. After that date, only members of TAL would have access to those digital resources. To maintain access, institutions had to pay the TAL membership fees themselves because no funds for the digital library were available to pay those fees.

ITM control framework

The department and institutions started the ITM project in response to our recommendation[14] that the department provide guidance to institutions on using a framework to implement effective IT controls. The initiative consisted of 12 sub-projects to develop draft policies, processes and controls in areas such as IT governance, security, change management and enterprise IT architecture. Institutions can then customize these draft policies, processes and controls to suit their environments. The initiative also provided training to institutions' IT staff on the policies, processes and controls. Each project relied on collective institutional expertise supplemented by external expertise when required.

During the first year, the project team held several sessions with institutions' senior management to raise awareness of the need for an ITM control framework. They involved people from IT, finance, records management and academic areas. The department provided a $730,000 grant to the Alberta Association of Higher Education Information Technology Society (AAHEIT)[15] to develop the framework. The department also entered into several contracts totalling about $240,000 to support the development of the framework. Institutions contributed funds for this initiative and provided staff to participate in various sub-projects.

FINDINGS AND RECOMMENDATIONS

Strategic planning and accountability for collaborative initiatives

Background

The Government of Alberta's strategic priorities include building a knowledge-based economy and improving the social well-being of Albertans. Post-secondary institutions play a key role in this. Several policy frameworks[16] highlight the importance of collaboration among Alberta's public post-secondary institutions to provide seamless, accessible and affordable learning opportunities to Albertans. The department uses the Campus Alberta Planning Resource to identify potential areas for collaboration, such as administrative systems, learning services and curriculum development. However, these policy frameworks or resource do not identify specific initiatives to undertake, timelines, resources required or funding sources.

With so many institutions, committees and entities involved and potential initiatives to undertake with limited resources, the ministry needs strategic planning and systems to carefully plan, implement, govern and sustain not only individual initiatives, but all initiatives collectively.

[14] *Report of the Auditor General of Alberta—April 2008*, no. 8, page 195.
[15] A society created by institutions to initiate and manage IT contracts and projects for institutions. See https://www.nait.ca/portal/server.pt/community/aaheit/377.
[16] Campus Alberta–A Policy Framework; A Learning Alberta; and Roles and Mandates Policy Framework.

RECOMMENDATION 6: DEVELOP STRATEGIC PLAN AND ACCOUNTABILITY FRAMEWORK

We recommend that the Department of Enterprise and Advanced Education, working with institutions and the Campus Alberta Strategic Directions Committee:

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

Criteria: the standards for our audit

The department and institutions should have a clearly defined governance and accountability framework for collaboration among post-secondary institutions. This includes:

- clear plans for initiatives, the costs to implement and sustain them, funding strategies, timelines, deliverables, risks assessments and mitigating strategies
- relevant performance measures and targets to assess if the outcomes are being achieved, and to report the results
- accountability, roles and responsibilities for overseeing the planning, implementation and ongoing operation of initiatives

Our audit findings

KEY FINDINGS

- The department and institutions have no collective strategic or business plan for collaboration among institutions; thus, projects are done on a case-by-case basis.
- Institutions do not clearly understand what the minister wants Campus Alberta to achieve or how to achieve it.
- The department and institutions have not identified sustainable funding sources for collaborative initiatives.
- The department and institutions have no performance measures and targets for financial and non-financial reporting on whether collaboration is working.
- Generally, the institutions have defined roles and responsibilities for initiatives, but have set up complex governance structures.

As we audited the three initiatives and assessed how they fit into the department's Campus Alberta framework, we identified certain root causes of issues identified in the project management and accountability for collaborative initiatives section and other issues with the broader systems for achieving Campus Alberta goals.

The following problems may hamper the department and institutions' efforts to achieve the minister's intended outcomes for Campus Alberta to improve services and learning opportunities for students, save costs and achieve value-for-money through collaborative initiatives in the post-secondary sector.

Strategic planning is lacking

The department and institutions lack clear collective strategic planning processes to decide which initiatives to undertake, with limited resources. The department and institutions have no clear long-term strategy or plan to guide what initiatives to choose, what resources will be required or where the funding will come from to implement and sustain collaborative efforts.

Senior management from half of the institutions that responded to our survey said they didn't clearly understand what Campus Alberta was trying to achieve. More than two-thirds said it was unclear how they could achieve the Campus Alberta goals in a coordinated and cost-effective way. Among the respondents, 79 per cent said it is very important or critical to have a clear strategic plan for Campus

Alberta with measurable goals, objectives and identified initiatives; 72 per cent said such a plan did not exist, or partly existed but needed significant improvements. We found that such a plan did not exist.

The lack of strategic planning means that the minister's desired outcomes may not be achieved or sustained. For example, eight institutions identified an opportunity to implement a common enterprise resource planning system that could save them and the government money. However, funding has not been approved to proceed with the initiative.

The department provided funding to implement the Lois Hole Campus Alberta Digital Library, to give students and instructors at smaller and First Nations institutions access to the same resources available to students at larger institutions. However, the lack of funding for the digital library reduced these learning resources from 65 to nine in 2012. Students may no longer have access to resources that instructors incorporated into the curriculum based on their initial availability through the digital library.

Performance measures and public reporting are missing
The department and institutions lack clear performance measures and targets to know if they are collaborating effectively to eliminate duplication, save costs and improve services for students. They do not publicly report progress towards achieving the outcomes, the associated costs and savings.

Governance and accountability structures are overly complex
Beyond the 21 public post-secondary institutions themselves are many committees and separate legal entities that the institutions created for collaborating. Institutions' senior management and staff sit on various boards, management and operating committees of these separate entities. As previously discussed, the department and institutions do not have a complete list showing the mandates, roles, responsibilities and accountabilities for all committees and entities that may have been created.

Further, each initiative we reviewed had complex governance and accountability structures—see project management and accountability for collaborative initiatives section. These structures complicate effective planning, risk management, resource allocation, coordination and accountability across multiple initiatives. Complexity also works against the department's goal of a more efficient and cost-effective post-secondary system.

Solution attempted but abandoned—The department and institutions recognized these problems, so introduced the concept of Campus Alberta Administration in 2009—a single entity envisioned to provide project management expertise, administration and a more collaborative approach to achieve Campus Alberta outcomes. The department used the 2010 Campus Alberta Planning Resource to identify the need to streamline the system. However, the department shut down the idea of Campus Alberta Administration in June 2012, due to insufficient support from institutions and lack of funding.

The underlying problems persist—The entities that institutions created are not accountable to institutions' boards or the Minister of Enterprise and Advanced Education. In fact, there may be duplication of efforts to and increased costs to administer each entity, which is the opposite of what the department had hoped collaboration would do. The department has not comprehensively reviewed the mandates, roles, responsibilities and accountabilities of these committees and entities. The department believes that institutions do not need approval of the minister or the Lieutenant Governor in Council to jointly incorporate an entity, since no single institution controls the entity. However, the *Financial Administration Act*[17] and *Post-secondary Learning Act*[18] require each institution to get that approval when they incorporate an entity.

[17] Section 80

What needs to be done—The department, through the Campus Alberta Strategic Directions Committee should review the mandate of the entities and the cost-effectiveness of the structures for planning, governing and implementing collaborative initiatives.

Questions that need to be answered—The department should consider the following questions when they review these entities and their structures:

- Individual institutions must submit business plans and annual reports to the minister for approval. When several institutions create an entity to support Campus Alberta outcomes, should the entity also have to submit business plans and annual reports to the minister? If so, should the entity's reports be published publicly, as in the case of institutions' business plans and annual reports?
- Should institutions follow Alberta Governance Secretariat policies[19] and processes to review the purpose, mandate and cost-effectiveness of entities and to decide whether to form them?
- Institutions' expense policies must comply with government policies. If institutions collaborate through informal structures, employees are reimbursed through institutions' expense policies. However, when institutions collaborate through a separate legal entity, should that entity have to follow the same expense policies and other restrictions as the institutions themselves?
- Institutions must comply with legislation, such as the *Post-secondary Learning Act, Financial Administration Act* and the *Elections Finances and Contributions Disclosure Act* when they collaborate through informal structures. When they collaborate through separate legal entities, does that legislation still apply to the entities? Should the legislation apply to the entities?
- What are the legal and other human resource management risks for institutions' staff serving on boards, management and operating committees of these separate legal entities, and are these risks appropriately managed?

Implications and risks if recommendation not implemented

Lack of strategic planning; unclear roles, responsibilities and accountabilities; and ineffective systems for collaboration all increase the risk that the department's goals for Campus Alberta may not be achieved cost-effectively or at all.

Project management and accountability for collaborative initiatives

Background

The *Access to the Future Act*[20] required institutions to develop a common application system, which led to the Apply Alberta initiative. The Lois Hole Campus Alberta Digital Library was announced in the 2005 Speech from the Throne. The ITM control framework was developed in response to our recommendation[21] that the department provide guidance to institutions on using an IT control framework that will allow them to implement effective controls.

Project management is the discipline of planning, organizing, managing, leading and controlling resources to achieve specific objectives and outcomes. Projects need a clearly defined accountability

[18] Section 77
[19] http://www.finance.alberta.ca/business/agency-governance/
[20] Section 2 (2) (a) of the *Access to the Future Act*.
[21] *Report of the Auditor General of Alberta—April 2008*, no. 8, page 195.

framework to achieve their objectives. To be accountable, entities should follow this cycle:
- plan what needs to be done, by identifying specific deliverables, costs, funding sources, timelines and responsibilities
- do the work
- monitor progress against plans and report the analysis to those responsible
- evaluate progress and adjust plans and actions as required

RECOMMENDATION 7: DEVELOP PROCESSES AND GUIDANCE TO PLAN, IMPLEMENT AND GOVERN COLLABORATIVE PROJECTS

We recommend that the Department of Enterprise and Advanced Education, working with institutions and the Campus Alberta Strategic Directions Committee, develop systems and guidance for institutions to follow effective project management processes for collaborative initiatives.

Criteria: the standards for our audit

The department and institutions should have an effective project and risk-management system to plan, govern, implement and report on collaborative projects.

Our audit findings

KEY FINDINGS

- Generally, the department and institutions had good business and implementation plans for the ITM and digital library projects, but not for Apply Alberta.
- The department and institutions did not identify sustainable funding sources at the start of each collaborative project.
- Generally, the institutions had defined roles and responsibilities for all three projects, but set up complex governance structures.
- Institutions developed performance measures for the ITM and digital library projects, but not for Apply Alberta.
- For all three projects, institutions did not compare actual against expected costs and progress for work performed.
- For all three projects, institutions did not publicly report financial and non-financial results.

Below are the findings of our audit of the three initiatives and the lessons we want the department and institutions to take from what we found.

Planning

> *Lesson to learn: Planning matters*—The digital library and Apply Alberta were announced in the 2005 Speech from the Throne and the *Access to the Future Act*, respectively. Consequently, business cases were not prepared for them, because the decisions to proceed with these initiatives were already made. Regardless, when institutions collaborate, they should develop detailed project plans to clearly define their objectives and outcomes, alternative ways to achieve them, the costs to implement and sustain initiatives, the resources required, the funding sources, risks and management plans. Also, the department and institutions should clarify how savings generated from collaborative initiatives can or should be used.
>
> Planning should extend beyond implementation, to include ongoing operations, costs, funding sources and operating structures. This level of planning requires better communication among institutions about what initiatives are to achieve, how much they will cost, who will provide funding to implement and sustain the initiative and its possible benefits and risks.

ITM and digital library—Institutions generally followed good planning processes for both initiatives. They developed business and implementation plans that set out the objectives, risks assessments, timelines and costs to implement and sustain the initiative. They also developed measures to assess the success of initiatives.

However, the department and institutions did not identify funding sources and strategies to sustain their initiatives. Nor did they establish targets for performance measures, to know whether they had achieved their objectives.

Apply Alberta—The department and institutions did not develop clear and comprehensive business and implementation plans to implement and sustain this initiative. Nor did institutions develop clear measures and targets to measure the success of the initiative. This resulted in inefficiencies and confusion for institutions about the intended result and how to achieve it.

Governing

> *Lesson to learn: Overly complex structures are problematic*—For collaborative initiatives that involve many institutions, the institutions must start by clearly defining and communicating roles, responsibilities and accountabilities for implementing and operating initiatives. It must be clear who does what and who accounts to whom. Institutions must keep it simple and align each initiative with other strategic initiatives, to ensure effective oversight, risk management, communication, funding and resource allocation—not just for individual initiatives, but across multiple initiatives.

Institutions generally defined their roles and responsibilities for overseeing and monitoring all three initiatives. However, the structures for governing and operating the initiatives were complex, which complicated governance, communication and management of initiatives.

Apply Alberta—The department funded the Alberta Association of Colleges and Technical Institutes[22] to act as the administrative agent to plan Apply Alberta (NAIT provides administrative support to AACTI). An Apply Alberta task team was established to govern the initiative. Institutions later created the Alberta Post-secondary Application System under the *Societies Act*, to finish implementing Apply Alberta and to operate and manage it. AACTI then transferred all Apply Alberta assets to APAS.

Institutions are the members of APAS and appoint its board of directors from among their senior executives. Institution staff also participate on various board and management committees of APAS. Before Apply Alberta was implemented, institutions decided that none of them could host, operate and maintain it. APAS then contracted with the department to operate and maintain Apply Alberta. The department and APAS developed a governance model involving the department, APAS and institutions to manage changes to the Apply Alberta system.

Digital library—The board of The Alberta Library was responsible for this initiative. The department provided grants to the University of Alberta to administer and advance funds to TAL for common licences. TAL established a steering committee, resource selection committee and other committees to implement and operate the digital library. Institution staff participated in these committees. In 2009, responsibility for the digital library transferred to the University of Alberta, which now operates it. The university also continues to work with TAL, including the Library Steering Committee and the

[22] A society created by all colleges, technical institutes, MacEwan University and Mount Royal University. See www.aacti.ca.

Post-secondary Directors Standing Committee. The Post-secondary Directors Standing Committee was created in 2010 to share information and collaboratively plan library initiatives for institutions and the digital library.

ITM—The department and institutions established a steering committee consisting of the department's chief information officer, the executive director of AAHEIT and several senior IT and finance staff from institutions to oversee the framework. The department hired a project manager and provided a grant to AAHEIT to hire contractors to work on the control framework. AAHEIT established several working groups with institution staff to develop the components of the ITM control framework with the contractors.

The project manager oversaw the other contractors' work and updated the steering committee on their progress. Several months after the project started, while developing the IT governance policies and procedures, the steering committee learned that the Advisory Committee on Educational Technology was also working on an IT governance project. ACET is another committee that reports to the senior academic officers sub-committee.

The steering or oversight committees received regular reports on the progress of the initiatives. This included actual costs and high-level progress, but did not report costs against specific expected deliverables and timelines (in other words, is actual work in line with expected work for cost incurred). Regular monitoring and reporting occurred to steering committees, but it was unclear how the committees reported their progress to senior management at all institutions.

Monitoring and reporting

> *Lesson to learn: Targets and performance measures provide evidence of results*—Institutions and the department should develop clear performance measures and targets at the start of every collaborative project, to assess if the initiative has achieved and can sustain its objective. They should report this information and the cost of the initiative to Albertans.

ITM and digital library—Institutions developed measures to assess the success of the initiatives, but did not develop targets for the measures. As a result, it is unclear if the initiatives met and sustained their objectives. For example, institutions were surveyed about the benefits of the ITM, but it may be too early to see if the outcomes were achieved because some institutions are still having trouble implementing effective IT policies, procedures and controls.

Apply Alberta—The *Access to the Future Act* requires institutions to implement an application system, which they have done for undergraduate programs. In 2008, institutions also established a vision for APAS that it should:

- provide information that the department and institutions can use for strategic planning, on the number of successful and declined applications
- link to the Student Aid Alberta system to allow students to determine the type of financial assistance available to them
- link to the Alberta Learning Information System to provide a career guidance tool that allows students to plan their career

However, APAS has not achieved these outcomes, mainly because the institutions have not identified or provided the funding needed to implement them.

Neither the department, nor institutions or separate entities have publicly reported the measures, results and costs to implement and sustain the three initiatives and the outcomes achieved.

Implications and risks if recommendation not implemented

Ineffective project management systems to plan, implement and govern collaborative initiatives increase the risk that the initiatives will not achieve their outcomes cost-effectively or at all.

Enterprise and Advanced Education— Medicine Hat College International Education Division

SUMMARY

What we examined

Since 2001, Medicine Hat College has sought to bring an international focus to its campus. Through its International Education Division, the college offers courses at campuses in other countries and seeks to draw international students to its campus in Medicine Hat. The college has agreements with three partner institutions in China to offer courses for students who wish to begin their studies in China and then transfer to Medicine Hat College to complete their programs.

The objective of our audit was to assess if Medicine Hat College has effective systems to deliver, evaluate and report on the International Education Division's success and cost effectiveness. We examined:

- reporting and governance processes within the International Education Division and at the board level
- the division's strategic and operational plans and how they aligned with actual operations
- offshore partnership arrangements, including quality control processes and the program outcomes achieved
- international travel by International Education Division staff and college executives

What we found

We found the college does not have effective systems to deliver international programming and manage its risks appropriately. The International Education Division operated independently and largely outside of the college's control systems. Board oversight of international education has failed.

The college's international education activities were the sole focus of this audit. Our conclusions are specific to those activities.

Governance

We assessed the processes for providing oversight of the college's international activities and found that the Board of Governors failed to recognize the risks or took no effective action to limit the risks; and the president failed to keep the board informed on the college's international activities. Our key findings were that:

- the president is non-compliant with provisions of the college's policy to limit international activity
- the board did not monitor compliance with the college's policy to limit international activity
- the board approved policy changes without receiving, and without asking for, appropriate information to assess the potential implications of the changes
- the board received information on the benefits of the college's international education activities but did not receive, and did not ask for, appropriate information on the corresponding costs and risks associated with those activities

Strategic and operational planning

We reviewed the college's strategic and operational plans to see if it had an effective strategic planning process. The college did not:

- clearly define its goals for international education in its strategic plan
- establish specific targets, expected outcomes or measures of performance
- ask appropriate stakeholders—the registrar, student services, financial services and faculty deans—for feedback on the International Education Division's strategic and operational plans
- develop business cases to assess the risks, benefits and costs associated with training in foreign countries
- have processes to assess the legal requirements for conducting business in foreign countries or to assess its legal risks before signing partnership agreements to offer Medicine Hat College programming in China

Weaknesses in the college's business planning, risk assessment and contract management processes are evident in a contract the college signed with a private company in China in 2008. The purpose of this contract was to provide non-credit programs at one of the college's partnership campuses in China. The contract does not follow conventional business practices. Deliverables and accountabilities for both parties to the contract are unclear, it is unclear if the agreement complies with education regulations and laws in China, and the terms of payment are irregular. The college's involvement in this agreement exposed it to an unnecessarily high level of legal, reputational and financial risk.

Program operations and monitoring

We found serious weaknesses in the college's quality assurance and monitoring processes for its offshore programs and in the control processes within its International Education Division. The college does not have effective systems to:

- clearly define or appropriately segregate the recruiting and academic responsibilities of its International Education Division
- provide adequate quality control and monitoring processes for its offshore programs; for example:
    - not all offshore courses used the college's curriculum
    - the International Education Division circumvented college academic policies for student grading and withdrawals
- provide accurate, timely and relevant financial reporting of its international education activities
- select or contract with agents or ensure the accuracy of commission payments

International travel and recruitment expenses

The college's international education activities require extensive international travel. We reviewed over $325,000 of international travel expenses for the past three years. We found that:

- there was no assessment or reporting on the results achieved for the college's expenditures on international travel
- travel itineraries were incomplete and were not submitted to financial services with expense claim reimbursement requests—Therefore, financial services staff were unable to assess the business purpose or reasonableness of expenditures.
- some receipts for expenses were in foreign languages—The college has no process to translate the receipts, so its ability to scrutinize them was limited

Quality assurance processes

The issues we found with the college's quality assurance processes in China demonstrate the seriousness of the failure in oversight:

- Decisions made by the International Education Division were inconsistent with the academic regulations, policies and procedures the college has in place to maintain the academic integrity of the institution.
- The International Education Division had the option to seek the assistance of those in the college with the expertise and experience to resolve the academic issues experienced at the offshore campuses. They chose not to seek assistance and did not advise anyone outside of the International Education Division of the seriousness of the issues they were experiencing.
- The International Education Division acted unilaterally on important academic matters without fully appreciating the consequences; this indicates there is a fundamental weakness in the college's oversight and governance of the International Education Division.
- The integrity of the college's academic credentials was put at risk through these actions.

Lessons for others in Alberta's post-secondary sector

1. Materiality is not solely financial; reputational and legal risks can result from projects and programs of any size.
2. The complete nature and scope of international projects should be defined and approved before they are started.
3. Managers of international programs should have the appropriate skills for the program's complexity. This will not guarantee success; however, it will increase the likelihood that the program is successful.
4. Management should be able to continually demonstrate that the program is on time, on budget and that it will meet its planned objectives. Or they must be able to explain why the program is off track and how they plan to correct it.
5. To provide effective project oversight, the board of governors should receive suitable and sufficient information from management to monitor the performance of its international programs.

What needs to be done

We have made four recommendations to college management and the board of governors. These recommendations reflect our conclusion that there has been a lack of oversight for the college's international activities.

To correct the accountability and oversight gaps, management, and specifically the college president, must provide the board with suitable and sufficient information on significant events and risks to the college. The board must strengthen its processes to monitor compliance with the college's policy on limits to international activity and to ensure it is aware of significant risks the college faces. This process should be part of the college's overall risk management systems.

To solve the weaknesses we identified, the college must include international education activities in its strategic planning process. The college has expressed its commitment to developing a global perspective for its students and faculty. It is achieving an increase in enrolment from these activities. However, the college must clarify its short- and long-term goals for international education and consider the benefits and risks of this type of programming and its impact on the college. Management should properly plan and document the objectives, risk management, outcomes, measurable targets and operational plans to achieve the college's objectives.

Once management has a well-designed plan, they need to decide on the best way to deliver it. The college needs to assess and clearly define the roles and responsibilities of the International Education

Division to ensure that systems for international activities are appropriately incorporated into the college's systems of internal control, financial reporting and accountabilities. This should include the vice president academic consulting with financial services, student services, the registrar and faculty deans to align processes in a way that best serves the interests of the college as a whole.

During the course of our audit we saw an increase in communication between the International Education Division and other functional areas and faculties within the college.

Why this is important to Albertans

The Department of Enterprise and Advanced Education has identified international education as an important building block for Alberta's economic and social success. It is important that post-secondary institutions participating in international education activities, as is the case with Medicine Hat College, do so with due consideration of the risks involved. The relationships they develop, and the transactions they engage in, must uphold the integrity of the institution.

In 2011, we identified this as an area requiring further review, even though the expenditures on international programming make up a small percentage of the college's annual budget. In addition to the many potential benefits associated with the delivery of international programming, there are also risks. The risks associated with providing international programming on campus and in foreign countries are different from those of other college programs. Effective systems are required to manage these risks. Ultimately, it is important that Albertans are assured that resources in our publicly funded institutions are used effectively within the mandates of these institutions.

AUDIT OBJECTIVE AND SCOPE

Our audit objective was to determine if the college had effective systems in place to deliver an international program that meets its objectives and to report on the program's cost effectiveness. The college's international education activities were the sole focus of this audit. Our conclusions are specific to those activities.

We examined the college's strategic and operational goals. The focus of our work was strategic and operational planning and financial information for July 1, 2009 to June 30, 2012. We examined the International Education Division's processes, systems and controls for operations over this period.

We examined expense claims and credit card purchases related to the International Education Division. We limited our review of expenses incurred by the executive to international travel related to international education activities.

Our review did not include the ancillary services provided to international students attending the college's Medicine Hat campus, such as a homestay program, insurance and assistance with visa applications. Once international students are accepted into ESL international or regular college programs, the college's regular processes of quality control apply. Our review of processes for international students at the local campus included recruitment, application and registration.

We conducted our field work from October 2012 to April 2013. We substantially completed our audit on May 15, 2013. 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

Medicine Hat College operates as a comprehensive community institution under the authority of Alberta's *Post-secondary Learning Act.*[1] It offers five main types of programming:

- university transfer programs
- certificate, diploma and applied degree programs
- collaborative undergraduate degrees (in partnership with degree-granting institutions)
- college entrance programs
- pre-employment and apprenticeship programs for trades

The province and the federal government have identified international education as a priority. Students will require diverse and broadly based skills and perspectives to thrive in the knowledge-based global economy. International students who live, study and work in Alberta also have a positive effect on the economy.[2]

Medicine Hat College recognized these potential benefits and made a commitment to globalize its institution. The college established its first international campus partnership in 2001. It began with efforts to recruit international students to come and study in Medicine Hat. China was the largest market for these recruitment efforts. Students from China experienced challenges getting a visa to study in Canada. To be approved, they had to demonstrate good health, financial ability to pay and that they were a bona fide student. To help students meet the bona fide student criteria, the college developed offshore campus partnerships with post-secondary institutions in China. These were based on a model where students would complete two years of study in China and then transfer to Canada for the final year or two of their program.

The program began informally and grew over the years. Today, there are three main components to the college's international education activities:

Offshore campuses in China—The college's programs are delivered internationally on the campuses of partner institutions. The college has three offshore campus partnerships with educational institutions in China to deliver credit and non-credit programs. The college has made no capital investment in these partnerships. Its investment has been to provide the curriculum and teaching materials, as well as to supervise and mark midterm and final exams and record student grades for credit courses. It issues Medicine Hat College credentials to students who successfully complete credit course requirements at an offshore partner campus or at the Medicine Hat College campus. A summary of the college's current offshore operations is included in Appendix A.

International students at Medicine Hat College—A major component of the college's international education program involves recruiting international students to study at the Medicine Hat campus. The college operates a separate English as a second language program for international students, ESL International. Increasingly, international students are taking regular college programs in Medicine Hat. The college recruits students from China, India, Japan, Korea, Hong Kong, Taiwan, Thailand, Vietnam, Malaysia and other countries.

International mobility—This program provides opportunities for students to study abroad. These opportunities include student exchange, short-term study abroad and international degree completion.

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[1] Statutes of Alberta, 2003, Chapter P-19.5.
[2] Campus Alberta Planning Resource, 2012—Profiling Alberta's Advanced Education System, www.eae.alberta.ca/capr, pages 45-50.

International education activities at Medicine Hat College are the responsibility of the International Education Division. The staff consists of 14 full-load equivalents (FLEs)—seven administration and seven ESL instructors. Under the direction of the director of international education, administration staff direct and maintain the college's international programming through ongoing communication with the entities involved and through regular international travel.

Over the years, the college's international program has become a small but integral part of the college. It has added significantly to the college's enrolment. In 2011–2012, 8.5 per cent of the college's enrolment were international students studying in Medicine Hat; another five per cent were students studying at the three offshore campuses in China. [3]

The 2012–2013 budget for international education was $1.7 million; this was 3.2 per cent of the college's total budget of $53.8 million. The director of international education reports to the vice president academic on the college's functional organizational chart. The president has been a strong supporter of internationalizing the college, has actively participated in the development of the program and has travelled extensively in support of the college's international activities.

We developed our criteria for the audit based on the college's accountabilities, responsibilities, applicable legislation and policies. The criteria were shared with, and agreed to by, management before the beginning of the audit.

FINDINGS AND RECOMMENDATIONS

Governance

Background

The college's board of governors is established under the *Post-secondary Learning Act*. It governs the college within a mandate approved by the Minister of Enterprise and Advanced Education. The board is accountable for ensuring that public funds appropriated to the college are used effectively and appropriately, and is ultimately responsible for the quality and performance of the college's administration.[4]

For Medicine Hat College, oversight for these functions is guided by a series of board governance policies. These policies clearly establish the college's accountability framework. The board is responsible to hire and evaluate the performance of the president. The president is the board's single, official link to the operations of the college. The president is delegated the responsibility to manage the day-to-day operations of the college, within the limits established in a series of executive limitation policies. These policies are written as constraints placed on the president's authority to act in specific risk areas.

The board's policy limits the activities of the president and his delegates regarding international operations.[5] This policy was first approved in February 2000. All board governance policies are reviewed by the board annually. In June 2012, the board of governors approved changes to the part of the policy

[3] Visa students: 213 FLEs of 2,482; Offshore students: 127 of 2,482. Source: LERS reporting from Enterprise and Advanced Education.

[4] Medicine Hat College Board of Governors Mandate and Roles Document, page 5, approved in February 2011 by the then Acting Minister of Advanced Education and Technology.

[5] Executive Limitation Policy on International Activities.

that deals with international students attending Medicine Hat College. These changes are shown in the table that follows.

<table>
<tr><th colspan="2">Executive Limitation Policy on International Activity</th></tr>
<tr><td colspan="2">The board views international education within the context of the college’s provincial mandate as a comprehensive community institution and its institutional mandate, which is to meet the needs and expectations of the people of the south eastern Alberta region. Accordingly, the potential benefit to the college, the community and local students should be clearly established as all international training programs are developed.</td></tr>
<tr><td>As approved by the board on June 19, 2012</td><td>Before June 2012</td></tr>
<tr><td>For international students attending Medicine Hat College, the president may not:
a) Allow enrolment in college credit programs by students who are not permanent residents of Canada (international students) to exceed 15 per cent other than programs designed specifically for international students.
b) Operate without enrolment quotas for international students which are based upon the college’s fiscal, academic and service capacity to provide a quality educational experience for international and domestic students.
c) Levy tuition and fees for international students that are not competitive as compared to the tuition and fees levied for international students at other institutions in the marketplace.</td><td>For international students attending Medicine Hat College, the president may not:
a) Allow enrolment in any college programs by students who are not permanent residents of Canada (international students) to exceed 5 per cent other than programs designed specifically for international students.
b) Levy tuition and fees for international students that do not cover the costs of their education.</td></tr>
<tr><td>When providing training in foreign countries, the president may not:
a) No change
b) No change
c) No change</td><td>When providing training in foreign countries, the president may not:
a) Provide training in foreign countries without due consideration of the risks and benefits of the project as established in a business plan. Revenue alone shall not be the sole aim of any project of this nature.
b) Consider training in foreign countries unless the total cost of the project will be recovered within a three year period unless otherwise approved by the board of governors.
c) Invest in training projects in foreign countries that include the purchase or construction of capital assets to be permanently located offshore.</td></tr>
</table>

The policy is consistent with the board's oversight role in that:
- it acknowledges the risks associated with international activities and sets limitations designed to manage these risks
- it is consistent with the department's expectations that international activities will be based on full cost recovery, manage risks and protect access for Alberta students

The policy requires international activities to fall within the mandate of the college and, as such, includes the overriding requirement that all international training projects clearly establish their potential benefit to the local community, the college and the students.

RECOMMENDATION 8: OVERSIGHT BY THE BOARD OF GOVERNORS

We recommend that Medicine Hat College provide the Board of Governors with suitable and sufficient information regarding significant events and risks related to the college's international activities; and that the Board of Governors strengthen its processes to:
- ensure it is aware of significant risks the college faces
- monitor compliance of the college's international activities with the board's policies

Criteria: the standards for our audit

The college should provide the board with sufficient information to enable it to monitor compliance with its policy on international activity and fulfill its responsibility for oversight of the college's performance.

Our audit findings

KEY FINDINGS

- The president was non-compliant with provisions of the college's policy to limit international activity.
- The board of governors did not monitor compliance with the college's policy to limit international activity.
- The board approved policy changes without receiving, and without asking for, appropriate information to assess the potential implications of the changes.
- The board received information on the benefits of the college's international education activities but did not receive, and did not ask for, appropriate information on the corresponding costs and risks associated with those activities.

Compliance with Executive Limitation Policy on International Activity

We assessed the college's compliance with the policy. Our findings are summarized in the following table.

✓ compliant   x non-complaint   ► partially compliant

International students attending Medicine Hat College

Policy requirement	Compliance	Details
Before June 2012:		
Enrolment limit of 5 per cent in programs not specifically designed for international students	x	Limit exceeded every year since 2004–2005 in some programs
Tuition and fees must cover the costs of their education	x	College does not track the full cost of education for international students. In 2012, tuition for international students represented about 48 per cent of the cost of their education.[6]
After policy amendment in June 2012:		
International student enrolment limit of 15 per cent of total enrolment	✓	In 2011–2012, international student enrolment was 8.59 per cent of total enrolment.
Enrolment quotas for programs not specifically designed for international students, based on the college's fiscal, academic and service capacity	►	Process was implemented to develop program quotas; however, there has been insufficient consideration of the college's capacity in setting the overall enrolment limit/target.
Tuition and fees must be competitive with similar institutions	✓	Tuition and fees were competitive with similar institutions.

Training in foreign countries

Policy requirement	Compliance	Details
Business cases to assess risks	x	No business plans or risk assessment for the college's: • three current offshore campus partnerships • online training project in Korea • countries currently targeted for overseas delivery programs, including Malaysia, Taiwan, Vietnam and South Korea
Cost recovery in three years or approval of the board	x	No cost recovery plan or board approval for the college's three current offshore campus partnerships; college does not track direct and incremental indirect costs by offshore campus.
No capital expenditures overseas	✓	College has not invested in capital assets overseas.

Therefore, the president was non-compliant with the policy regarding international students attending Medicine Hat College for a number of years, until the policy was revised in June 2012. He is compliant

[6] Medicine Hat College 2011–2012 Annual Report states that tuition fees calculated as a percentage of the college's total operating costs were 20 per cent; international students were charged 2.4 times the college's regular tuition fee (page 31). Therefore, at a high level, this would represent approximately 48 per cent of the cost of their education.

with the revised policy. However, there has been insufficient consideration of the impact to the college of increased enrolment of international students.

The president has been non-compliant with two of the three policy requirements regarding training in foreign countries since the inception of the college's offshore campus partnerships in 2001. Management has never reported to the board on its compliance regarding training in foreign countries; the board has never asked management to confirm its compliance.

Board reporting

Management did not provide regular, timely and relevant reporting to the board on its international activities. We found periodic references to international education in board meeting minutes—primarily in the president's report and the president's monthly meeting schedule, which noted his international travel.

In October 2011, management presented a report on its international education activities to the board. The report discussed the benefits of the college's international activities and provided information on countries targeted for recruitment. It did not include discussion of operating results, cost recovery, the challenges the college was experiencing with high failure rates, or other issues the college was experiencing with its offshore partners.

In 2010, the college signed cooperation agreements with three institutions in China to establish additional offshore campuses.[7] In the October 2011 report, the board was advised that two of these projects would begin operations in 2012. Management did not provide the board with business plans for these planned projects, status updates, information regarding risks, a cost recovery plan or an assessment of the potential impact of these projects on the college at large. The board made no inquiries or requests for information regarding these projects—or the college's existing three offshore campuses.

Board performance

The board's governance policies indicate that "The board will be an initiator of policy, not merely a reactor to employee initiatives".[8] In April 2011, management informed the board they were non-compliant with the enrolment limit provision in its policy on international activity. In June 2012, the board approved changes to the policy to increase the enrolment limit and to remove the cost recovery provision for tuition for international students studying in Medicine Hat.

Management did not provide, and the board did not ask for, an explanation of:

- the rationale for the amount of the increase
- an assessment of how an increase in international enrolment could impact the college's resources
- support for what the ideal target enrolment percentage for international students should be
- the rationale for removing the cost recovery requirement for tuition for international students

The motion recommending the change indicated that 15 per cent was an enrolment limit and not a target. We would have expected the board to fully understand the rationale and impact of both the proposed limit and the target, as these are significant numbers—and the potential impact to the college

[7] We note that the college advised us during the audit that the three projects would not be moving ahead. There was no process in place to cancel the cooperation agreements.
[8] Medicine Hat College Board Governance Policies, Governance Process Policy III.B, Governance Style, clause 1.0.

is significant. Further, the limited information provided by management was incorrect, as international education has specifically reported a target of 15 per cent in the past.[9]

The board expected that management would report any significant issues or policy exceptions. This is a reasonable expectation; however, this does not preclude the board's seeking additional information in delegated areas,[10] or requiring a level of reporting that allows them to appropriately govern operations.

Oversight of international education

The International Education Division operated independently of the rest of the college. Because the president was such a strong supporter, the director of international education reported directly to him. This relationship circumvented the college's normal control processes. Other staff, up to the highest level of the organization, expressed concerns to us regarding international education. They had not stepped forward before because they believed they could not question the actions of international education.

As a result, we found the following irregularities in the college's administration of its international education activities:

- The International Education Division had significant budget variances each year, yet the college continued to increase its budget.
- The International Education Division prepared and issued its own invoices, contracts and commitments without the involvement of staff responsible for the financial operations of the college. This unusual practice increased the college's financial risk.
- The college operates two separate ESL programs—one for new Canadians and one for international students with separate curriculums, budgets and staff. This in itself is not irregular. One program operates under adult education and the other under the International Education Division. We question if this is the most efficient use of resources.
- Applications, transcripts and prepaid deposits by international students applying to Medicine Hat College were received through the International Education Division instead of directly through the college's student services area.
- The college's partnership agreements were poorly constructed and did not clearly define the responsibilities of each party. The college did not obtain a legal review before signing the agreements. It did not confirm the validity of the contracts, or make sure they complied with the legal and regulatory requirements of providing education in China.
- One partnership agreement expired in 2010 and a second expired in February 2013 and neither had been extended or renewed. Yet the offshore campuses continue to operate as if agreements were in place.

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[9] International Education Plan 360, June 2011 and 2009, states a target of 15 per cent in the introduction, page 1. We note that a specific target has been removed from current strategic documents.
[10] Medicine Hat College Governance Process Policy IV.B – Delegation to the president, clause 3.

In addition, we found weaknesses in the college's oversight of academic aspects of its international programs:

- The college's three offshore campuses experienced serious quality control issues that no one in the college outside of the International Education Division was aware of (see page 70—Program operations and monitoring).
- One international education employee was responsible for marking all exams (multiple choice) and recording the final grades for all offshore programs, with no review process; this one employee was registered as the instructor of record for all offshore courses.
- Faculty members had no knowledge of how the course materials they provided were used.
- The college's three offshore campuses were licensed under regulations by the Ministry of Education in China;[11] the college was potentially non-compliant with these regulations (see below—Strategic and operational planning).
- The college entered into a contract to provide non-credit programs at one of its offshore campuses. The college has no idea what courses are offered, the contents of the courses, or how its course materials or name are used to offer them (see below—Strategic and operational planning).

Despite these issues, any discussion of international education with the board and in the college's public reporting focussed on successes and benefits only. It is not clear to us if this was the result of deliberate misinformation or if the communication breakdown was such that those presenting this information believed it to be true.

This demonstrates a significant lack of oversight by the board, the president and the executive. The lack of oversight can, in part, be explained in the context of the maturing of the college as an institution. This new and exciting area of growth for the college outgrew the ad hoc processes upon which it was formed. The board, assured by the fact that the president was involved and committed to the initiative, failed to ask the tough questions required of their role as governors.

The president failed to keep the board informed. The board failed to recognize the risks, or took no effective actions to limit the risks. Board members were not active participants in decision making; they were led by the president.

Implications and risks if recommendation not implemented

If management and the board do not fulfill their respective roles, the college will be exposed to undue reputational, legal and financial risks. Without asking for and receiving timely, relevant information, the board may be unaware of risks the college is exposed to and fail to provide adequate oversight.

Strategic and operational planning

Background

The college includes international education in its key accountability reports. Its annual reports, strategic plan for 2010–2015 and comprehensive institutional plans (CIPs) report on international education activities. The college reports on a performance measure for diversity, which is the number of international students as a percentage of college enrolment (excluding ESL students).

In August 2012, the International Education Division prepared its first strategic and operational plans.[12] In 2009 and 2011, the division outlined its international activities and recruitment for the college.[13]

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[11] *People's Republic of China Sino-foreign Cooperation in Running Schools Regulations*, effective September 1, 2003.
[12] International Strategic Plan 2012–2017; Operational Plan, Mobility Operational Plan and Recruitment Operational Plan, 2012.
[13] International Plan 360, June 2009 and June 2011, page 1.

The Department of Enterprise and Advanced Education provides guidance to post-secondary institutions on international education activities through its International Education Framework and Campus Alberta Planning Resource Summary.

RECOMMENDATION 9: STRATEGIC AND OPERATIONAL PLANNING

We recommend that Medicine Hat College implement systems to:

- clearly define the strategic and operational objectives for its international education activities
- provide business cases that assess the risks, benefits, costs and legal requirements before providing training in foreign countries
- set clear and measurable targets for planned outcomes
- periodically measure and report on progress towards achieving targets, meeting objectives and outcomes

Criteria: the standards for our audit

The college should have systems in place to define its objectives, develop a plan, assess its risks and report the results for international education. Specifically, it should:

- define the purpose and objectives for the International Education Division
- align the division's goals with the college's goals and comply with guidance from the Department of Enterprise and Advanced Education
- develop and implement plans to achieve its strategic objectives for international education
- assess the business risks and benefits of providing training in foreign countries
- support its decisions with business cases that identify key risks and set clear, measurable objectives for foreign education activities, including legal requirements of conducting business in foreign countries
- ensure its strategic and operational goals for international education are clearly documented and understood
- periodically report on actual performance against financial and non-financial measures of expected outcomes

Our audit findings

KEY FINDINGS

The college did not:

- clearly identify its goals for international education in its strategic plan
- establish specific targets, expected outcomes or measures of performance
- ask appropriate stakeholders—the registrar, student services, financial services and faculty deans—for feedback on international education's strategic and operational plans
- develop business cases to assess the risks, benefits and costs associated with training in foreign countries
- have a process to assess the legal requirements for conducting business in foreign countries or to assess its legal risks before signing partnership agreements to offer Medicine Hat College programs in China
- appropriately assess the risks or legal requirements before signing an agreement with a private company in China that is not consistent with conventional business practices

We reviewed the college's strategic and operational plans to assess if the purpose and objectives of its international education activities were:

- clearly documented
- aligned with the college's goals and objectives
- aligned with guidance from the department
- supported by operational plans to achieve the stated objectives

Purpose and objectives for international education not defined

The International Education Division had not clearly defined its goals and objectives. Its strategic plan included goals to achieve growth in recruitment, overseas delivery and offshore campuses, partnerships and student and faculty mobility. However, it did not quantify or explain what it meant by growth or how it would be achieved. There were no specific objectives, measurable targets or planned outcomes.

International education activities not aligned with the college's goals

The college's goals for international education were more conservative than the International Education Division's goals. Activities of the division did not align with those of the college.

For example, the college's goal in its 2012–2015 comprehensive institutional plan was to "ensure stability of existing offshore and international programming"—enrolment targets for offshore campuses in the plan are flat to 2014–2015. This no-growth plan is inconsistent with the International Education Division's plan for growth.

In June 2012, college management proposed a motion to increase the enrolment limit for international students at the Medicine Hat campus from five to 15 per cent. The motion made it clear that the 15 per cent was a limit, not a target. The board passed this motion. Yet the International Education Division identified 15 per cent as a target, not a limit for international students at the Medicine Hat campus.[14]

The International Education Division released its strategic and operational plans in August 2012 without appropriate consultation with the vice president academic or other areas of the college affected by the plan—the registrar, student services, financial services and faculty deans. The 2012 plans contained errors regarding the quality assurance processes at the college's offshore campuses (see page 70—Program operations and monitoring). The plans were not appropriately reviewed and their organizational impact was not given adequate consideration.

Poor alignment with the department's framework for international education

The Department of Enterprise and Advanced Education's framework outlines expectations for international education activities by Alberta's post-secondary institutions. The college's strategic and operational plans did not meet the department's expectation that international education programs should be:

- self-sustaining through resources and benefits they generate
- clearly defined and linked to outcomes and objectives identified in the institution's strategic plan[15]
- based on outcomes and measures for success and linked to those outlined in the department's framework
- based on criteria for pursuing different geographical areas

[14] International Education Plan 360, June 2009 and June 2011, page 1.
[15] Government of Alberta International Education Framework, November 2009; page 10.

Measuring performance

The college identified an institutional goal of ensuring the sustainability of its offshore and international programming. But it established no targets to define the success of this goal and no process to measure progress towards the goal.

The college's 2010–2011 annual report included a performance measure for diversity. It measured international enrolment as a percentage of overall college enrolment (excluding ESL students). It is unclear what the college's target enrolment is, as it is not included in the current strategic planning documents for the International Education Division, or at the institutional level.

The college has not established targets for its expected outcomes and has no process to measure performance against established targets.

Business risks of providing training in foreign countries not assessed

We reviewed the college's agreements with partner institutions in China and found the following:

- no business cases for the cooperation agreements with partner institutions in China
- vague terms and conditions in partnership agreements to form offshore campuses
- no legal review to confirm the validity of the contracts, or compliance with China's legal and regulatory requirements for providing education there

During our audit, the college hired an international lawyer to help them develop a stronger template for use in future agreements.

The college's three offshore campuses were formed under regulations of the Ministry of Education in China.[16] The college may not be compliant with some of the main provisions of these regulations:

- a joint management committee of representatives from each institution to oversee the operations, compliance and the quality of programming—Medicine Hat College has not participated in a joint management committee in any of its offshore campuses.
- all programming and program changes approved by the Ministry of Education in China—The college does not have a process to ensure the programming offered at its offshore campuses has been approved in China.
- the college to provide a certain number of teachers to work in China—The college sent teachers for short terms to teach ESL courses in China, but this was not a regular occurrence.

The college signed a contract with a private company in China. The contract process and terms clearly demonstrated the college's lack of planning, due diligence and consideration of risks before signing such agreements.

Qinhuangdao Rands Electronic Co. Ltd.

In 2008, the college signed a contract with a private company, Qinhuangdao Rands Electronic Co. Ltd., to provide non-credit courses at E&A College (its original offshore campus). The contract, and many issues relating to it, was not consistent with conventional business practices. This contract, like the other agreements the college signed with international partners, did not undergo a legal review or evaluation before it was signed.

[16] *People's Republic of China Sino-foreign Cooperation in Running Schools Regulations*, effective September 1, 2003.

We identified the following issues with the contract:

- Rands is not recognized on the licence issued by the Ministry of Education in China to create E&A College. This means that Medicine Hat College may not be compliant with the Chinese education regulatory system and may be exposed to legal, financial and reputational risks.
- Management told us that Rands is the parent company and owns E&A College, which is why the college is involved with Rands. However, the college had no documentation to support this assertion. Given that E&A College was originally formed as a partnership between Medicine Hat College and Hebei Normal University, it is not clear to us how Rands could now own E&A College.
- The students registered in these courses at E&A College were not recorded in Medicine Hat College's registration system. There is no accountability for enrolment or the fees owed under the contract. The college must rely on unconfirmed enrolment numbers provided by E&A College and has no process to confirm them.
- The college provides no deliverables under this contract. We were told that E&A College uses teaching material provided for credit courses for the non-credit courses as well. The college has no knowledge of how its materials, or the college's name, are used in this regard.
- The college has no information about what courses are provided under this contract; there is no evidence that non-credit courses are even provided.
- The contract specified that tuition fees for the non-credit courses offered by E&A College were to be shared 30 per cent to Medicine Hat College and 70 per cent to Rands. The following transactions have occurred:
  - For the first year, 2009–2010, the college invoiced E&A College $135,000, for 30 per cent of non-credit tuition fees and received payment from E&A College.
  - In mid-2011, the college agreed to invoice E&A College for 100 per cent of the non-credit tuition fees and reimburse 70 per cent of that amount to Rands. The college could not explain this change or say why it did not change the terms of the contract.
  - For 2010–2011, the college invoiced E&A College and received payments totaling $303,000 for 100 per cent of the fees; the college was to reimburse $212,000 to Rands.
  - The bank account information provided for the $212,000 reimbursement was the personal bank account of the president of Rands.[17]
  - The invoice from Rands invoicing the college for the $212,000 was created by staff in international education, at the request of the director.

We discussed these issues at length with management. Management was unable or unwilling to provide any further explanation for these transactions and activities.

Implications and risks if recommendation not implemented

Without a well-designed strategic planning process, the college risks not achieving its international education objectives as well as risks to its credibility. Public resources dedicated to these activities may not provide value for money.

Program operations and monitoring

Background

The International Education Division focuses on recruiting international students from China and India. Recruitment efforts include partnership and exchange agreements with offshore institutions and recruiting partnerships with international student recruiting agencies. Through three offshore campuses

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[17] The college attempted to make this payment by wire transfer. Because the account name (Rands) and the bank account number (personal bank account of the president of Rands) did not match, the wire transfer was refused. The college has not yet completed this transaction.

with partner institutions in China, the college provides Medicine Hat College credits to students completing their courses in China and to those who transfer to Medicine Hat to complete their studies.

Roles and responsibilities

The International Education Division is responsible for overseeing all aspects of the college's international operations. These responsibilities include:

- development and implementation of recruitment strategies to bring international students to the local campus
- oversight of international student applications and transfers to the local campus
- development and monitoring of quality controls for offshore operations
- oversight of offshore program selection, delivery and results with partner institutions in China
- oversight of financial transactions with recruitment agencies and offshore partners

The International Education Division's operational plan indicates that it will "monitor the instruction in China to ensure that the quality of instruction [will] be equivalent to the quality offered on campus in Medicine Hat."[18]

International students applying to study at the Medicine Hat campus generally do so through the International Education Division. Applications are then sent to student services, where acceptance decisions are made. Correspondence with students regarding their application status, processes for course registration and arrangements for transfer to the college are done by international education. Student tuition is intended to be paid directly to the college by the attending student. Tuition prepayments are managed by the International Education Division.

For programs delivered at offshore campuses, college faculty are responsible for developing course packages for the partner institution in China. Course packages include course outlines and teaching plans, examinations, sample text books and any supplemental teaching materials deemed necessary to teach courses. The materials are translated into Mandarin by the International Education Division and provided to their partners in China.

Offshore operations

The International Education Division documented its processes to monitor quality controls for international activities in its operational plan. The plan discusses controls to oversee the quality of instruction by:

- annually reviewing and updating curriculum provided to offshore partners
- requesting a list of names of instructors at Chinese campuses—each semester, including the credentials of these instructors
- regularly interviewing course instructors and students
- regularly visiting sites at partner institutions in China
- supervising exams through staff or college representatives
- not providing instructors in China with access to the exams at any point during program delivery
- not allowing instructors to be present during exam delivery

The college also developed controls to monitor the integrity of credit program delivery and results in China. For instance, there was a basic requirement to follow a 60/40 grading scheme where 60 per cent of a student's final grade was determined by college developed exams, and the remaining 40 per cent was allocated by the instructors in China based on assignments and other discretionary evaluation. The

[18] International Education Operational Plan 2012–2013, Academic Expectations and Policies Section.

plan also required that a student failing any Medicine Hat College-provided midterm or final exam would automatically fail the course. In addition, any student absent for either the midterm or the final exam is to be assigned a grade of 'W' for withdrawal from that course. This grading scheme was designed so that students could not pass the courses without demonstrating the ability to pass the exams prepared by Medicine Hat College and to protect against any grade inflation in the 40 per cent determined by course instructors.

Recruitment activities with agencies

The International Education Division recruits international students to the local campus using two main strategies: establishing offshore partnerships and using international student recruiting agencies. Over the previous three years, the college paid approximately $700,000 in recruitment commissions to agents. Commissions are paid to agents based on each student they recruit to the local or offshore campus. Commissions are paid out at agreed upon rates based on the total tuition charged over the student's course of studies.

Agents are selected by the college based on pre-determined screening of qualifications, including consideration of factors such as corporate status of the agency, nature of the business, location of operations, reference checks and relationship with the college.

The tracking and payment of agent commissions is largely a manual process. Information regarding student recruitment by agents is maintained by the International Education Division. Student credit and tuition information is not provided to agents.

Agent commissions are calculated by International Education Division staff based on academic semesters. They manually prepare a commission spreadsheet, which includes the name and identification of students recruited by each agent as well as the tuition paid by each student for the term. This tuition is the basis for commission paid based on the contracted rate for each agent. The spreadsheet is sent to student services for verification of paid tuition, then provided to financial services, where agent payments are processed.

RECOMMENDATION 10: PROGRAM MANAGEMENT AND MONITORING

We recommend that Medicine Hat College improve its management of its international education activities by:

- assessing and clearly defining the roles and responsibilities of its International Education Division
- implementing effective program delivery and quality assurance processes at its offshore campuses
- implementing an appropriate system of internal controls, financial reporting and accountabilities for its international education activities
- implementing contract management practices to ensure risks have been appropriately managed
- aligning the structure and management of the division to reflect these changes and to ensure adequate oversight

Criteria: the standards for our audit

To deliver international programming, the college should have effective:

- quality assurance and ongoing monitoring processes in place to guide international education activities on the college's local and foreign campuses
- operating policies and procedures to guide the ongoing operations of its International Education Division
- financial reporting processes to provide timely, reliable and relevant reporting

- systems to align enrolment targets with academic needs and service requirements of international students based on the college's financial and academic resource, and to monitor compliance with those targets
- contract management practices for agreements and contracts signed with foreign partners to ensure financial, legal and reputational risks have been appropriately identified and managed—The college should have adequate due diligence processes to manage risks related to contracting.

Our audit findings

KEY FINDINGS

The college does not have effective systems to:

- clearly define or appropriately segregate the recruiting and academic responsibilities of its International Education Division
- provide accurate, timely and relevant reporting on its international education activities
- select or contract with agents or to ensure the accuracy of commission payments
- provide adequate quality control and monitoring processes for its offshore programs; for example:
  - not all offshore programs used the college's curriculum
  - the International Education Division circumvented college academic policies for student grading and withdrawals

Roles and responsibilities

The International Education Division is tasked with monitoring instruction in China to ensure the college's academic standard is maintained. Yet, division staff are not involved in the quality assurance processes at the local campus. These processes are monitored by faculty deans for each program area.

Faculty deans and program leaders at the college have had a very limited role in the academic content when their programs have been offered at the offshore campuses. In 2011–2012, they provided updated course materials as part of a curriculum update project, but providing the materials was the extent of their involvement. They were not provided with exam results, grade summaries or other indicators of student performance. Student assessment and performance were the responsibility of the International Education Division.

The instructor of record for all courses offered at the college's three offshore campuses is one individual—the program interpreter within the International Education Division. The instructor of record is the person who has overall academic responsibility for each course, including monitoring, assessment, oversight and recording student grades into the college's official grading system.

There is a misalignment of roles and responsibilities. Faculty from the business, information technology, visual communications and other programs offered overseas are the staff with the credentials and qualifications to monitor these programs.

Offshore operations and quality assurance

We found the following problems with the quality assurance processes at the college's offshore campuses in China.

Program development and delivery—An important control in offering programming overseas is the use of Medicine Hat College curriculum. We found that not all offshore programs were delivered using the college's curriculum or exams. We identified courses where the course content was provided by the partner institution, with no content or exams provided by Medicine Hat College, yet students who successfully completed the courses were awarded Medicine Hat College credits.

We identified one program, the Visual Communication diploma delivered at one offshore campus, where only five of 30 courses contained Medicine Hat College curriculum and content.[19]

The college did not receive instructor lists or credentials for the instructors teaching Medicine Hat College courses in China.

A key control to maintain the quality of programming in China was that International Education Division staff were present to supervise all exams. Staff travelled to each offshore campus twice each term to supervise the exam process. However, there was no documentation of the process. No record was maintained of who supervised which exam. Identification was to be checked for each student, yet the student identification number or confirmation of identification was not noted on the exam sheets—they contained the student's name only.

The college did not monitor the application process for students accepted into its offshore programs. Student applications and transcripts were to be assessed by the partner institutions in China; the college relied on partner institutions to maintain appropriate admission standards.

Program results—In our review of actual program results, we found variations from the operational plan that could potentially impact the integrity of the offshore programs.

We tested the grading sheets for a sample of offshore courses to ensure exam and other marks were calculated accurately and recorded properly in the college's official grading system. We found that the International Education Division's policy for failing or withdrawing students was not followed. Students were passing courses after failing either the midterm or final exam. There were many instances where:

- students passed courses after failing both the midterm and final exams
- students passed courses after failing at least one exam and having a failing average of the midterm and final exams

These results caused us to look more closely at the student grades for the three offshore campuses. We found the following:

- Over the three years of grading summaries we reviewed, we found a consistent trend of very low marks on the Medicine Hat College-provided portion of course grades (the midterm and final examinations)—and significantly higher marks on the 40 per cent of final grades allocated by the instructors in China.
- The high failure rate of students had been an ongoing concern at the offshore campuses. This concern increased when the curriculum update project began in April 2011. Instructors in China responsible for delivering the new material did not receive additional support. There was a concern that student pass rates would be even lower.

[19] Of the 25 courses that did not contain Medicine Hat College content, 18 were offered as transfer courses. This means an equivalent course at the partner institution was offered, which was assessed as equivalent to the Medicine Hat College course. Seven other courses were Medicine Hat College courses, but the content and exams were provided by the partner institution, not Medicine Hat College; college credits were awarded to students who successfully completed these courses.

- The college changed its grading scheme in 2011–2012. Students were no longer required to pass the exams; the marks from the midterm and final exams were averaged with the 40 per cent of the grade assigned by the instructor. This change had a significant impact—throughout 2009 and 2010 the failure rate had averaged 34 per cent; when the grading scheme was altered in 2011–2012 the failure rate dropped to 6 per cent.

This finding is significant because the 40 per cent of the grades assigned by instructors in China were significantly higher than the average of the exam results. This means students were passing courses based on the portion of the grades that Medicine Hat College had no input into or control over.

Recruitment activities

Agent contracts—The International Education Division relies on agents to recruit international students to come to Medicine Hat College. We reviewed the college's processes to select, contract with, manage and pay its recruitment agents. We found the following:

- International Education Division staff advised us they have a due diligence process to screen new agents, but they did not document the results. Therefore, we were unable to confirm these processes.
- The International Education Division maintained a master agent database. However, it did not have a process to ensure it is up to date, or that only current approved agents are included.
- There was no process to terminate the contracts of agents that the college no longer used.
- The college had three main rates it pays its agents, based on market demands. There was no formal process or guidance to assess which rate to offer a particular agent. We were advised that International Education Division staff could sign contracts for the minimum rate on behalf of the college; contracts for rates higher than the minimum must be signed by either the director of international education or the president. However, we found instances where contracts for the higher rates were signed by staff other than the director or president.

Agent commissions—We reviewed the college's processes to pay its agents. We found errors in agent commissions, such as:

- instances of multiple agents paid for the same student
- inconsistencies in the contract rate—The same agent was paid different rates at different times; another was paid the wrong rate.
- manual errors in the calculation due to incorrect spreadsheet formulas and incorrect tuition amounts
- incomplete commission payments—We noted instances where commissions were not paid for some students, even though agents were associated with those students and commissions paid for previous terms.

None of these errors was material. They resulted from the manual nature of the process, with no review process in place and because supporting documentation provided to financial services to process the payments was insufficient.

One of the key controls identified by International Education Division staff was that all tuition was paid directly from the students to the college. No student tuition was paid through agents as a third party. We identified instances of management override of this control. The college billed one agent for a summer ESL camp in both 2011 and 2012. The students paid the agent and the agent was to pay the college. The agent did not pay until after the programs were delivered in both years, which meant the college paid the expenses without receiving payment in advance. Expenses included travel and accommodation costs for a trip to Banff, which was part of the camp activities. The agent did not make full payment to the college until April 2013.

This same agent also provided his personal credit card for the tuition for several of the students he recruited. This is against college procedure and a risk, as there is no way to know what amount he charged the students.

Financial reporting

The main internal financial reporting for the International Education Division is a monthly financial summary that compares actual expenditures to the approved budget. We reviewed the financial information for the three years ended June 30, 2012.

Approximately $256,000[20] in expenses incurred in support of international education activities were not included in its financial reporting. These expenditures were attributed to budgets outside of the International Education Division, but were relevant for making financial decisions regarding international education.

Description of expenditure	Amount ($ thousands)
International travel by the president, 2010-2012	62
Projects funded through the Institutional Development Fund: • International Education Plan 360, 2010 • Joint Venture Curriculum Alignment, 2011–2012	 87 46
Legal fees for international legal review, 2012[21]	32
Canadian Acculturation Pilot Project, 2012	29
Total	**256**

Some significant expenses for the International Education Division were not allocated to the appropriate program area. Salary expenses and travel expenses for offshore programs were underreported. For example, staff made 13 trips to China over the three-year period, yet the total travel and recruitment expense was reported as $6,312.

The college reported the results of its offshore operations to the department as part of its financial information reporting system. The information provided to the department relied on the same allocations as the financial summary, so the college underreported its expenses for offshore operations to the department.

The college's policy on international activity requires it to demonstrate that offshore projects recover their full costs within three years. The current financial reporting does not track or report expenses by offshore campus, so the college was unable to demonstrate whether it was in compliance with this policy.

The International Education Division did not provide timely, relevant reporting to financial services regarding program operations, including signed agreements and offshore program billings. The delay caused inaccurate financial reporting of revenues and receivables in the college's financial statements.

[20] The college incurred an additional $108,000 in legal fees relating to its offshore campuses between July 2012 and March 2013.
[21] See the previous footnote regarding additional legal fees incurred in the current year.

Implications and risks if recommendation not implemented

Without adequate controls and monitoring of its offshore program delivery, the college exposes itself to significant and unnecessary legal, reputational and financial risks.

International travel and recruitment expenses

Background

The college's international education activities require extensive international travel. An international travel schedule is determined at the beginning of each fiscal year by the director and his staff, and typically includes trips to Asia and India. The purpose for these trips is establishing and maintaining offshore partnerships, maintaining direct contact with recruitment agencies and direct recruiting efforts with students.

Travel is generally booked by the individual taking the trip; airfare and other international travel expenses are accumulated, submitted to the individual's supervisor for approval, and forwarded to financial services for review and reimbursement. Employees involved in travel may incur additional costs on college purchase cards, which follow a similar approval and review process before payment.

Approval for international travel is required by various levels throughout the college. The director of international education approves all international travel by his staff; the director's travel is approved by the vice president academic; the president's travel is approved by the chairman of the board of governors. Supervisor approval means the transactions are allocated to an approved budget, are incurred for a valid business purpose and comply with college policies. Financial services review for proper approval, reasonableness and compliance with policy where possible.

Policy states that all international travel must be accompanied by travel itineraries, or trip logs. Travel itineraries must identify the place of origin and destination of the trip, dates of travel, and a brief description of the purpose of the trip as well as related costs.

Recommendation: International travel and recruitment expenses

In 2010, in a letter to management, we recommended that the college improve controls over travel expenses by enforcing its travel policy. This recommendation has remained outstanding because the college was revising its travel policies. The International Travel Policy was approved in September 2012; the new Travel and Expenses Policy was approved in October 2012.

Our findings indicate there remains a lack of accountability for reimbursement of travel and recruitment expenses relating to international education. We will not make another recommendation for travel expenses, but instead repeat our 2010 recommendation.

RECOMMENDATION 11: IMPROVE CONTROLS OVER TRAVEL EXPENSES

We recommend that Medicine Hat College improve controls over travel expenses by enforcing its travel policy.

Criteria: the standards for our audit

The college should have policies and procedures that provide clear guidance for approval of international travel requests, allowable travel and recruitment expenses, and documentation requirements for reimbursement.

Our audit findings

KEY FINDINGS

- There was no assessment or reporting on the results achieved for the college's expenditures on international travel.
- Travel itineraries were incomplete and were not submitted to the financial services division with expense claim reimbursement requests. Therefore, financial services staff were unable to assess the business purpose or reasonableness of expenditures.
- Many receipts for expenses were in foreign languages. The college had no process to translate the receipts into English, so its ability to scrutinize the receipts was limited.

We reviewed over $325,000 of costs related to international travel over the previous three fiscal years. We examined 34 international trips made by college staff over a three-year period.

Reporting on travel

Strategic and other planning documents for the college and the International Education Division highlighted recruitment in targeted locations as a strategic initiative. The documents identified a specific number of visits required to various countries annually. However, the documents did not include the detailed reason these trips were required, or what recruitment targets or other results the college expected to achieve for its international travel expenditures. For example, we looked at trips to Thailand and the resulting benefit to the college.

Travel to Thailand	Results
From 2010–2012: • 11 international trips included stops in Thailand[22] • 61 days in total	The college signed exchange agreements with two institutions in Thailand, in 2008 (before the sampled trips) and 2010.
	10 students were recruited from Thailand for the ESL international program over this period, as follows: • 2010—eight students for a three-week ESL program • 2011—one ESL student • 2012—one ESL student

The college had no process to assess whether the results achieved met their expectation. This information was necessary to make decisions about whether continued travel to Thailand was warranted, or whether travel to other countries could have provided better overall results.

Reasonable cost

Travel was booked by staff within the International Education Division and was based on the best available travel options, according to knowledge they had gained through experience. The travel options, however, were not documented. Therefore, assessment by those outside the division for reasonable cost was not possible.

Travel itineraries

Required travel itineraries or trip summaries were not submitted with the expense claims; they were retained in international education. We reviewed the itineraries and found them to be incomplete. We

[22] There were an additional four stops in Thailand, but each of these was for one day only. We did not include these as they would be stopovers only.

found no detail of the stated business purpose for the trips other than travel to a specified location. There was often no indication of specific activities, meetings or other purposes for the trips. Estimated or actual costs were not identified for any of the itineraries reviewed.

The International Education Division indicated that incomplete travel itineraries were the result of cultural differences of some locations visited. It was generally not local practice to book meetings or other business too far in advance. However, the gaps in travel itineraries related to trips already taken. It is clear there was no process to update itineraries as meetings occurred. Without this information financial services' ability to adequately review expenses for reasonableness and compliance was limited. So, too, was the ability to identify potentially personal expenses incurred while overseas.

Foreign language receipts

A number of the international travel receipts were in foreign languages. The college has no process to translate these receipts; therefore, financial services must rely on the explanation provided by the submitter, if provided, to assess the nature of the expenditure.

Travel advances

We reviewed several instances where travel advances were requested and provided to staff before making a trip. The college has a policy for advances; the policy requires that staff complete an advance request form.[23] The form requires information including the amount and date of the request, description of the need or purpose of the advance, accounts to be charged and appropriate authorization. We found that supporting documentation for advance requests did not meet policy requirements. Advances were generally paid with little more than a form indicating amount to be advanced and stated business purpose as "trip to ..." a specified location.

Pre-approval for international travel

The college's policy requires that staff considering travel on college business obtain approval from the appropriate supervisor before making travel arrangements.

In all cases, we found no evidence of thorough review or approval of the proposed travel before travel arrangements were made. The director of international education indicated that informal, verbal discussions regarding international travel formed the basis for pre-approval of trips. We found no documentation of travel approvals.

Significant costs for international travel to identified locations were incurred annually. Our concern, however, is that the goals and objectives of international travel were not specific enough to be measured and the actual results of trips are not formally reported at any level.

Implications and risks if recommendation not implemented

Without appropriate documentation supporting the business purpose of international travel and regular reporting to measure its success in achieving outcomes, the college cannot ensure it receives value for the funds and time allocated to international travel. A lack of documentation also limits independent review and increases the risk that non-compliant expenses may be paid.

[23] Expense Advance to Employees Policy (4.16).

APPENDIX A

SUMMARY OF OFFSHORE CAMPUSES IN CHINA

Partner Institution	Start Date	End Date	Programs/Courses Offered	Status of Agreement
Hebei Vocational Technical Teachers College (E&A College)	April 2001 (MOU)* August 2002 (PA)	August 2010 (PA)	• Business Administration – Management • Business Administration – Marketing • Information Technology	• The partnership agreement has expired, however both parties have continued to operate under the expired agreement for the 2011, 2012 and 2013 academic years • Based on the status of financial transactions with Rands Electronics, the college is uncertain about the future of this partnership
Qinhuangdao Rands Electronic Co. Ltd.	December 2008	December 2016	• Non-credit programming; however, Medicine Hat College has no information regarding what courses are offered	• The college has told us they have verbally suspended this contract for the current academic year but they have no documentation of this
Xiang Fan University (XFU)	Not provided	Not provided (contract indicates five years after start date)	• Ecotourism • Visual Communications	• Based on lack of students at XFU choosing to transfer to Medicine Hat and concerns over program operations, the college has advised XFU they will not renew the contract
Central China Normal University (CCNU)	February 2009	February 2013	• Business Administration – Management • Information Technology	• The partnership agreement expired in February 2013, however both parties have continued to operate under the expired agreement for the 2012-2013 academic year

*MOU - Memorandum of Understanding
PA - Partnership Agreement

Municipal Affairs—Systems to Deliver Affordable Housing Grants

SUMMARY

In 2007, the Alberta Affordable Housing Task Force recommended that the Government of Alberta enhance capital resources for affordable housing supply. The task force estimated the need for 12,000 affordable housing units at a cost of $480 million annually over five years for a total cost of $2.4 billion.[1] The Department of Municipal Affairs[2] responded by creating the municipal block funding and housing capital initiatives programs to fund the development of 11,000 affordable housing units for low-income Albertans.[3]

In September 2011, the department reported that it had met its objective of approving funding for the development of 11,000 affordable housing units. In total, the department's investment of $1.1 billion[4] combined with $1.1 billion of investment from partnerships with municipalities, non-profit groups and the private sector resulted in $2.2 billion of investment in affordable housing across the province. As of April 2013, 5,900 units have been built.[5] The remaining units are in various stages of development.

What we examined

We examined the department's systems to plan, award, monitor, report on and evaluate the two affordable housing grant programs. Our objective was to determine whether the department had adequate systems to deliver grant programs to increase Alberta's supply of affordable housing. Our audit was not an assessment of whether the programs' goals were met, but rather an audit of the systems management used to deliver the grant programs.

What we found

The department approved funding to its partners for the development of 12,000 affordable housing units over a five-year period, which met the program objective of increasing supply in Alberta. However, we found several areas where the department's systems to deliver grant funding for these two programs could be improved.

Grant eligibility criteria

The department's eligibility criteria could have been better aligned with the programs' objectives. The eligibility criteria of need and affordability were assigned fewer points than we would have expected for a program designed to provide additional affordable housing options to Albertans in need. Some grant applicants had high combined scores for need and affordability but were not approved for funding.

Documentation of decisions

The department's awarding process was not well documented. Significant judgement was applied by the department in selecting who would receive grant funding. However, the rationale for these critical judgements was not well documented.

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[1] The task force issued its report, Housing First: An Investment with a Return in Prosperity, in March 2007.
[2] The Department of Housing and Urban Affairs was responsible for these programs from 2008 to 2011.
[3] Alberta Municipal Affairs and Housing Annual Report 2007–2008, page 56. The department's performance measure was the number of affordable housing units developed with support from provincial funding. It defined developed as projects with funding commitments that are in any phase of development.
[4] The department's investment includes $119 million in federal funding.
[5] Unaudited information provided by the department.

Monitoring of recipients
The department has not sufficiently monitored grant recipients to ensure they comply with their obligations. Many of the grant recipients we visited did not comply, in some aspect, with the grant agreement because they charged rental rates higher than allowed or had ineligible tenants living in affordable housing units.

Evaluation of grant programs
The department does not have an evaluation strategy for its affordable housing grant programs. It has not conducted evaluations of these programs to assess whether the programs are effective. Also, the department does not have sufficient data or comprehensive performance measures to evaluate and assess the performance of the two programs.

What needs to be done

We made two recommendations to the department to improve its monitoring processes and develop an effective evaluation system. The grant agreements require municipal block funding and housing capital initiatives grant recipients to provide and maintain affordable housing for 10 and 20 years, respectively. Therefore, it is critical that the department establishes and maintains effective monitoring processes to ensure these housing units remain affordable, available and the savings[6] are passed along to Albertans in need.

The department should also evaluate whether its affordable housing grant programs are operating efficiently, achieving value for money and meeting their objectives. Evaluations become more difficult if performance targets or benchmarks are not established or considered as part of the program design. However, evaluations should still be conducted and can be useful to identify lessons learned that the department could apply to future housing grant programs.

We did not make recommendations related to our findings for the planning and awarding processes because grant applications are no longer being accepted. However, we expect the department to apply lessons learned to its other housing grant programs.

Why this is important to Albertans

The department has invested $1.1 billion dollars to increase Alberta's supply of affordable housing. Albertans need to have confidence that this investment is supporting the development of housing options that serve the needs of low income Albertans. For Albertans to receive value for money from these programs, those who qualify to live in these units should benefit from increased availability and lower rates for affordable housing.

AUDIT OBJECTIVE AND SCOPE

Our objective was to determine whether the department had adequate systems to deliver grant programs to increase Alberta's supply of affordable housing.

We examined the affordable housing grant programs for the period April 2007 to March 2013. We did not examine the department's operating grant programs, such as the rent supplement and homeless emergency and transitional housing programs. We did not examine the Alberta Secretariat for Action on Homelessness, other than the department's allocation of housing for the homeless units under its affordable housing grant programs.

[6] The difference between market rental rates and affordable housing rental rates.

We developed our audit criteria using the department's accountability framework for municipal grant funding, the grant funding agreements and our understanding of the department's grant funding processes.

We conducted our field work from July 2012 to April 2013. We substantially completed our audit on May 8, 2013. 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

Affordable housing in Alberta

In February 2007, the Government of Alberta appointed the Alberta Affordable Housing Task Force to recommend ways to make housing more affordable, accessible and available to Albertans. At the time, Alberta was experiencing the strongest economic growth in Canada and attracting workers to the province. Alberta's population was growing at double the national rate, rental rates were increasing and vacancy rates were declining. The task force estimated that 8,900[7] people were on waitlists for all forms of affordable housing in Alberta in 2006.

One of the task force's recommendations was to increase Alberta's affordable housing supply by delivering 12,000 units at an estimated cost of $480 million annually over five years. The task force also recommended allocating capital funds through block funding to municipalities, to better respond to regional and community needs.

In response, the department implemented a granting system, in a short period of time, to deliver on its commitment to fund the development of 11,000 affordable housing units by 2012. Initially, the department provided funding through three programs: municipal block funding; affordable housing request for proposal; and housing for the homeless request for proposal. In 2010–2011, the department combined the two RFP programs and renamed them housing capital initiatives.

Housing division

The housing division works with housing management bodies,[8] municipalities, and non-profit and private sector organizations to help low-income Albertans access below market housing options that meet their needs. The department is responsible for:

- ensuring Albertans of modest means have access to affordable housing
- supporting a mix of existing and new housing options
- delivering grant programs to increase the supply of affordable housing
- monitoring housing agreements
- ensuring that provincially owned and social housing units are managed effectively
- managing the delivery of rent supplement programs and other grant initiatives[9]

This division administers the municipal block funding and housing capital initiatives programs. In the past five years, the department has approved funding to develop over 12,000 affordable housing units. As of April 2013, 5,900 units have been built and another 2,800 units are expected to be completed by March 31, 2014.[10] The remaining units are in various stages of development.

[7] Housing First: An Investment with a Return in Prosperity, page 8.
[8] The *Alberta Housing Act* (RS 2000 cA-25) establishes and provides authority to housing management bodies to operate housing programs and administer the ministry's social housing assets under the *Management Body Operation and Administration Regulation* (AR 243/97). Management bodies accept applications from individuals or households to determine eligibility and provide financial support under these housing programs.
[9] http://municipalaffairs.gov.ab.ca/housing.cfm
[10] Unaudited information provided by the department.

Legislation

The *Housing and Urban Affairs Grants Regulation*[11] gives the minister authority to make grants to people or organizations. The department requires grant recipients to sign a grant agreement for each project. The grant agreements have terms and conditions such as payment, use, reporting, monitoring, termination, insurance requirements and breach of the agreement.

Affordable housing grant programs

The department requires grant recipients to use approved funds to build housing units, create secondary suites, purchase and renovate existing housing or convert non-residential space into affordable housing. The department defines affordable housing as a self-contained unit with one or several bedrooms rented to a low-income individual or family at rents below market.

Municipal block funding

Through this program, the department committed a minimum of $100 million per year over three years to help high-growth, high-need municipalities to provide affordable housing. The following table[12] summarizes grants made through municipal block funding.

	2007–2008	2008–2009	2009–2010	Total
Funding ($ millions)	145	113	100	358
Eligible municipalities	33	37	39	N/A
Units approved for development	1,679	1,510	1,397	4,586

Alberta municipalities with a population over 5,000 qualified for this program. The department assessed these municipalities for eligibility based on three criteria:[13]

- population growth above the provincial average
- vacancy rate under the provincial average
- monthly market rental rate for a two-bedroom unit above the provincial average

The department required eligible municipalities to submit an affordable housing plan in order to receive funds from this program.

Housing capital initiatives

The objective of housing capital initiatives was to increase the availability of affordable housing through one-time grants. Funding was distributed through project-specific requests for proposal from entities that identified a need for affordable housing. In July 2012, the department decided not to proceed with a request for proposal for 2012–2013 and allocated the available funds towards maintaining its own social housing inventory.

[11] AR 18/2009
[12] Unaudited information provided by the department.
[13] The department sets these benchmarks annually.

The following table[14] summarizes funding for housing capital initiatives.

	2007–2008	2008–2009	2009–2010	2010–2011	2011–2012	Total
Funding ($ millions)	113	187	190	188	120	798
Approved grant applicants	21	35	55	40	25	176
Units approved for development	911	1,527	1,892	2,011	1,212	7,553

Organizations eligible for funding under the housing capital initiatives included municipalities, non-profit organizations, housing management bodies and private sector developers. The department evaluated each proposal on six criteria: application requirements, project need, project sustainability, project affordability, funding sources and the project's technical aspects.

Under the program, the total funding from all provincial government sources or government funded agencies could not exceed 65 per cent of the total capital costs or a maximum of $150,000 per unit. Total grant funding for housing for the homeless could not exceed 70 per cent of the total capital costs.

Income eligibility and rental rates

The department requires grant recipients to provide affordable housing units only to individuals and families whose incomes are at or below the income thresholds for the type of unit they need. The core need income threshold, or CNIT, is reported annually by the Canada Mortgage Housing Corporation in partnership with the department[15]. Households with annual incomes equal to or less than CNIT are said to have insufficient income to afford the costs of rental units in their area. For example, an individual living in Airdrie with an annual income at or below $37,500 is eligible for a one-bedroom affordable housing unit.

The department also requires grant recipients to maintain rental rates:

- at least 10 per cent below the average market rent for affordable housing units
- at least 20 per cent below the average market rent for housing for the homeless units

To determine market rental rates, the department uses its annual Apartment Vacancy and Rental Costs Survey[16] for municipalities with populations under 10,000. For municipalities with populations over 10,000, the department uses the CMHC's bi-annual Rental Market Survey.[17]

FINDINGS AND RECOMMENDATIONS

Planning

Background

For municipal block funding, the department determined eligibility based on the municipality's population growth above, vacancy rate below and rental rate above the provincial averages. Municipalities that met all three criteria were eligible for category 1 funding, while municipalities that met two of the three criteria were eligible for category 2 funding. Category 1 was allotted 93 per cent of total

[14] Unaudited information provided by the department.
[15] http://www.municipalaffairs.alberta.ca/documents/hs/2012-CNITs-by-Municipality.pdf
[16] http://www.municipalaffairs.alberta.ca/1740.cfm
[17] http://www.cmhc-schl.gc.ca/odpub/esub/64483/64483_2012_B02.pdf?fr=1366207007381

approved funding and category 2 was allotted seven per cent. The department determined a per capita rate for category 1 and category 2 each year and ensured that category 2 rates did not exceed category 1 rates.

If a municipality received category 1 funding in a previous year, it automatically received category 1 funding in subsequent years. If a municipality received category 2 funding in a previous year, it received, as a minimum, category 2 funding. However, it could receive category 1 funding if it subsequently met all three criteria.

To evaluate housing capital initiatives grant applications, the department awarded points for six criteria: application requirements, project need, project sustainability, project affordability, funding sources and technical aspects of the project. Appendix A: Housing Capital Initiatives points by sub-criteria (2009–2010) shows the sub-criteria and their respective points.

The department required grant recipients, under both programs, to sign a standard grant agreement. The terms and conditions in the agreement included payment, grant use, reporting requirements, monitoring requirements, termination and breach of agreement provisions.

The department has a draft policies and procedures manual for the administration of the grant programs. The manual provides a program description, grant application process, risk management, performance measures, and roles and responsibilities of stakeholders for each grant program. The manual also includes a project process chart with controls and workflow.

Criteria: the standards for our audit

The department should plan its affordable housing grant programs to ensure the program results support its objectives.

Effective planning for grant programs includes systems that:

- align grant program objectives with ministry and government goals
- clearly define eligibility criteria that align with the grant programs' objectives
- clearly define and communicate roles and responsibilities, policies and procedures, and grant agreement terms and conditions

Our audit findings

KEY FINDINGS

- The department's eligibility criteria for both programs could have been better aligned with the programs' objectives.
- The eligibility criteria of need and affordability were assigned fewer points than we would have expected for a program designed to increase the supply of affordable housing options to Albertans in need.
- Some grant applicants had high combined scores for need and affordability, but were not approved for funding. Four applicants received funding even though the projects they proposed received no points for affordability.

Eligibility criteria design

The department's eligibility criteria for both programs could have been better aligned with the programs' objectives. For housing capital initiatives eligibility criteria, the department assigned fewer points to key criteria such as need, affordability and funding. These criteria were designed to support projects that:

- demonstrated need in communities with low vacancies, high population growth and a defined client
- provided rental rates that low-income Albertans can afford
- required financial contributions from the grant applicant

In 2009–2010, the department assigned only 28 per cent of total points to these three criteria, while it assigned 72 per cent for application, sustainability and a project's technical merits. We interviewed several grant recipients who provided their thoughts on the criteria weighting. Most told us need and affordability should have been the highest priority criteria.

The table below summarizes the total points and percentage weighting of eligibility criteria for housing capital initiatives.

	2009–2010		2010–2011	
Eligibility criteria	**Points**	**Weighting**	**Points**	**Weighting**
Application	84	26%	69	28%
Need	15	5%	50	20%
Affordability	40	13%	20	8%
Funding	30	10%	20	8%
Sustainability	20	6%	30	12%
Project – Technical	125	40%	58	24%
Total	**314**	**100%**	**247**	**100%**

The department assigned fewer points to need and affordability than we would expect for a program designed to increase the supply of affordable housing options to Albertans in need. As a result, the department risked approving projects that were not well suited for the program, while rejecting others that may have been. As an illustration, the department could award 30 points under technical merits to a project that adopted green technology.[18] Likewise, it could award 30 points under the application criterion for a grant application that simply had a signature and date, history of the organization, contact information, articles of incorporation, legal description and financial statements. In both examples, the 30 points are twice the total points allocated to need and nearly equal to the total points individually allocated for funding and affordability.

Although the department adjusted the weighting of its eligibility criteria over the years, these adjustments were not enough to clearly align the eligibility criteria to program objectives. We analyzed the points awarded for 2010–2011 and found several grant applications with high combined scores for need and affordability. Despite total scores that were comparable to approved grant applications, these grant applications were rejected. Meanwhile, a third of the approved applications scored lower for need and affordability and most had lower total scores than the rejected applications. We also identified four applications that received no points for affordability, meaning the projects could not provide affordable housing rental rates to low-income Albertans. Yet, these grant applications were approved.

Under municipal block funding, the department's policy was that municipalities retain the funding category they were assigned in the prior year. The department determined a municipality's need based on population growth, rental rates and vacancy rates. We found that some municipalities would not have met the eligibility criteria in subsequent year(s) if they were re-evaluated annually, yet they still received funding because of the policy. For example, two municipalities did not meet any of the eligibility criteria and nine municipalities only met one criterion in subsequent year(s), but they still received funding. For two municipalities, the department did not have rental rate or vacancy data to assess eligibility; however, they continued to receive funding based on prior year eligibility. It appears that some municipalities no

[18] This analysis was based on 2009–2010.

longer had a need as defined by the department's eligibility criteria yet continued to receive funding in subsequent year(s).

Policies and procedures

The department has not finalized its policies and procedures manual for its affordable housing grant programs. The department last updated its draft procedures manual in November 2010. As a result, important sections of the manual, such as the program logic model,[19] performance measures and program risk assessment have not been completed or updated. The department explained that the staff member responsible for the manual has been away on leave since the last update.

Implications and risks

The department risked funding projects that did not align with the program's objectives and may have inefficiently administered its programs because it:
- could have better aligned eligibility criteria to program objectives
- did not update or formalize its policies and procedures manual

Awarding

Background

Awarding is the process the department follows to evaluate and approve funding. The department used different approaches to award grants for the two programs. For municipal block funding, the department approved funding requests if municipalities:
- had a population over 5,000 and
- met at least two of the following criteria: population growth above, vacancy rate below and rental rate above provincial averages

It automatically awarded municipalities the same level of funding in subsequent years, even if their circumstances changed.

Funds for the housing capital initiatives were awarded through a request for proposal model. The department publicly requested project proposals. After the submission deadline, an evaluation team assessed proposals against the established criteria and sub-criteria. Evaluation team members assessed each application independently and then discussed the points they awarded as a team.[20]

After awarding points, the department made its final funding recommendation to the minister based on the following discretionary criteria:
- total funding available
- regional distribution of projects
- type of housing
- experience of the applicants
- type of clientele served (affordable, homeless)
- suitability for federal funding (family, seniors, special needs)

Criteria: the standards for our audit

The department should follow a clear and well-documented process to award affordable housing grant funding.

[19] Logic models explain the relationships among resources, activities, outputs and outcomes of a program and are used to evaluate the effectiveness of its programs.
[20] In 2010–2011, the evaluation team members evaluated grant applications independently and did not discuss their scores as a team.

Our audit findings

KEY FINDING

The department applied judgement and discretion in its housing capital initiatives funding decisions. However, it did not document its rationale for these critical judgements.

The department's processes to evaluate and approve grant applications were not well-documented. We repeated the department's funding approval processes under both grant programs, and were unable to arrive at the same list of approved municipalities and grant recipients. For 2009–2010, we found one municipality that had met all three criteria but did not receive any block funding. It was excluded because the data for this municipality was not included in the department's analysis.

We also attempted to repeat the department's funding recommendation for the Housing Capital Initiatives Program. However, we were unable to do so because the department's process was not well-documented and it could not explain the exact criteria used. We acknowledge that funding decisions require judgement and discretion; however, the department did not document its rationale for these critical judgements. We reviewed the points awarded for approved and rejected grant applications for Edmonton and Calgary. The following table summarizes their results.

	Edmonton	Calgary
Point range for approved grant applications	151 to 200	158 to 202
Number of grant applications approved with scores within the range	7	15
Number of grant applications not approved with scores within the range	6	4

The department rejected some grant applications that were awarded points within the approval point range. For example, three of the four highest scoring grant applications in Calgary were not approved for funding. When significant judgement and discretion is used, such as in the cases above, the department needs to document how it arrived at its decision. Supporting documentation is important so the department can show that its awarding process is transparent and fair.

The department awarded points inconsistently and inaccurately. We re-evaluated a sample of successful and unsuccessful applications from 2010–2011 to determine whether the department followed its own criteria for awarding points. There were differences between our scoring and the department's scoring of applications because the department:

- awarded points to some applicants for required information they had not provided
- deducted partial points when the rule required a deduction of zero or the maximum points

We also found several instances of discrepancies of five or more points because the department did not accurately add the points on the assessment form. A few had discrepancies greater than 15 points.

We also found that the department accepted additional information from grant applicants during the housing capital initiatives evaluation process, which was against its stated procedures. The department asked four applicants to provide additional information during the evaluation process. Two applicants were subsequently awarded extra points for the additional information submitted, which significantly increased their total points. The department approved funding for both grant applications.

Implications and risks if recommendation not implemented

Without a well documented award process, the department risked making selection decisions through a process that was not transparent.

Monitoring

Background

The draft policies and procedures manual requires the department to monitor its programs to ensure grant recipients comply with the grant agreement. These agreements are in effect for 10 years for municipal block funding and 20 years for housing capital initiatives.

Reviewing reports

For housing capital initiatives, the department requires grant recipients to provide:
- annual updates on their use of funds and construction status
- audited financial statements and budget to actual cost analysis, six months after the project is complete
- annual reports (tenant income information, rental rates, and operating revenues and expenses) for 20 years after the project is complete

Procedures require the department to review the reports as they are submitted. For annual reports, the department sends a pre-populated annual report to the grant recipient, who reviews, makes changes and submits the report back to the department. The department has to review the annual reports, income of tenants and proposed rental rate increases.

For municipal block funding, the department requires municipalities to provide:
- semi-annual updates during construction
- annual updates for 10 years after the end of construction

The department is responsible for reviewing all these updates.

Conducting compliance reviews

According to the department's compliance review manual, the purpose of these reviews is to determine compliance with the agreement and correct non-compliance. The department is required to conduct compliance reviews on every grant recipient once every five years, at a minimum. The reviews should:
- confirm rental rates through tenant interviews and surveys
- determine whether tenants are eligible for affordable housing
- verify the grant recipients' source of eligible tenants
- review the grant recipient's process for verifying tenant income
- confirm rental rate increase requests

Once a review is completed, the department issues an audit report to the grant recipient. If the department identifies non-compliance, it requires the grant recipient to provide a plan to correct the non-compliance and set an implementation timeline. The department has to follow up to confirm that the grant recipient has corrected the non-compliance.

RECOMMENDATION 12: IMPROVE MONITORING PROCESSES

We recommend that the Department of Municipal Affairs improve its monitoring processes to ensure affordable housing grant recipients comply with their grant agreements by:
- developing and conducting risk-based monitoring activities
- following procedures and processes when performing monitoring activities

Criteria: the standards for our audit

The department should monitor its affordable housing grant recipients for compliance with their grant agreements.

Our audit findings

KEY FINDINGS

- The department did not monitor grant recipients sufficiently and does not have a risk-based approach to monitoring.
- Many of the grant recipients we visited did not comply, in some aspect, with the grant agreement. For example, they charged rental rates higher than allowed and had ineligible tenants living in affordable housing units.
- Where the department performed monitoring activities, it did not obtain the required reporting, document its work, issue reports for its compliance reviews or follow up to ensure grant recipients complied with the agreement.

Insufficient monitoring

The department did not monitor grant recipients sufficiently and does not have a risk-based approach to monitoring. Two staff members are responsible for reviewing all reports and conducting compliance reviews. The department has not conducted any municipal block funding compliance reviews despite the municipalities having completed many housing units. The department is currently designing this process.

We found that the department has completed only four housing capital initiatives compliance reviews since the inception of the program. To date, grant recipients have completed approximately 100 projects. Many of these projects have been completed for over a year, but they have not undergone a compliance review.

As part of the audit, we visited and interviewed 22 grant recipients who had completed their projects. We found that many of the grant recipients did not comply, in some aspect, with the grant agreement. Nine grant recipients charged rental rates above the affordable housing rental rate. These grant recipients charged higher rental rates for a third of the 60 affordable housing units we reviewed. We found that almost half of the grant recipients had one or more tenants whose incomes were above the income threshold for affordable housing.[21] Two individuals had incomes that were more than twice the threshold and had been living in these affordable housing units for 16 months and three years, respectively. Also, some grant recipients did not have information to support their tenants' income.

The department has not designed a risk-based approach to conduct its compliance reviews. Despite limited resources, the department plans to conduct reviews of all grant recipients once every five years without considering the size of the grant, number of units, project completion date, compliance history and other factors. In January 2012, the department decided to stop these reviews, so that it could assess the effectiveness of its monitoring. Management told us that it would restart the compliance reviews in 2013. As of May 2013, this has not yet happened.

Non-compliance with processes and procedures

When the department performed monitoring activities, it did not obtain the required reporting, document its work, issue reports for compliance reviews or follow-up to ensure grant recipients complied with the agreement. In its review of housing capital initiatives reports, the department did not issue letters to the grant recipients requesting annual reports or have the required reports for most of the files we examined. We also found some municipal block funding files that did not have the required reports.

[21] These tenants were ineligible at intake and at the time we conducted our audit work.

The department's monitoring processes are designed to ensure compliance. When it does not follow policies and procedures, the department exposes itself to the risk that grant recipients may not comply. For example, the grant agreement requires grant recipients to begin the project within 90 days and complete it within two years. The department approved funding to several grant recipients who have not yet started their projects. These projects were approved more than a year ago, with some being approved more than three years ago. The department has committed funding for these delayed projects, when it could have allocated these funds to other grant applicants that could have expeditiously developed their projects.

In its four completed compliance reviews, the department identified non-compliance but did not follow up to ensure the grant recipients took corrective actions. The department has not issued an audit report for three compliance reviews despite it being more than a year since the reviews were completed. The department issued one report, but did not obtain a response from the grant recipient and did not follow up to ensure compliance, as required. In addition, the department did not complete all the sections and forms in the file (rental rate, tenant eligibility, tenant interview).

Implications and risks if recommendation not implemented

Without effective monitoring, the department cannot know whether the grant recipient is complying with the grant agreement and whether funds have been spent cost effectively.

Evaluating

Background

Program objectives and performance measures

In its three-year business plan and operational plan, the department states that its goal is for low-income Albertans to have access to a range of safe and affordable housing options. The department supports, measures and reports on whether it is achieving this goal based on its funding of the development of 11,000 affordable housing units.

Measuring and reporting on program performance

The department uses spreadsheets to capture grant program information such as:

- municipality, funding amounts and installments dates, approval dates, municipality and agreement signed date for municipal block funding
- organization, location, units, grant amount, breakdown of advances and estimates for housing capital initiatives

RECOMMENDATION 13: DEVELOP AN EVALUATION SYSTEM

We recommend that the Department of Municipal Affairs improve its evaluation processes by:

- developing performance measures and adequate information systems so that the department can better evaluate and report on its affordable housing grant programs
- completing periodic evaluations of its affordable housing grants programs

Criteria: the standards for our audit

The department should measure and evaluate the extent to which its affordable housing grant programs have met their objectives and incorporate the evaluation results into future planning for housing initiatives.

Our audit findings

KEY FINDINGS

- The department cannot properly evaluate and assess the performance of its affordable housing grant programs because it does not have sufficient performance measures, collect the right program information and have an adequate information system.
- The department does not have an evaluation strategy in place for its affordable housing grant programs and has not completed an evaluation of these programs.

Performance measures

As part of its program planning, the department did not define sufficient performance measures for its affordable housing grant programs. The one performance measure it uses, the funding of 11,000 units, is focused on program activities and outputs. We also found that no measurable targets were developed when the programs were established other than funding the development of 11,000 units. If targets for cost effectiveness are not established at the start of a program, it is difficult to demonstrate whether this was achieved.

The department's affordable housing program's policies and procedures manual states that performance measures should be developed for the various components of the program logic model (inputs, activities, outputs and outcomes). The department has carried out preliminary work to develop additional measures, including a measure of affordable housing units completed. However, it has not yet developed comprehensive measures that assess the contribution of these programs towards longer-term outcomes the government is trying to achieve.

The department does not have complete data for its affordable housing programs. We found that the grant recipients sourced their tenants through their own waitlists, housing management bodies and a myriad of agencies. The number of people and the length of time people have been on these waitlists varied significantly. Grant recipients also had different processes and standards for verifying income and prioritizing potential tenants. For example, we found grant recipients with more than a few people on their waitlists while others, in the same municipality, had vacant units.

Information systems

The department's spreadsheets do not have adequate information technology controls to protect the integrity of the data through effective access, backup, and version and change management controls. The department acknowledged this in its business case for developing the housing access link (HAL), a new enterprise information management system that is under development.

HAL will store and maintain housing support client data, track housing portfolio inventory, provide management and financial accounting support, and maintain corporate information. HAL is expected to replace and re-engineer the following grant program processes:

- affordable housing operations support
- client profile survey
- vacancy tracking
- waitlist tracking

The department approved the HAL project in July 2010 and tendered for its development in October 2011. It has identified key implementation deliverables and deadlines. The department should continue its progress towards implementing HAL by demonstrating that it has met its key deliverables within the timelines identified.

Program evaluation

The department has not completed evaluations of its affordable housing programs. The department does not have an evaluation strategy in place for its programs that would:

- define an evaluation plan and how it would execute this plan
- identify evaluation issues and questions to consider
- identify key achievements and areas for improvement

The department did not evaluate the municipal block funding program because eligibility was not based on a competitive process. The department's housing capital initiatives evaluation was limited to reviewing the program criteria and updating its grant application evaluation forms.

We also noted that the department does not have complete data on the demand for affordable housing in Alberta. Therefore, it cannot measure what impact the two programs have had on affordable housing demand. We acknowledge it is unlikely that programs designed to increase the supply of affordable housing would not have reduced demand somewhat. But the questions that should be considered as part of the evaluation are:

- what impact did the programs have on overall provincial demand for affordable housing?
- was the supply targeted at the right segments of the population and in the right locations?
- was value for money achieved?

Implications and risks if recommendation not implemented

Without effective evaluation and performance measurement systems, it is difficult for the department to:

- assess whether its programs meet their objectives
- identify lessons learned that should be considered as part of future program delivery

APPENDIX A

HOUSING CAPITAL INITIATIVES POINTS BY SUB-CRITERIA (2009–2010)

The following table shows the sub-criteria and their respective points compiled from the department's evaluation form.

Application	Points
Signature and date by appropriate signing officer	5
Certificate and Articles of Incorporation	5
Financial statements for past three years	5
Organization's history including current list of board members/directors	5
Contact information	5
Project legal description	5
Estimated forecasted revenue table	5
Separate costing for affordable costs/green costs/revitalization	Up to 34
Detailed estimated project capital cost table	5
Funding source table	5
Five-year operating budget table	5
Need	
Community vacancy rate is less than five per cent or provide valid explanation of project need, if vacancy rate is over five per cent	5
Community population growth is more than one per cent or provide a valid explanation of project need, if population growth is less than one per cent	5
Target client defined in needs determination	5
Sustainability	
Revenues are from rental income, not other sources (e.g., fundraising)	5
Management fee is not higher than five per cent	5
Replacement reserve is included in operating costs and is at least two per cent of gross revenue and not higher than five per cent	5
Project will operate at three per cent minimum surplus, not higher than five per cent	5
Affordability	
Rents or payments are at least 10 per cent below market	10
Rents or payments are below market 10 per cent / 20 per cent /30 per cent / 40 per cent	Up to 30
Funding	
Funding sources confirmed in writing (e.g., bank letter)	5
Proponent's contribution does not include financing Contribution exceeds 35 per cent / 45 per cent / 55 per cent	5 Up to 20
Project – Technical	
Modesty guidelines	5
Capital cost per unit	Up to 15
Inclusion of floor plans	Up to 15
Green technology	Up to 30
Revitalization elements	Up to 30
Inclusion of the appropriate number of adaptable units	5
Provided an approved development permit	5
Start of construction 30/60/90 days after approval	Up to 20

Treasury Board and Finance—Alberta Pension Services Corporation Next Generation Project

SUMMARY

In 2010, Alberta Pension Services Corporation initiated the next generation project to replace its aging pension payroll and member services systems. The project started with a request for information in 2010, followed by a detailed business requirements analysis study and a request for proposal in 2011 to replace these systems.

A leading Canadian pensions and benefits service provider and systems integrator[1] was selected to provide its pension administration system as the solution. The project is a business transformation[2] initiative. The project has two main phases—planning and design (phase 1) and development and implementation (phase 2). The new systems and processes will be implemented in three stages between July 2014 and November 2015.

What we examined

We examined the quality and completeness of the design of project controls[3] (documented plans and procedures) as an early indicator of management's ability to manage the risks of implementing the new system into its operations. We interviewed key project participants, including senior management, and reviewed project documents and deliverables related to the corporation's project risk management systems.

What we found

We found that APS has well-designed project controls for the next generation project to help manage the risks associated with its business change management, project management and project governance activities.

Our audit was a point-in-time audit that focused on the design of project controls only. Our findings indicate that there are no significant project control weaknesses at this time that could cause the project to fail or not meet its plans and objectives. This does not guarantee that the project will be a success, only that we did not find any significant weaknesses that require immediate attention from management.

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[1] A systems integrator is a person or company that specializes in bringing together technology solutions with business solutions.
[2] Business transformation is about making fundamental changes in how business is conducted to meet new business plans and objectives, which can include new technology solutions.
[3] The evaluation of the design of a control ensures that the control, individually or combined with other controls, can effectively prevent or detect exceptions. Testing operating effectiveness of controls means to evaluate if the control is doing what it was designed for.

Why this is important to Albertans

APS provides services, on behalf of the Alberta government, to seven public sector pension plans and two supplementary pension funds. APS provides pension services to more than 312,000 members and pensioners.

AUDIT OBJECTIVES AND SCOPE

Our objective for the audit was to perform an early warning assessment[4] of project controls used to plan for and manage project risks. We assessed whether management had the appropriate risk management systems in place with defined project controls for:

- business change management
- project management
- project governance

We did not audit the operational effectiveness of these project controls because a weakness with its design would be sufficient to determine if its related risk was being managed appropriately or not. We did this audit because this is a significant project for APS. This approach allowed us to provide any advice promptly to APS management and its oversight board, and to maximize the chances of dealing with risks before they caused the project to fail or not meet its expectations. It allowed us to use our audit resources more effectively.

We conducted our field work from January 2013 to March 2013. We substantially completed our audit on March 15, 2013. 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

The project has adopted a vanilla implementation[5] strategy whereby customization will be minimized. The project budget is approximately $58 million dollars and has two main phases:

- Planning and design (phase 1)—was completed June 30, 2012 and consisted of project planning activities related to governance structure, project management structure, defining the detailed scope and confirmation of requirements, policy and process changes and business architecture design.
- Development and implementation (phase 2)—commenced in July 2012 and is expected to be completed with the implementation of the new pension services system in 2015. This phase is comprised of system configuration and development, data conversion and cleansing, quality assurance, change management planning and system deployment using a phased implementation strategy.

[4] Early warning assessment is a review of a project's health in relation to how the project is effectively managing its risks to achieving its stated plans and objectives.
[5] Vanilla implementation refers to deploying software into the business without, or with minimal, modification, as is, out-of-the-box, to reduce the expense of implementation and future software upgrades.

FINDINGS

We found that APS has well-designed project controls for the next generation project to help manage the risks associated with its business change management, project management and project governance activities. We have no recommendations to APS for this project.

Our audit findings

Business change management controls

We found that planned changes to business processes, policies and pension plan processing were well documented (defined in the business architecture blueprint) and signed off by APS executives. Business stakeholders were actively engaged in day-to-day project activities; roles and responsibilities were clearly defined; a communication strategy was formalized (including an internal and external approach); a training strategy, conversion strategy, and implementation strategy and plans were formalized.

Project management controls

We found that APS had adopted the vendor's project and system development methodologies and standards, which included defined project processes, activities, templates and expected deliverables. A project team organizational structure was established with functional leads on both the vendor and APS sides who were experts in the business subject matter.

Overall project management responsibility was assigned to the vendor's program manager and APS assigned an internal project manager and a project office director to oversee internal staff project activities. Detailed project plans are well defined, project teams meet weekly to discuss issues, risks and project changes, and project status is documented and reported up to the project's governance bodies. The project is being managed with appropriate rigor and team members are consistently applying the vendor's methodology, along with APS's internal project management office standards.

Project governance controls

Executive and management steering committees and a special project board committee provide oversight and makes decisions for the project. The committees met regularly. The board hired a consultant to conduct independent project reviews, which commenced in 2012; five reviews have been completed to date. APS's project stakeholders and executives were actively involved in the project's day-to-day tasks to ensure business needs and potential impacts were well understood by the business. APS senior management has demonstrated its commitment and ownership of the project through these governance activities.

Treasury Board and Finance—The Budget for Financial Reporting Purposes

The Government of Alberta prepares its financial statements in accordance with Canadian public sector accounting standards. We audit those financial statements. The government does not have to follow accounting standards in preparing its budget. However, the accounting standards require that financial statements contain a comparison of the results for the year with those originally planned[1].

With Budget 2013, government changed how its budget information is presented. The new *Fiscal Management Act* sets out the form and content of the fiscal plan and requires the presentation of an operational plan, a savings plan and a capital plan.

Because of the changes within Budget 2013 and our audit of the province's financial statements, we undertook a review to identify the differences between results reported in financial statements and planned results reported in both Budget 2013 and Budget 2012. We focused our work on the items that impact the determination of the annual surplus/deficit.

The province's financial statements report the full extent of the province's financial results, determined in accordance with Canadian public sector accounting standards. For accountability purposes, the comparison of actual and budgeted financial results is important to hold a government accountable for its financial management.

In Appendix A, we have detailed the differences between the computations of the surplus/deficit in Budget 2013, Budget 2012 and the province's financial statements. The largest difference is that capital grants to municipalities are expenses under accounting standards but are not included as operational expenses in Budget 2013's operational plan; rather they are included as part of the capital plan. If the province's Budget 2013 had been prepared on the same basis as the province's Budget 2012, the calculated deficit would be $1.975 billion for fiscal 2013–2014. This is a calculation to illustrate differences; it is not a revision of Budget 2013.

The main differences between Budget 2013's operational plan surplus/deficit and Budget 2012's surplus/deficit are:

- Some capital grants are not included in expenses in the government's operational plan surplus/deficit, but are included in expenses under accounting standards. For example, grants under the Municipal Sustainability Initiative are included in Budget 2013 as part of the capital plan. While these grants may fund capital assets, these capital assets are not owned by the province. Therefore, accounting standards require these grants be treated as expenses in the calculation of surplus/deficit. They would not be an expense if the province owned the assets.

[1] Canadian Public Sector Accounting Standards, Section 1200 Financial Statement Presentation (PS 1200.119–1200.125)

- Capital and savings related items:
  - Alberta Heritage Savings Trust Fund's retained income is included in total revenue, but then deducted from total revenue as part of the calculation of operational revenue. Under accounting standards, this retained income would be included in income.
  - Revenue for capital purposes is included in total revenue, but is then deducted from total revenue as part of the calculation of operational revenue. Under accounting standards, revenue received for capital purposes would also be excluded from surplus/deficit, but would become part of surplus/deficit over time as those assets are used to provide services.
  - Operational revenue excludes an amount "Allocation for debt servicing costs" and general debt servicing costs in operational expense excludes capital debt servicing costs. Accounting standards do not have a similar reduction from revenues. Instead, these amounts would be included as debt servicing costs in determining surplus/deficit, so debt servicing costs would be higher. The net impact on surplus/deficit is nil.

Consistent with prior years, Budget 2013 contains scope differences between the budget and the province's financial statements because revenues and expenses of SUCH sector[2] organizations and Alberta Innovates corporations, and changes in pension liabilities are excluded from the budget.

Because the fiscal approach and scope of activities used in Budget 2013 is different from the accounting standards that will be used to prepare the province's 2013–2014 financial statements, a comparison will be difficult to explain and understand as complicated adjustments and modifications will be required.

The Department of Treasury Board and Finance has informed us that it intends to construct a budget for financial reporting purposes that will be included in the province's 2013–2014 financial statements. This constructed budget will:
- be prepared using the same accounting standards and scope of activities that are used to report actual results in the province's financial statements
- be included on the statement of operations and on the statement of change in net financial assets
- include a reconciliation of the constructed budget for financial reporting purposes with the fiscal plan's budget presented as required by the *Fiscal Management Act*

[2] SUCH is an acronym for schools, universities, colleges and health entities

APPENDIX A

	($ millions)		
Fiscal year	Actual 2011–2012	Budget 2012–2013	Budget 2013–2014
Operational surplus/(deficit) in Budget 2013	**$2,568**[3]	**$1,826**	**($451)**
Fiscal Management Act adjustments:			
Capital grant expense	(3,678)	(3,526)	(2,343)[4]
Capital Plan debt servicing costs	(114)	(139)	(238)
Capital and savings related items:			
Revenue for capital purposes	633	508	522
Investment income retained by the Alberta Heritage Savings Trust Fund	454	306	297
Allocation for Capital Plan debt servicing costs	114	139	238
Calculated deficit on Budget 2012 basis	**(23)**	**(886)**	**(1,975)**[5]
Scope adjustments:			
Annual surplus of SUCH sector and Alberta Innovates corporations	526		
Pension provisions	(617)		
Deficit in the province's financial statements	**($114)**		

[3] Budget 2011 tabled February 24, 2011 had a deficit of $3,405 (page 67 of Budget 2011 Fiscal Plan). This was the budgeted deficit that was compared to actual financial results for year ended March 31, 2012. In Budget 2013, tabled March 7, 2013, actual results for the year ended March 31, 2012 were restated and reported as $2,568 (page 127 of Budget 2013 Fiscal Plan).
[4] Calculated from the fiscal plan as difference between Capital Plan spending of $5,209 (page 128 of Budget 2013 Fiscal Plan), less capital asset additions of $3,351 (page 141 of Budget 2013 Fiscal Plan), net of $485 opening net asset adjustment for the capital assets of the SUCH sector commencing April 1, 2013, based on data provided by the Department of Treasury Board and Finance.
[5] This figure is not required under the *Fiscal Management Act* nor under Canadian public sector accounting standards; we have calculated it for comparison purposes with the previous years.

AUDITOR GENERAL
Alberta

Systems Auditing—Follow-Up Audits

REPORT OF THE AUDITOR GENERAL OF ALBERTA

July 2013

Energy—Bioenergy Grant Programs Follow Up

SUMMARY

In 2006, the Government of Alberta committed to a nine-point bioenergy plan[1] that included three bioenergy grant programs[2] to encourage investment in bioenergy production in Alberta and to develop Alberta's biofuel capacity and infrastructure for biofuel products distribution. Subsequently, in 2008, the government released its climate change strategy, which identified expanding the use of renewable energy sources and developing new bioenergy products in Alberta as a key component of meeting the province's emissions reduction targets.

In 2008, we audited the biorefining and infrastructure bioenergy grant programs administered by the Department of Energy. The credit program was not included as part of the original audit. Alberta's Bioenergy Policy Framework requires an assessment of the environmental impact of bioenergy products from projects that receive grants. We found that the grant applications for the biorefining and infrastructure programs did not provide any environmental impact information and the department's criteria for evaluating the projects did not include an assessment of the environmental impact. We made a three-part recommendation to the department in our October 2008 report.

What we examined

We assessed the bioenergy program systems in place to ensure that sufficient information is gathered from grant applicants and recipients to quantify positive environmental impacts—primarily carbon dioxide emissions.

What we found

While the department had taken initial steps to make improvements, we found that it had not implemented our recommendation. It still did not require biorefining and infrastructure grant applicants to demonstrate their product's positive environmental impact relative to comparable non-renewable energy products. Also, we found that the department's decision to fund projects under the two programs was not well documented. We are not repeating the original recommendation, since the two grant programs that were part of the 2008 audit are no longer accepting applications. However, based on the evidence gathered to follow up on the original recommendation, we identified areas in which the department could improve the ongoing credit program and the ongoing reports it requires for the biorefining and infrastructure programs, as they relate to emission reductions.

Why is this important to Albertans

Bioenergy is considered one of the elements within the climate change strategy that will assist in reducing emissions. If the bioenergy projects the government funds do not reduce emissions as expected, the government may have to reduce emissions in other areas to achieve its targets. Since the

[1] Alberta's Nine-Point Bioenergy Plan, 2006: http://www.energy.gov.ab.ca/pdfs/BioE9pointPlan.pdf.
[2] Biorefining and Market Development Program, Bioenergy Infrastructure Development Program and Bioenergy Producer Credit Program.

inception of the bioenergy programs in 2006 up until March 31, 2012, the Department of Energy has awarded bioenergy grants totalling approximately $200 million.

AUDIT OBJECTIVE AND SCOPE

Our audit objective was to determine whether the department had a system in place to assess the environmental impact of the bioenergy projects funded by the program and whether the impact is less than or equal to that of existing energy products. This objective included following up on whether the department implemented our 2008 recommendation.[3]

To conduct this audit, we:
- interviewed department staff and members of the grant review committees for the biorefining and infrastructure programs
- examined a sample of applications and supporting documents for bioenergy biorefining and infrastructure grants
- reviewed the department's requirements for reporting environmental benefits by the grant recipient
- examined a sample of reports from grant recipients in all three programs
- examined the department's processes for tracking and reporting emission reductions from projects funded in all three programs

We conducted our field work in 2011–2012. 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.

BACKGROUND

The Minister of Energy administers the bioenergy plan, based on the government's bioenergy policy framework. The framework identifies reducing emissions through the use of bioenergy products as one of the desired outcomes of the bioenergy plan. Alberta's climate change strategy identifies the nine-point plan and the bioenergy grant programs as key actions for meeting the province's emissions reduction targets.

The biorefining and infrastructure programs ended on March 31, 2011. The government has expanded and extended the credit program—which provides cash credits to manufacturers and processors of bioenergy products—until March 2016.

[3] *Report of the Auditor General of Alberta—October 2008,* no. 25, page 255.

FINDINGS AND RECOMMENDATIONS

Environmental benefits—changed circumstances

Background

In 2008[4] we recommended that the Department of Energy:

- gather and document its analysis of data to quantify the environmental benefits[5] of potential bioenergy technologies to be supported in Alberta
- establish adherence to the government's nine-point bioenergy plan as a criterion within its bioenergy projects review protocol and require grant applicants to estimate the environmental benefits of proposed projects
- before awarding grants in support of plant construction, require successful applicants to quantify, with lifecycle assessment,[6] the positive environmental impact relative to comparable non-renewable energy products

The bioenergy policy framework's guiding principles and funding decision criteria state that the environmental impact of biofuels must be equal to or lower than the energy products they might replace.

The department's guidelines for the biorefining program defined eligible projects as those involving:

- expansion or new development of biorefining
- evaluation and adoption of new biorefining technologies
- market development

The infrastructure program guidelines defined eligible infrastructure types such as biogas upgrading and biofuel storage. Both guidelines indicated that grant applicants must submit an estimate of greenhouse gas emission reductions and other environmental benefits.

Criteria

Projects funded under bioenergy grant programs should demonstrate, using a lifecycle assessment approach, that the full environmental impact of all stages of bioenergy production and use is equal to or less than the impact of the energy products the project is replacing.

Our audit findings

KEY FINDINGS

- The department did not enforce its requirement for grant recipients to estimate greenhouse gas emission reductions from their projects.
- The department did not retain sufficient documentation to support its recommendations that the Minister of Energy approve funding for the projects.

Analysis before awarding grants

The department did not enforce its requirement for grant recipients to estimate greenhouse gas emission reductions from their projects. A 2004 study on bioenergy opportunities in the province, commissioned by the Alberta government, concluded that all potential bioenergy products and technologies will result

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4 *Report of the Auditor General of Alberta*—October 2008, page 255.

5 Environmental benefits here refers to greenhouse gas emission reductions.

6 Lifecycle greenhouse gas emissions for biofuels include emissions from all stages of producing and distributing the fuel, from growing or extracting feedstock to distributing, delivering and using the fuel. Lifecycle estimates adjust the values for all greenhouse gases to account for their relative global warming potential. Lifecycle emissions estimates include direct and indirect emissions such as significant emissions from land use changes. Source: EPA Lifecycle Analysis of Greenhouse Gas Emissions from Renewable Fuels, May 2009. Available at: http://www.epa.gov/oms/renewablefuels/420f09024.htm.

in lower emissions when compared to non-renewable energy products. The department used this study to support the development of bioenergy grant programs and to develop its guidelines for the scope of eligible project and technology types.

More recent, publicly available, studies and reports (post-2004) conclude that emissions may increase as a result of biofuel production in certain circumstances; for example, when indirect land use[7] is considered. The department did not consider this information when evaluating projects, even though it was available when the grants were approved.[8]

In deciding which projects it should fund, the department assessed proposed projects against its program criteria[9] and focused on whether the projects were feasible from a business and financing perspective and whether they met regulatory requirements. The department asked applicants to estimate the proposed project's greenhouse gas emissions and energy inputs and outputs, and to provide information about feedstock. All applications we tested provided the required data.

The department stated that the information it required from grant applicants was sufficient to determine whether the products' lifecycle emissions were lower than those of comparable non-renewable energy products, if the department chose to complete such an analysis after funding the projects. However, the department did not complete this analysis for individual projects it funded.

In 2011, the department estimated emission reductions from all funded projects. At that time, some projects had reached production stage and had actual emissions data available. However, the department used assumptions rather than actual feedstock data available for producing facilities. Such assumptions could overestimate (or underestimate) the emissions reductions (see Recommendation 15: Clarify reporting guidelines for grant recipient reporting).

Documentation of grant approval process

A cross-ministry committee comprised of government employees assessed applications for biorefining and infrastructure grants from 2007 to 2011. The current grant approval process for the credit program does not involve a review committee. The Government of Alberta's corporate internal audit services is reviewing the grant approval process for the credit program. The department has stated that it will incorporate recommendations from that review to improve its funding process.

Based on our examination of the review committee's process for biorefining and infrastructure grants, we found that the department did not retain sufficient documentation to support its recommendations to the Minister of Energy to approve funding for the projects. The department did not maintain evaluation checklists and other supporting documents that committee members compiled to support their rating of projects. The consolidated summary record the department kept as a support for its recommendations to the minister did not contain enough detail to understand how the review committee made its decisions.

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[7] Indirect land use is when a crop grown for biofuels displaces a food crop, resulting in more land being cleared and higher emissions to grow the food crop.

[8] Williams, P, Inman, D., Aden, A. and G. Heath. (2009). Environmental and Sustainability Factors Associated with Next-Generation Biofuels in the U.S.: What Do We Really Know? Environmental Science & Technology, 23:13, 4763-4775. Available at: http://www.circleofblue.org/waternews/wp-content/uploads/2010/08/Williams-Enviro-Sustainability-of-Next-Gen-Biofuels.pdf.

[9] Bioenergy Infrastructure Development Program Guidelines, 2009: http://www.energy.gov.ab.ca/BioEnergy/pdfs/BIDP_program_guidelines.pdf.
Bioenergy Commercialization and Market Development Program Guidelines, 2009: (no longer available online).

New Recommendations

RECOMMENDATION 14: ESTABLISH ADHERENCE TO NINE-POINT BIOENERGY PLAN—BIOENERGY PRODUCER CREDIT PROGRAM

We recommend that the Department of Energy require bioenergy producer credit grant program applicants to demonstrate their product's positive environmental impact relative to comparable non-renewable energy products.

Background

The credit program is the only bioenergy program that continues to accept applications. Credit program grants are for producers of bioproducts such as liquid biofuels and electricity produced from burning biogas and biomass. Program applicants request funding based on their estimated annual production, subject to a maximum set by the department.

The department does not require applicants to estimate environmental benefits or provide emissions reduction data with their application. The credit program guidelines state that the program encourages investment in bioenergy production in Alberta, to:

- reduce reliance on fossil fuels
- support Alberta's renewable fuels standard
- create economic benefits

A lifecycle assessment examines the full environmental impact of a product, from producing the feedstock, manufacturing and distributing the product to using and disposing of the product.

Criteria: the standards for our audit

Projects funded under the credit program should be sufficiently analyzed to determine the positive environmental impacts (i.e., lower emissions) relative to the energy products they might replace.

Our audit findings

KEY FINDING

The department does not require bioenergy producer credit program applicants to demonstrate that their products result in lower emissions in comparison to non-renewable energy products.

The department requires credit program grant recipients to calculate project emissions on a lifecycle basis and submit this information in annual reports to the department. However, it does not require grant recipients to demonstrate their products result in emissions lower than those from comparable non-renewable energy products, even for facilities that have also received biorefining and infrastructure grants. Without this information, there is a risk that the department has awarded, and will continue to award, grants to facilities that generate more emissions on a lifecycle basis than producers of non-renewable energy products.[10]

[10] The Alberta Bioenergy Policy Framework's guiding principles and policy decision criteria include the requirement that the environmental impact of bioproducts must be equal to or lower than existing energy products.

Implications and risks if recommendation not implemented

Without an assessment of the environmental impact of these projects, the department cannot know if the projects contribute to Alberta's climate change strategy. The environmental costs of some projects may exceed their benefits.

RECOMMENDATION 15: CLARIFY REPORTING GUIDELINES FOR GRANT RECIPIENT REPORTING

We recommend that the Department of Energy clarify its guidelines for annual reporting by bioenergy grant recipients to ensure it has the information required to appropriately assess and estimate bioenergy project emissions.

Background

Recipients of the biorefining, infrastructure and credit program grants must report annually to the department on project results, including greenhouse gas emissions and environmental benefits. The grant recipients must use the department's annual report templates to report.

Criteria: the standards for our audit

Guidelines for grant recipient annual reporting should clearly state the requirements for reporting environmental benefits such as lower emissions.

Our audit findings

KEY FINDING

The department has not specified requirements for emissions reporting by grant recipients.

Annual reporting by grant recipients

The biorefining and infrastructure grant agreements we reviewed include a requirement that grant recipients report to the department annually, for five years, on the project's greenhouse gas emissions and environmental benefits. The department does not specify the method that project owners should use to measure project emissions. Also, the department does not define "environmental benefits" or whether emissions should be reported on a lifecycle basis. The department is reviewing its template for annual reports for all three bioenergy programs.

The credit program grant agreement says that annual reports must include lifecycle calculations of greenhouse gas emissions associated with bioenergy production. The agreement does not specify the method for calculating lifecycle emissions. As a result, the department may not obtain the data it requires; further, the data received may be inconsistent among project owners.

Department's analysis of emission reductions from bioenergy grants

Starting in 2011, the department has estimated the annual total emission reductions from projects funded by the three grant programs. The department used actual or estimated production volumes and did not differentiate between types of feedstock when estimating emission reductions. The emission reduction differences could be significant between projects using food feedstock, such as corn, and projects using non-food feedstock, such as waste. This distinction would not be captured by the department's current method for estimating emissions.

Using assumptions rather than actual feedstock data available for producing facilities could overestimate (or underestimate) the emissions reductions. It also precludes the department from ranking projects based on emission reductions achieved. The department has not used the emissions data from the grant recipients' annual reports in preparing its estimate.

The department does not have a formal process to report emission reductions from the bioenergy programs to the Department of Environment and Sustainable Resource Development. ESRD stated that it is determining:

- what data it needs for projects funded by bioenergy grants
- the appropriate calculation method to use for calculating emission reductions
- whether the Department of Energy's assumptions are reasonable

ESRD is working with the Department of Energy to implement a formal process for obtaining the data required for Alberta's climate change strategy.

Implications if recommendations not implemented

Without clear guidance to project developers, the department may not obtain the data it needs to appropriately assess greenhouse emissions.

Enterprise and Advanced Education—University of Alberta Integration of Research into Strategic Planning Follow Up

SUMMARY

In our 2004 report[1] we recommended that the University of Alberta improve the integration of research into its strategic business plans. In 2008, we concluded the university had made progress, but had not implemented our recommendation.

The university has now implemented our recommendation.

What we examined

We used the following criteria to assess the university's progress in implementing the recommendation.

The university should:

- identify key performance measures and targets for each strategy in its business plan
- consider the cost of achieving targets in its budget allocations
- ensure that faculties and research administrative units include the university's research performance measures and targets in their plans and set out in clear, consistent terms how they will help meet the targets

What we found

We found that the university has implemented our recommendation by:

- integrating its research priorities into the university's strategic business planning processes
- developing consistent research performance measures and processes to monitor research results
- measuring research performance against planned goals and strategies
- periodically reviewing performance measures, including research measures, to ensure they remain relevant and aligned to the university's goals

Why this is important to Albertans

The university's research activities make a significant contribution to Alberta's economy and to the quality of life for all Albertans. Without specific strategies for identifying and measuring its research performance, the university risks not meeting its research goals.

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[1] *Report of the Auditor General of Alberta—October 2004,* pages 252–254.

AUDIT OBJECTIVE AND SCOPE

Our objective was to determine if the university had implemented the recommendation from our 2004 report by integrating research into its strategic business plans.

For this follow-up audit, we:

- examined policies, roles and responsibilities of the Office of the Vice-President (Research) and the Office of the Provost
- reviewed annual report submissions for three faculties
- examined the university's systems for performing strategic planning for research
- interviewed university management and staff

We conducted our field work from January to April 2013. We substantially completed our audit on May 8, 2013. 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

Research is a significant activity for the university. The university's goal is to remain one of the top research universities in Canada. The university received $460 million for research in 2012, which represents 27 per cent of total university revenue.[2]

FINDINGS AND RECOMMENDATIONS

Strategic planning for research—implemented

Our audit findings

The university reported its four-year strategic plan in the 2011–2015 academic plan. This plan is organized around four cornerstones; strategic plans for research are integrated into each cornerstone.[3] Annually, the university prepares a Comprehensive Institutional Plan. The CIP identifies the university's strategies and objectives for teaching, learning and enrolment, research, budgets and capital plans. The research chapter identifies three main research themes and includes key strategies under each theme.

The university reports on its key performance measures, including research measures, in its annual report and a report card on its progress in achieving the vision it set out in 2006. The 2012 CIP included progress reports on achievements in 2011.

In 2010, the university formed a committee to regularly review its performance measures to ensure they are measuring the right things and that measures are aligned throughout the university's reporting framework. This committee is made up of the president, vice presidents, associate vice presidents, faculty deans and staff of the strategic analysis office.

[2] http://www.financial.ualberta.ca/AnnualFinancialStatements.aspx—University of Alberta, Financial Statements for the year ended March 31, 2012, research revenue, page 6.

[3] University of Alberta, Dare to Discover, 2006. In 2006, the University articulated its vision to become one of the world's great universities. Its strategic business plans are focused around the four cornerstones identified as part of this vision—talented people; learning, discovery and citizenship; connecting communities; and transformative organizations and support.

Performance measures and targets are in place
The university identified key performance measures and tracked its progress towards its research goals.

The university's key institutional documents reported on goals and related measures of performance; research was a key component of each of its institutional level reports.[4]

The university's Strategic University Measures and Metrics Committee oversees the review of the university's performance measures to ensure they are relevant, reliable and concise.

Performance is reviewed at the faculty level through:
- annual performance reviews of each faculty member by the faculty evaluation committee
- academic unit reviews—These reviews occur every five to seven years and are designed to assess the quality and contribution to excellence in the unit's academic programs; research; administration and infrastructure; and citizenship and service.

The university's key target for its research performance measures is to maintain or achieve annual growth in its research funding. Achieving this target validates that research outcomes for individual projects are meeting the expectations of funders. The extent of the university's published research targets is similar to that of other major Canadian post-secondary institutions.

Costs are considered
The university developed an integrated planning and budgeting process. Through this process, it demonstrated that it had considered the costs of achieving research goals.

Each major institutional research goal identified in the CIP included budget request amounts.

The university established a bottom-up and top-down approach to align unit level (faculty) budgets to the overall plan. There are five metrics required in all faculties' reporting; each faculty can add up to three faculty specific measures.

In 2010, the university funded and tested a pilot project in two faculties to provide increased support to researchers on their funding applications to the Canadian Institutes of Health Research. Metrics were developed and tracked for this project. Results were positive so the project has been expanded to all faculties. The goal of this initiative is to improve the quality of applications and increase the number of funding awards to the university.

Faculty plans are aligned
Faculty unit plans demonstrate the extent to which faculties plan to contribute to the achievement of institutional targets.

There is an integrated annual approach. Each faculty provides an academic plan update, annual CIP submission, and academic performance measures that are incorporated into institutional level reporting.

[4] University of Alberta, Dare to Deliver Academic Plan 2011–2015; Comprehensive Institutional Plan; Dare to Discover Report Card; University of Alberta Annual Report.

Other measures of performance
Research funding is provided by external funders. These funders perform audits and reviews to measure the performance of recipients. The focus of these reviews is primarily financial. However, the university considers these reviews an important component of its reporting on research performance because agencies provide future funding based on the results of their reviews. Achieving successful results in these financial reviews is a key indicator of the success of the university's research portfolio.

The university's internal audit services reports the results of all audits and external reviews to the audit committee annually.

Enterprise and Advanced Education—University of Calgary Research Management Systems Follow Up

SUMMARY

In 2004 and 2005, we made seven recommendations to the University of Calgary to improve its research management systems.[1] In 2010, we reported on the university's progress in implementing the recommendations.[2] We repeated four of them.

The university has implemented the four recommendations repeated in 2010.

What we examined

We used the following criteria to assess the university's progress in implementing the recommendations. The university should:

- plan for, build and maintain research capacity, using business plans that identify the human resources needed to carry out research
- have clearly defined roles, responsibilities and accountabilities for approving, managing and monitoring research
- ensure research policies are current, clear, comprehensive and supported with processes to monitor, assess and enforce compliance
- use processes for researchers and teams to manage projects cost-effectively, control project expenses against budgets and incur expenditures only for the purposes intended

What we found

The University of Calgary improved its overall research management control environment by:

- developing workforce plans related to research and using models to determine and budget for indirect costs of research
- defining consistent roles and responsibilities for research management, support staff and administration
- ensuring research policies are current, appropriate and regularly monitored for compliance
- applying project management tools, monitoring project expenditures and consistently reporting processes on all research projects

Why this is important to Albertans

Research is an important function of the University of Calgary. Albertans expect publicly funded institutions to achieve value for the money they receive. The many organizations that contribute to university research also want assurance that the university has sound and sustainable systems to manage the funds they entrust to it.

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[1] *Report of the Auditor General of Alberta—2003-2004*, pages 254–257; *Report of the Auditor General of Alberta—2004–2005* , pages 90–94.
[2] *Report of the Auditor General of Alberta—October 2010*, pages 43–55.

AUDIT OBJECTIVE AND SCOPE

Our audit objective was to determine if the university had implemented the four recommendations we repeated in 2010. To perform our audit, we:

- interviewed management and staff to learn what action they took in response to our recommendations
- tested the university's systems, processes and policies for administering research
- examined samples of research projects, including high-risk institutional projects
- reviewed strategic and accountability documents
- reviewed internal audit and external agency audit reports

We conducted our field work from June 2012 to February 2013. We substantially completed our audit on May 16, 2013. 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

The University of Calgary is a research-intensive institution with a goal to become one of Canada's top five research universities by 2016. It is a key contributor in developing the province's research capacity. For the fiscal year ended March 31, 2012, the university's research revenues of $277 million accounted for 24 per cent of the university's total revenue.[3]

FINDINGS AND RECOMMENDATIONS

Planning for research capacity—implemented

Background

In 2010, we repeated our 2004 recommendation that the University of Calgary improve its human resource plans and develop a system to quantify and budget for the indirect costs of research.[4]

Our audit findings

Human resource plans

We previously found that the university had not completed a strategic workforce plan. In our current audit, we found that university faculties prepared multi-year staffing plans. Their plans included a current workforce profile, trends in future workforce demands, a workforce gap analysis and strategies for attracting, retaining and developing talent.

We tested a sample of these plans and confirmed that the office of the provost used the information from the faculties to develop a workforce plan for the whole university, from 2013 to 2016. The plan identified the staff needed to meet the university's goal to increase its research capacity.[5] Based on the workforce plan, the university announced new workforce strategies in October 2012. These strategies included hiring 50 new assistant professors and 60 post-doctoral fellows in 2013.

[3] 2011–12, University of Calgary Annual Report, page 32.
[4] *Report of the Auditor General of Alberta—October 2010*, no. 4, page 46; *Report of the Auditor General of Alberta—October 2004*, no. 26, page 255.
[5] 2011, University of Calgary Vision and Strategy: Eyes High.

Quantifying indirect costs of research

We previously found the university did not have systems to assess, quantify, budget or fund the indirect costs of research. In our current audit, we found the university developed a model to identify indirect costs of research. The model uses data from the university's five research-intensive faculties: medicine, science, engineering, veterinary medicine and arts. To design the model, management reviewed costing models at comparable post-secondary institutions and consulted its departments to review the cost allocations and their model's assumptions. The model is currently used to budget and forecast costs. Management's goal is to use it to more precisely recognize the true cost of research and compare costs to research revenue.

Research roles and responsibilities—implemented

Background

In 2010, we repeated our 2005 report recommendation that the University of Calgary define research management roles and responsibilities.[6]

Our audit findings

Formulation and monitoring compliance with research policy

We previously found that not all research policies identified who should administer, monitor and ensure compliance with the policy. In our current audit, we verified that two offices, the university's research services office and research accounting unit, examine compliance with policies as part of their responsibility for monitoring projects and their respective budgets. The university named an implementation authority to act as the policy owner for each policy. This person is responsible for ensuring that university staff comply with the policy. We sampled 12 research policies and found that all had defined roles and responsibilities.

Approving, managing and monitoring research programs

We previously found that roles and responsibilities for research varied from project to project and among faculties. In our current audit, we found that the university had defined roles and responsibilities for approving, managing and monitoring research programs.

The university defines what signatures mean at each level—principal investigator, department head, dean and vice president of research—and defines their responsibilities for research projects.[7] This includes ensuring that:

- the project is carried out in compliance with all legal, ethical and accountability standards
- the project is feasible and fits within department or faculty plans
- peer reviews are completed when required
- space, equipment and other facility requirements are provided for

The vice president of research certifies that proposals receive adequate internal review and approval.

Providing support to researchers

The university requires all support staff involved in a research project to sign a form that identifies their role. This ensures that faculties clearly identify and acknowledge the roles and responsibilities for support staff involved with research projects.

[6] *Report of the Auditor General of Alberta—October 2010,* no. 5, page 48; *Report of the Auditor General of Alberta—2004–2005*, no. 18, page 90.
[7] 2010, University of Calgary, What Grant Application Signatures Mean.

Administering research funds

We previously found that the university had not defined management oversight responsibilities of principal investigators, department heads, deans or assistant deans of research for the administration of research funds. In our current audit, we confirmed that the university's guideline for signatures adequately defines the managerial staff who oversee the administration of research funds.

Principal investigators' signatures indicate that they are responsible for the administration and use of project funds. A department head's signature indicates that any requirement for resources will be administered in a timely fashion. Some faculties, such as medicine, have prepared supplemental guidelines to define roles and responsibilities for their assistant dean of research.

Research policies—implemented

Background

In our 2010 report, we repeated our 2005 recommendation that the University of Calgary ensure all research policies are current and comprehensive.[8] Specifically, the policies should identify who is responsible for monitoring compliance.

Our audit findings

Ensure research policies are current and appropriate

We previously found that some research policies were not current. In our current audit, we found that the university has a new policy that outlines processes and timelines for reviewing all policies. The university's policy coordinator uses a central database to track policies and ensure that updates occur in a timely fashion. This new system was implemented recently. Management continues to work through a backlog of outdated policies. At the time of our audit, some policies were still not updated. However, the university's new processes are designed effectively and it is on track to complete the current round of updates in a timely fashion.

Monitor, assess and enforce policy compliance

We previously found no mechanism to ensure compliance with the university's policies for ethics certification, ethics and intellectual property. In our current audit, we found that the university strengthened its policy for compliance checks at the start of projects. The implementation authority or process owner for each individual policy is responsible for monitoring, assessing and enforcing employees' compliance with the policy.

We tested a sample of projects and found that the compliance and eligibility group confirmed compliance with the university's key research policies. The university implemented an additional control in the form of signatures on an annual financial compliance and eligibility certificate to get researchers to confirm their compliance with key university policies.

Project management—implemented

Background

In our 2010 report, we repeated our 2005 recommendation that the University of Calgary and its faculties use project management tools for large, complex projects to ensure research is cost effective.[9] Specifically, management needed to:

- assess the need for a central repository for all financial and non-financial project-related information

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[8] *Report of the Auditor General of Alberta—October 2010*, no. 6, page 50; *Report of the Auditor General of Alberta—October 2005*, page 91.

[9] *Report of the Auditor General of Alberta—October 2011*, page 52; *Report of the Auditor General of Alberta—2004–2005*, page 93.

- develop roles and responsibilities for monitoring project performance
- develop tools to help principal investigators and researchers actively manage large, complex projects
- improve the process to control project expenditures
- implement a consistent process for reporting on all research projects

Our audit findings

Central repository

The university identified the institutional need for a central repository for information on research projects and completed a business case. However, at the time of our audit, this repository had not been funded. We anticipate the university will maintain its focus on building centralized systems to streamline its research business practices.

Roles and responsibilities for monitoring and control of project expenditures

The research accounting group has overall responsibility for monitoring project finances. The compliance and eligibility group monitors transactions for compliance with requirements set by project sponsors and monitors progress of projects against budgets. Financial compliance is managed through over-expenditure reports, other online system controls and actions of management to monitor overspent projects. Our process testing confirmed the university has designed a system to monitor project performance and control expenditures over the lifecycles of research projects.

Project management tools for researchers to manage their projects

For higher risk, more complex and higher dollar projects, the university developed a range of project management tools, including:

- teams to identify strategic proposal opportunities
- project kick-off and finalization meetings
- progress reports
- completion checklists
- dedicated project analysts and project managers

For lower risk projects, the university's financial system is the primary financial monitoring tool for researchers and principal investigators. Principal investigators also manage non-financial risks by closely monitoring deliverables noted in sponsor agreements.

Processes for reporting on all research projects

Projects sponsors specify the reporting requirements for research projects. The university prepares consistent reports for large and complex projects at a central business unit. The research accounting group reviews the reports to ensure they adequately report what the sponsor requires and meet the university's quality standards for reporting.

For smaller and lower risk projects, reporting is handled through a standardized report. The principal investigator signs off the form to confirm compliance with university policies and contract requirements. We sampled both types of projects and found the processes were effective in reporting non-financial requirements of sponsors.

The university also monitors it own reporting requirements at the institutional level using its performance measurement systems to report on performance measures such as the number of publications and citations.

Environment and Sustainable Resource Development—Natural Resources Conservation Board—Confined Feeding Operations Follow Up

SUMMARY

Confined feeding operations (CFOs) are enclosed areas where operators confine livestock for the purpose of growing, finishing or breeding them. The *Agricultural Operation Practices Act*[1] and its regulations set out legislative requirements for CFOs to operate in an environmentally sustainable way. Alberta has about 2,000 CFOs.

The Natural Resources Conservation Board assumed responsibility for administering the Act in 2002. Before 2002, municipalities regulated CFOs under municipal requirements. Over half of Alberta's CFOs were built before 2002. These CFOs are deemed to have a permit under the Act and do not have to upgrade their facilities to meet its requirements unless the facility poses a risk to the environment, as determined by NRCB.

NRCB enforces CFOs' compliance with the Act through permitting and compliance monitoring processes. NRCB follows different processes for managing groundwater[2] and surface water[3] risks. While NRCB evaluates both groundwater and surface water risks before allowing new and expanding CFOs to operate, its compliance monitoring of existing CFOs has focused on groundwater risk. NRCB relies primarily on complaints to identify surface water risks.

What we examined

We followed up on recommendations from our previous audits of NRCB's monitoring of CFOs. In 2004, we recommended that NRCB rank its compliance and enforcement activities based on environmental risk, and manage odour and nuisance complaints more efficiently. In our 2007 follow-up audit, we concluded that NRCB had implemented the odour and nuisance complaints part of the recommendation. We repeated the compliance and enforcement part of the recommendation.

In our 2011 follow-up, we concluded that NRCB had made significant progress with implementing the recommendation but still needed to take additional steps to fully implement it. We also found that NRCB had interpreted our 2004 recommendation (repeated in 2007) as being solely for groundwater. In fact, we had intended this recommendation to cover both groundwater and surface water. Therefore, we made a new recommendation that NRCB should assess whether its current compliance approach is adequate in proactively managing surface water risks.

[1] Chapter A-7, RSA 2000
[2] Groundwater is water located beneath the earth's surface in soil pore spaces and in the fractures of rock formations.
[3] Surface water is water collecting on the ground or in a stream, river, lake, wetland or ocean.

What we found

Groundwater

NRCB made satisfactory progress but has not fully implemented this recommendation. We found that NRCB established a risk-based approach to monitoring conditions at CFOs that pose a higher risk to groundwater. However, NRCB had not documented its internal guidelines or required procedures for leak detection and water well monitoring programs. As a result, NRCB's monitoring activities were not always timely and key actions and decisions were not always documented.

After our audit, NRCB issued an internal directive—which took effect in May 2013—that describes its requirements for the timing and documentation of actions staff take to monitor groundwater and respond to complaints. We were unable to test the implementation of the directive or the effectiveness of NRCB's processes to monitor internal compliance because we completed our audit before the directive went into effect.

Surface water

NRCB made satisfactory progress but has not fully implemented this recommendation. We found that NRCB has adequate procedures to ensure operators build new facilities, and expand or modify existing facilities, in a manner that does not pose a risk to surface water. After our audit, NRCB completed an action plan for how it will collect and analyze surface water data, to assess whether its current surface water approach is appropriate. We were unable to test the implementation of the plan because the completion of the first milestone—review and analysis of collected surface water data—is scheduled for the spring of 2014.

What remains to be done

To fully implement the recommendations, NRCB needs to do the following:

Groundwater

Implement a process to effectively monitor internal compliance with NRCB's:
- policy for risk-based compliance[4]
- directive for leak detection, water well reporting and risk-based compliance programs, and for responding to complaints

Surface water

Demonstrate reasonable progress in implementing its surface water plan by evaluating the collected data and assessing whether its current surface water approach is working.

Implement a process to effectively monitor internal compliance with its data collection requirements in the surface water plan.

Why this is important to Albertans

Livestock manure can contaminate groundwater and surface water. The *Agricultural Operation Practices Act* sets out standards for CFOs to operate in an environmentally sound manner. NRCB is responsible for monitoring and enforcing CFO operators' compliance with the Act, to ensure they do not harm the environment.

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[4] The risk-based compliance program includes CFOs that were built before 2002, have earthen manure storage and are located in high groundwater vulnerability areas. These CFOs pose the highest risk to groundwater.

This is our third follow-up audit of NRCB's oversight of CFOs. We follow up on all our audits—typically within three years—and publicly report management's progress toward implementing our recommendations.

AUDIT OBJECTIVE AND SCOPE

Our objective was to determine if NRCB has implemented our two outstanding recommendations. To do so, we assessed whether its actions met our audit criteria. We set out to conclude on whether NRCB has:
- implemented the necessary processes to take compliance and enforcement action at CFOs that pose a risk to groundwater
- demonstrated that its compliance approach to managing surface water risks is adequate

In performing the audit, we:
- interviewed management and staff
- reviewed applicable internal and publicly available documentation, including applicable legislation
- examined samples of operator files

We conducted our field work from November 2012 to March 2013. We substantially completed our audit on March 29, 2013. We conducted our audit in accordance with the *Auditor General Act* and the standards for assurance engagements set by the Canadian Institute of Chartered Accountants.

FINDINGS AND RECOMMENDATIONS

Groundwater risks: Rank compliance and enforcement activities based on risk—satisfactory progress

Background

In 2011 we concluded that NRCB made significant progress in meeting our 2007 recommendation that it rank compliance and enforcement activities based on environmental risk. [5] NRCB still needed to take additional steps to fully implement our recommendation.

Since our first follow-up audit in 2007, NRCB has implemented an environmental risk screening tool, leak detection monitoring and risk-based compliance programs. These initiatives allowed NRCB to focus its compliance and enforcement activities on areas with higher environmental risk.

CFO operators with leak detection monitoring conditions in their permits must maintain a leak detection system for their liquid manure storage facilities and submit monitoring results to NRCB. From 2007 and 2011, NRCB assessed environmental risk at all the facilities with leak detection monitoring requirements in their permits. Many of these operations were grandfathered[6] and it was unclear whether the site-specific groundwater conditions warranted monitoring. NRCB concluded that continued leak detection monitoring was justified at 50 of the 260 operations, and amended their permits as needed.

The risk-based compliance program assesses risk to water quality at CFOs that were built before 2002, have earthen manure storage and are located in high groundwater vulnerability areas. At the end of 2012, NRCB completed environmental risk assessments at 50 of the 170 operations that met these

[5] *Report of the Auditor General of Alberta—April 2011*, page 55.

[6] Grandfathered CFOs existed before 2002, when NRCB began administering the *Agricultural Operation Practices Act*. Pre-2002 operations are deemed to have a permit under the Act and do not have to upgrade facilities to meet its requirements unless the facility poses a risk to the environment, as determined by NRCB. NRCB can investigate any risk to the environment, enforce terms and conditions in existing permits or require actions to be taken to mitigate the risk.

criteria, and is now determining the changes, if any, required for their permits. NRCB planned to perform the remaining assessments at a rate of 25 CFOs annually. NRCB policy states that it will annually re-inspect 100 per cent of high risk, 30 per cent of medium risk and 10 per cent of low risk operations, to ensure that there are no changes to the operations that would warrant amendments to monitoring or their permits.

The Act requires annual sampling of water wells and submission of water analysis results from CFOs that have a water well within 100 metres of a manure storage or collection facility. Two hundred CFOs have water well monitoring requirements in their permits.

NRCB analyzes the leak detection and water well testing results to determine whether leaks from manure storage and collection facilities are having a negative effect on groundwater quality.

Operators must comply with requirements specified in their permits. NRCB's compliance and enforcement policy states that inspectors can be flexible in how they respond to non-compliance, particularly where the risk to the environment is low. Management noted that NRCB inspectors afford considerable patience to operators who are facing regulatory issues for the first time, particularly when the operation is a family farm that does not have environmental or regulatory structures in place.

NRCB maintains a database and a paper file system to store information on its permit and compliance activities. NRCB also maintains tracking spreadsheets to monitor the progress of the risk-based compliance program and to report on the program results to the board.

Criteria: the standards for our audit

To fully implement our 2011 recommendation, NRCB needed to:
- monitor and enforce operators' compliance with its groundwater monitoring and reporting requirements
- complete the first round of assessments planned for potentially high risk CFOs
- develop a system to periodically follow up on the potentially high risk CFOs.

NRCB also needed to ensure that its own inspectors complied with NRCB's policy and processes for monitoring operators' compliance with the terms of their permit.

Our audit findings

KEY FINDINGS

- NRCB needs to strengthen its internal controls to ensure its groundwater monitoring actions are timely and documented, and comply with its policy.
- New policy was implemented in May 2013.
- NRCB was on track in completing environmental risk assessments for CFOs with high risk to groundwater.

Leak detection and water well monitoring programs

NRCB uses a risk-based approach to monitoring conditions at CFOs that pose a high risk to groundwater. At the time of our audit, NRCB had no documented internal guidelines describing procedures NRCB staff must follow for leak detection and water well monitoring programs. As a result, staff did not always take timely action or document their monitoring activities and decisions. NRCB's internal controls did not detect these lapses.

During our audit, management stated that they believe NRCB inspectors worked with the operators to achieve compliance, even though they did not always document their follow-up actions or decisions in

NRCB's database. Management told us that they reviewed exception reports every two months, to identify operator non-compliance and confirm that NRCB inspectors are taking the appropriate action. We could not verify the existence or operating effectiveness of this control because management did not document their work.

Our testing found that some operators had failed to meet the groundwater monitoring and reporting conditions specified in their permits. In each of those cases, we found that NRCB inspectors worked with the operators to achieve compliance with their permits. However, they did not always document their follow-up actions or decisions in NRCB's database. Nor did NRCB staff always document other pertinent data. Key data were missing from the database and, in some cases, from operator paper files. For example, operator-submitted groundwater monitoring reports, NRCB analyses of the results and NRCB compliance activities were not documented.

NRCB did not always evaluate and follow up on operator groundwater monitoring results on a timely basis. We found two instances where NRCB took 11 months to complete full analysis of the groundwater monitoring reports. In one of these delayed cases, NRCB analysis detected potential lagoon leakage that required further follow-up at the operator's site. We also found two cases where NRCB did not complete the analysis of the groundwater monitoring results.

After our audit, NRCB issued an internal directive that describes its requirements for the timing and documentation of actions staff must take to monitor groundwater and respond to complaints. This directive took effect in May 2013. It sets a two-month timeframe for analysis of monitoring results. We were unable to test its implementation or the effectiveness of NRCB's processes to monitor internal compliance because we completed our audit before the directive went into effect.

Risk-based compliance program

NRCB implemented a process for assessing and monitoring environmental risk at pre-2002 CFOs that pose potentially high risk to groundwater. In August 2012, NRCB issued a policy that documented its process and required procedures.

NRCB did not have effective internal controls to ensure internal compliance with its policy for re-inspections. A quality assurance process introduced in NRCB's new directive for groundwater monitoring requires a compliance review, on a sample basis, of initial risk assessments, but does not mention re-inspections.

Our testing found that NRCB did not meet its target to annually re-inspect all the sites it had assessed as high risk to groundwater during the initial risk assessment. It did not re-inspect one of of the five high risk sites. NRCB met its re-inspection target for medium and low risk CFOs: 30 per cent of medium risk and 10 per cent of low risk facilities. However, it had no defined approach to selecting medium and low risk facilities for re-inspection. Data in the spreadsheets management used to track inspection results was not up to date.

Management had reviewed the contents of each completed paper file we tested, for compliance with NRCB's policy. However, the checklist management used to document the review did not include key policy requirements such as documentation of surface water risks or the completeness and accuracy of data entry into the database.

NRCB did not have a defined process to ensure it would appropriately assess for risk all CFOs identified as potentially high risk to groundwater. As a result, these CFOs might not undergo the risk assessment NRCB designed for these sites.

Our testing found that NRCB had completed a risk assessment using the environmental risk screening tool for all facilities we tested. NRCB was on track in completing initial risk assessments at a target rate of 25 CFOs annually.

Complaint responses

NRCB did not have adequate internal controls to ensure consistent and transparent documentation of complaints. NRCB staff did not consistently or, in our view, appropriately categorize all water related complaints. Appropriate categorization of complaints is important because NRCB tracks and publicly reports—by complaint type—on the number of operations involved in complaints. Management uses this data as one of the indicators of their success in managing environmental risks.

What remains to be done

To fully implement the recommendation, NRCB needs to implement a process to effectively monitor internal compliance with NRCB's policy for risk-based compliance, and its directive for leak detection, water well reporting and risk-based compliance programs, and for responding to complaints.

Surface water risks—satisfactory progress

Background

In 2011 we recommended that NRCB demonstrate that its compliance approach is adequate to proactively manage surface water risks.[7] We specifically wanted NRCB to demonstrate how its complaints-based approach to compliance was working to mitigate all significant surface water risks from CFOs.

In June 2012, NRCB proposed to enhance its approach to managing surface water risks through the following actions:

- Document surface water observations during site visits done in response to complaints or to monitor operator compliance with groundwater monitoring requirements. Use data collected over time to assess whether the current approach is appropriate.
- Continue to enhance its knowledge of surface water conditions at large beef operations.[8]
- Inform operators of their duty under the *Environmental Protection and Enhancement Act* to report any actual or potential substance release.
- Consult with the Ministry of Agriculture, Food and Rural Development on whether the Act should be amended to clarify operator release reporting requirements.

Criteria: the standards for our audit

NRCB's risk-based approach to groundwater monitoring should incorporate the following elements into its permitting and post-construction compliance monitoring processes.

Permitting

- Assess surface water risks, before issuing permits, by evaluating each facility's potential impact on surface water from site location, geological conditions and storage design specifications, and land base available for manure spreading.
- Verify that facility construction complies with the surface water requirements in its permit.
- Conduct site inspection before issuing permits, and again before the operation starts.

[7] *Report of the Auditor General of Alberta—April 2011*, page 59.

[8] NRCB stated that large beef operations pose a higher risk to surface water than operations with poultry, hog and dairy livestock.

Post-construction compliance monitoring

- Use follow-up inspections on surface water complaints to ensure compliance with legislation.
- Follow up on issues identified during inspections.
- Determine and take compliance and enforcement action, when appropriate, to correct surface water issues.
- Collect and evaluate surface water data from permitting and compliance monitoring activities to determine whether the current approach is adequate in proactively managing surface water risks.

Our audit findings

KEY FINDINGS

- NRCB developed a plan to determine whether its current approach for managing surface water risks is appropriate. First milestone will be completed in the spring of 2014.
- NRCB has adequate processes for assessing surface water risks at new and expanding facilities.

For all samples we tested, NRCB:

- assessed surface water risks before permitting operators to build facilities
- verified, upon construction completion, that operators complied with permit requirements set to ensure surface water risks are appropriately managed before operations begin.

In mid-2012, NRCB introduced a checklist to document surface water observations at CFOs. NRCB staff did not consistently use the checklist when visiting sites in response to the water related complaints we tested. NRCB stated that this was due to management's decision that surface water data collection would be more efficient if staff use NRCB's existing forms instead of the checklist. This took effect in May 2013.

In April 2013, NRCB completed a plan for collecting and analyzing surface water data from permitting and compliance monitoring activities to assess whether its current surface water approach is appropriate. We were unable to test the implementation of the plan because completion of the first milestone—analysis and evaluation of collected surface water data—is scheduled for the spring of 2014.

What remains to be done

To fully implement this recommendation, NRCB needs to:

- demonstrate reasonable progress in implementing its surface water plan by evaluating—in the spring of 2014—the collected data, and assessing whether its current surface water approach is working
- implement a process to effectively monitor internal compliance with the data collection requirements in the surface water plan.

Human Services—Monitoring of Daycare and Day Home Providers Follow up

SUMMARY

What we examined

In 2010, we audited systems that the Department of Human Services used to monitor and enforce compliance with its regulations for childcare programs. We made three recommendations. [1] This year, we conducted follow-up work to assess the department's and the Child and Family Services Authorities' progress in implementing the following recommendations:

- Child and Family Services Authorities improve systems to ensure consistent compliance with monitoring and enforcement policies and processes
- Department, working with the Child and Family Services Authorities, review documentation and training requirements for monitoring licensed and approved programs to ensure requirements are being met
- Child and Family Services Authorities improve systems for monitoring and enforcing childcare program compliance with statutory requirements and standards by ensuring that all verbal warnings are adequately documented and resolved

What we found

We found that all the recommendations were implemented:

- The authorities consistently used a risk-based matrix to determine their enforcement actions.
- The department revised its policies on documentation and trained its licensing officers on the importance of corroborating evidence.
- The authorities updated their policies on verbal warnings and follow up of low-risk non-compliances.

Why this is important to Albertans

More than 73,000 children are in childcare programs in the province. Parents rely on provincial standards to ensure that their children are safe. Albertans want to know whether daycare operators are following these standards and that the department is monitoring childcare providers.

AUDIT OBJECTIVE AND SCOPE

Our audit objective was to determine if the department and the authorities have implemented the three recommendations from our October 2010 Report.

In performing the audit, we:

- examined policies, roles and responsibilities of the department and authorities
- tested systems used to monitor compliance with statutory requirements
- interviewed department management and staff
- examined monitoring inspection reports

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[1] *Report of the Auditor General of Alberta—October 2010*, pages 37–39.

We carried out our audit between August and December 2012. We examined the department's and authorities' policies and processes in the period from September 1, 2011 to September 30, 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.

BACKGROUND

In 2008, the department announced its Creating Child Care Choices plan. One goal of the plan was to create 14,000 new childcare spaces over three years. Our audit was to determine if there were systems in place to ensure that there was compliance with the provincial standards for child care and if these systems were operating effectively.

Licensed programs[2]

Programs that care for seven or more children must be licensed. These include daycare, out-of-school care, preschool, group family child care and innovative child care programs and are governed by the *Child Care Licensing Act* and *Regulation*.

The department has policies and procedures to guide how authorities monitor licensed program compliance with the act and regulation. The authorities employ licensing officers to monitor programs and enforce compliance with operating requirements.

The regulations require the authorities to inspect these programs at least twice a year. In addition, licensing officers respond to complaints and reports of critical incidents such as child injury. If a program is not complying with regulatory requirements a licensing officer may:[3]

- issue a warning to correct non-compliance
- issue an order to remedy non-compliance
- impose conditions on a license
- vary a provision of a license
- suspend a license and issue a probationary license
- cancel a license

Licensing officers have the authority to choose the enforcement action depending on the severity of the non-compliance. Repeated non-compliance may warrant more serious enforcement action.

Approved family day home programs

Family day home providers provide child care to six or fewer children and are required to comply with Family Day Home Standards. Authorities contract with family day home agencies to administer family day home services, which include:

- providing recruitment, approval, training and monitoring
- assisting parents with choosing a home
- enrolling and placing children in homes
- collecting parents' fees and payment of providers
- monitoring and enforcement actions

Agencies monitor approved family day home programs and enforce compliance with standards. The authorities' standards require agencies to visit day homes six times annually. The department's

[2] *Child Care Licensing Act*, Section 1.
[3] *Child Care Licensing Act*, Sections 12-16.

standards require authorities to monitor agencies at least annually, to ensure that agencies comply with the department's standards. The department requires authorities to annually review agency records and visit 10 per cent of the homes overseen by an agency.

FINDINGS AND RECOMMENDATIONS

Improve consistency of monitoring—implemented

Background

In 2010, we recommended that the authorities improve their systems to ensure staff consistently comply with the authorities, monitoring and enforcement policies and processes.[4]

The department's risk assessment framework tool assists licensing officers to assess whether an identified non-compliance with the standards poses a risk to the safety and well-being of children in a program.

The framework measures non-compliance against two criteria:
- the consequences of the non-compliance
- the likelihood of that consequence taking place

The risk score is the product of the consequences and likelihood. The department gives licensing officers the authority to exercise professional judgement in applying the two criteria. The licensing officers use the risk score to determine enforcement actions. Higher scores require more severe enforcement actions. The department also requires licensing officers to use the framework to assess the cumulative impact of several non-compliances within one program.

We made the recommendation to the authorities because we found that the licensing officers were not using the department's risk assessment framework consistently. We also found that authorities did not have a consistent, documented process to monitor licensing officers' completion of inspections reports across the province.

Our audit findings

The recommendation was implemented. The authorities consistently used the risk assessment framework tool to determine what enforcement action was required. We understand the authorities will continue to enhance the consistency of documentation of supervisory review of the licensing officers' inspection reports.

[4] *Report of the Auditor General of Alberta—October 2010*, page 38.

Documentation and training—implemented

Background

In 2010, we recommended that the department, working with the authorities, review its documentation and training requirements for monitoring licensed and approved programs to ensure compliance with standards.[5]

We made this recommendation because we found inconsistencies in the level of corroborating evidence in inspection reports. The inspection report checklist is used by licensing officers to document whether a regulation is being followed or not. Licensing officers were using a “not observed” choice if it was available on the report and not providing any evidence as to whether a program was compliant or non-compliant with the regulations. We also found that the department was not doing a detailed trend analysis to identify patterns of non-compliance.

Our audit findings

The department has implemented the recommendation. It improved its communication of daycare licensing standards to the authorities by providing training to all the licensing officers in the province. The department updated its policies and procedures by including documentation requirements for inspection reports. There is no longer an option for licensing officers to mark an item as “not observed” on the inspection report. If licensing officers do not directly observe an item they must document corroborating evidence to support compliance with the regulation.

The department increased its use of trend analysis on the data recorded in the child care information system. For example, the department trended top non-compliances or changes in top non-compliances both provincially and by region. We found that the department was analyzing this data and was engaging licensing and childcare program staff in discussions.

Improve follow-up processes—implemented

Background

In 2010, we recommended that authorities improve their systems for monitoring and enforcing daycare program operators’ compliance with the regulations, by ensuring that licensing officers had adequately documented and followed up on all verbal warnings to licensed and approved programs.[6]

For low-risk non-compliances, licensing officers can choose whether to issue a warning or an order to remedy, depending on the severity. For both warnings and orders, the officer is required to set a time to follow up on results. The licensing officers can impose more severe enforcement actions, by placing conditions on the license, issuing a probationary license or closing a program. The licensing officers impose these actions by consulting with the authorities’ supervisors and department staff, as cases require.

We made the recommendation to the authorities because we found that licensing officers could not demonstrate that they had followed up on warnings they had issued. The licensing officers’ documentation of their actions was lacking.

[5] *Report of the Auditor General of Alberta—October 2010*, page 37.
[6] *Report of the Auditor General of Alberta—October 2010*, page 39.

Our audit findings

The authorities implemented the recommendation. Licensing officers' documentation of their actions has improved. Further, the two new policies—escalation for repeat non-compliances and the timeliness of following up on warnings—were implemented.

The first new policy is that the authorities cannot issue warnings for a specific section of the act or regulation more than once during a licence term. If the non-compliance occurs more than once during the licence term, then the enforcement action must be escalated to a more severe enforcement action. The department did not issue any repeated warnings during the term.

The second new policy is that the remedy date for warnings must not exceed three months or the expiry of the licence term, whichever is first. The department followed up on all warnings within this timeframe.

Justice and Solicitor General—Justice Online Information Network System Follow Up

SUMMARY

What we examined

In 2012, we audited IT security for the transfer of traffic fines information between the government's Justice Online Information Network system and its external partners' systems. We examined the method the department used to receive the data, summarize and report on it and send summaries of fines back to ticketing partners and municipalities.

What we found

Unsecured transmission of ticket data
In 2012, we found that the department sent ticket data over the internet using an unsecured network protocol called FTP (file transfer protocol). FTP sends data in clear text and unencrypted over the internet. Ticket data includes details such as the driver's licence number, name, address, date of birth and the specifics of the fine. The department also uses the JOIN application to produce and send reports to police services and to reconcile tickets they have sent to Justice. These reports were also sent to municipalities over the internet, in the same unsecured fashion.

Data could be intercepted
Transmitted over the internet without security controls to protect it from unauthorized access, this information could be compromised by hackers who use relatively common techniques such as:

- packet capture or data sniffing attack—A network intruder could simply connect to one of the many internet network nodes[1] that data passes through on its way to the servers and back, and could steal the data
- bounce "man-in-the-middle" attack—An intruder could modify the data passing through the internet node and then allow it to continue to its destination, for malicious or fraudulent purposes

Non-compliance with the department's security policy
The department did not follow its own security policies, which clearly state that personal data transmitted outside of the government must be protected from unauthorized access. We did not find any occurrences where data had been accessed by an unauthorized party. However, the risk was high that this could occur and the department would not know if or when it had occurred.

We immediately recommended that the department improve the security over data transmitted over the internet. Because of the sensitivity of this finding and the potential for loss of confidential information, we exercised our discretion to not publicly report our finding in 2012. We did not want to create a beacon for hackers to focus attacks on this vulnerability. In response to our recommendation in 2012, management informed us that a high priority project was underway to securely transmit ticket data.

[1] The internet is a global system of interconnected computer networks that are linked by a broad array of electronic technologies and devices, commonly referred to as nodes. When data is transmitted from one point or "node" on the internet, it may pass through various other devices' nodes along the way to its destination.

During our 2013 audit of the department, we followed up on management's plans and actions to implement a secure file transfer method of ticket data for its JOIN application. Management advised us that, as of March 2013, it had implemented the necessary changes to its systems and its partner systems to ensure that all traffic ticket data would be transmitted using a secure method that would not allow for unauthorized access.

We tested the design and operating effectiveness of the new JOIN secure transfer system and confirmed that the department has resolved this critical security exposure. We now consider the 2012 recommendation to be implemented.

Treasury Board and Finance—Oversight of Financial Institutions Follow Up

SUMMARY

The department[1] is responsible for maintaining the legislative framework for all provincially incorporated financial institutions and for supervising provincially regulated financial institutions to determine whether they are in sound financial condition and complying with legislation and supervisory requirements. The department does this through the Financial Institutions Regulatory Branch and the Financial Institutions Policy Branch.

The regulatory branch regulates and supervises the following entities:
- ATB Financial
- Credit Union Central Alberta Limited (AB Central), which is the central bank and liquidity provider for credit unions
- six provincially incorporated trust companies that do not take deposits

The policy branch maintains the legislative framework for provincially incorporated financial institutions including ATB, the Alberta credit union system, and trust companies. The policy branch is also responsible for assessing whether the government is receiving a fair return from ATB.

What we examined

In 2010, we examined whether the department had:
- clearly defined its expectations for ATB and had processes to monitor whether those expectations were met
- effective systems in place to monitor the safety and soundness[2] of ATB, AB Central and the six trust companies

We recommended in our April 2010 Report that the department:
- clarify its business objectives for ATB, in relation to the level of risk the department expects ATB to take
- develop an implementation plan for its approach to regulating and supervising regulated financial institutions
- complete risk assessments and evaluate the quality of regulated entities' risk management practices
- strengthen its processes to ensure identified legislative non-compliance matters are remediated
- identify which guidelines are applicable for regulated entities and develop processes to monitor compliance with the guidelines

To assess the department's progress in implementing our recommendations, we examined its activities from April 2010 to March 2013. We excluded the department's supervisory systems for trust companies from our follow up audit because we agreed with the department's assessment that the financial risk to

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[1] In our original audit, the department was the Department of Finance and Enterprise. It is now the Department of Treasury Board and Finance.
[2] For purposes of this audit, we take "safe and sound" to mean that entities comply with legislative requirements, maintain adequate capital and liquidity and follow good business practices to protect customer's deposits and assets from loss.

the province around these entities is lower than the risks for ATB and AB Central. Therefore, our focus was on the department's processes to regulate and supervise ATB and AB Central.

What we found

Over the past few years, the department has moved from an informal monitoring program to a risk-based[3] supervisory program. There is now active oversight occurring of provincially regulated financial institutions.

When we did our original audit, the department had recently developed its supervisory approach to monitor the safety and soundness of regulated entities. Only informal monitoring procedures were being done. This follow-up audit confirmed that significant components of the implementation plan have been put in place. The department is on schedule; however, it will take a few more years to finish implementing the complete plan.

The department has implemented our four recommendations on having effective systems in place to fulfill its responsibilities to monitor the safety and soundness of provincially regulated financial institutions. The department's plan for implementing its regulatory framework is a road map for achieving its objective of holding provincially regulated entities to similar regulatory and supervisory standards as other financial institutions.

The department has implemented our recommendation to clearly define its expectations for ATB and has processes to monitor whether expectations are met. The department uses a quantitative performance target to assess fair return, as well as ensuring that certain qualitative objectives are being met, such as ATB maintaining a presence in smaller communities.

Why this is important to Albertans

Expectations for ATB

Albertans should be able to assess whether ATB, as a crown corporation, is providing an appropriate return for the level of risk it is undertaking.

Regulatory branch

The Government of Alberta guarantees the full value of deposits held at ATB and Alberta credit unions. Albertans could be exposed to losses if ATB and AB Central are not operated in a safe or sound manner.

FINDINGS AND RECOMMENDATIONS

Improving accountability—implemented

Background

In 2010, we recommended that the department clarify its business objectives for ATB, within their memorandum of understanding (MOU), in relation to the level of risk the department expects ATB to take.[4] We noted that the department had not clearly defined the business objectives it expected ATB to achieve, because the department had not clearly defined a "fair return."

[3] A risk-based program identifies areas of higher risk, and focuses resources and effort to these areas.
[4] *Report of the Auditor General of Alberta—April 2010,* page 96.

Our audit findings

The department implemented our recommendation by creating a new mandate and roles document[5] (MRD) to improve the understanding of roles and responsibilities for ATB and the department as well as further defining what "fair return" means. The MRD was signed by both ATB and the department and replaces the MOU that was in effect during our original audit.

The MRD recognizes that ATB is not solely a commercial enterprise and that the government must take qualitative considerations into account when evaluating fair return. ATB fulfils certain policy objectives, such as maintaining a presence in smaller rural communities, and operates within an established level of risk set by the minister. Therefore, the MRD states that a fair return must be evaluated within constraints imposed and opportunities afforded it by government.

The department and ATB meet annually to review ATB's fair return and other matters identified by ATB's board and the Minister of Finance. ATB uses this information to create targets for its business plan, which the department annually reviews. The targets take various factors into account, including the department's requirements of ATB, risk parameters set by ATB's board, and level of risk set by the minister.

The target that ATB and the department agreed to use is a 1.0 per cent return on average risk weighted assets for the 2013–2014 fiscal year. The target increases to 1.1 per cent in the following two years. This ratio is calculated by taking net income for the year divided by ATB's average risk weighted[6] assets. The example below demonstrates how this metric would have been calculated for the year ending March 31, 2012:

Net income – year ended March 31, 2012 ($ thousands)	Average risk weighted assets – year ended March 31, 2012 ($ thousands)	Return on risk weighted assets – year ended March 31, 2012 (per cent)
195,100	21,795,000	0.90

We concluded this recommendation is implemented because the department has defined fair return and has a process to measure and monitor the results.

Implementation plan for regulatory and supervisory frameworks—implemented

Background

In 2010, we recommended that the department develop an implementation plan for regulating and supervising regulated financial institutions.[7] The department had a framework that set out its supervisory approach. An implementation plan would identify the crucial steps the department needed to take to implement the framework.

[5] http://www.finance.alberta.ca/business/agency-governance/agencies/A/ATB-Mandate-and-Roles.pdf
[6] Risk weighted assets are established for various on-balance sheet and off-balance sheet assets according to credit risk.
[7] *Report of the Auditor General of Alberta—April 2010,* page 97.

Our audit findings

The department created a five-year implementation plan to regulate and supervise financial institutions. We reviewed the plan and concluded that it appropriately sets out the department's approach over the next five years. The plan contains:

- key supervisory activities to achieve the department's regulatory objectives
- timelines for implementation
- projected resource requirements
- expected outcomes

We did note that some assumptions in the five-year plan were outdated, such as the number of supervisory staff available to the department. We encourage the department to update the plan when circumstances change that may affect the department's ability to implement the framework. To its credit, the department has generally been able to meet its schedule with fewer resources than anticipated.

Completion of risk assessments—implemented

Background

In 2010, we recommended that the department complete risk assessments and evaluate the quality of the regulated entities' risk management practices.[8]

The objective of a risk-based supervisory model is to:

- identify and evaluate risk within a financial institution
- assess the quality of the financial institution's risk management and control functions
- perform a combination of on-site examinations and off-site monitoring based on the organization's size, complexity, risk profile and financial condition

Our audit findings

The department implemented our recommendation by completing risk assessments for ATB and AB Central and then using the assessments to create risk-based supervisory plans for these entities.

The risk assessment for ATB was first completed for the fiscal year ending March 31, 2011, and has been updated annually. The risk assessment for AB Central was completed in October 2011. The risk assessment for AB Central incorporates results from consultations with the Government of Canada's Office of the Superintendent of Financial Institutions,[9] which also has regulatory responsibilities related to AB Central.

As part of its risk assessments, the department also evaluated the quality of risk management practices at ATB and AB Central.

Monitoring legislative compliance—implemented

Background

In 2010, we recommended that the department strengthen its processes to ensure identified legislative compliance matters are remediated.[10] As part of its approach to regulate and supervise, the department requires regulated entities to annually confirm their compliance (or identify non-compliance) with:

- provincial legislation
- guidelines issued by Alberta's superintendent and Canada's superintendent of financial institutions
- federal legislation, such as the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*

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[8] *Report of the Auditor General of Alberta—April 2010,* page 100.
[9] http://www.osfi-bsif.gc.ca/
[10] *Report of the Auditor General of Alberta—April 2010*, page 101.

Our audit findings

The department implemented the recommendation by improving its process around monitoring legislative compliance. Specifically, the department:

- obtains an annual confirmation on legislative compliance from ATB and AB Central
- requires ATB and AB Central to provide an action plan to remediate any instances of legislative non-compliance
- follows up on outstanding issues until they are resolved

We tested this process and found it is operating effectively.

Improving transparency—implemented

Background

In 2010, we recommended that the department:[11]

- clearly identify which guidelines and supervisory rules apply to the regulated entities
- develop processes to monitor compliance with the guidelines
- assess how risks are mitigated for those guidelines and supervisory rules that do not apply

Our audit findings

The department implemented the recommendation by advising and obtaining acknowledgement with its regulated entities which guidelines and supervisory rules apply to them and by requiring them to annually confirm their compliance. The results of the compliance confirmations influence the department's risk assessment and supervisory plans for the regulated entities.

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[11] *Report of the Auditor General of Alberta—April 2010*, page 102.

Glossary

REPORT OF THE AUDITOR GENERAL OF ALBERTA

July 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 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.

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

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