

Auditor General's Report

Memorial University's Comment

Preamble

Memorial University recognizes that the intellectual freedom and autonomy that is crucial to its success comes with the responsibility that it be accountable to its stakeholders for its activities and actions. In that spirit, Memorial University cooperated fully with the Auditor General when in late 2004 he requested to undertake a "legislative audit" of the University, consistent with the provisions of both the **Memorial University Act** and the **Auditor General's Act** and with the understanding that the audit would respect the academic freedom and autonomy of the university's decision-making processes.

In the period of January to July 2005, the University assisted the Auditor General's team of four experts. The team had unfettered access to all University records and staff.

It is important to note that the Auditor General's legislative audit report is only one part of Memorial University's accountability framework. The University is governed by a Board of Regents, the majority of whose members are appointed by the provincial government. The Regents are accountable to the Minister of Education for the operations of the university. The academic affairs of the university are the purview of the Senate; the deputy minister of Education is a member of the Senate.

The University publishes annual reports about its activities in print and on the Web, conducts annual surveys of its first-year students and recent graduates and provides reports on academic performance. It publishes audited financial statements and a **Fact Book**, a compendium of operational statistics. The Department of Education conducts surveys on educational outcomes that are regularly reported in **CareerSearch**.

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Memorial University's Comment

The University has a unique role within our province and more generally within our society. Memorial University is not a government department or Crown agency but is -- and must be -- an autonomous higher education, research and community service institution that is supported by government funding. The legislated "arms length" status of the University and its resulting unique mandate in society and have been recognized by every provincial government in this province since Confederation; in fact, autonomy is the cornerstone of universities in the free world. As generators and disseminators of knowledge, universities must have the latitude to establish strategic directions and to pursue them as they deem appropriate without political or government interference. They must also provide their individual academic units and faculty members the latitude to plan within a broadly established institutional planning framework.

Thus the University does not believe that its practices should be the same as those of government departments and agencies. Additionally, some of the Auditor General's findings represent differences in interpretation of policies or procedures, while in some cases specific circumstances and context could be added to aid understanding.

Introduction
University Description

Introduction

University description

Memorial University of Newfoundland was founded in 1925 (as Memorial University College) and was granted university status in 1949. Today, the University's main campus and Marine Institute are located in St. John's, with other campus locations in Corner Brook (Sir Wilfred Grenfell College) and Harlow, England.

Students

Memorial is the largest university in Atlantic Canada, with 17,800 students engaged in full and part-time studies at under-graduate and graduate levels. Each year, the graduating class numbers in excess of 2,000 students.

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Staff

The University employs 950 full-time faculty and 850 sessional instructors, 2,300 administrative and support staff, plus 2,000 students in part-time jobs.

Programs

Undergraduate and graduate degrees, as well as diploma and certificate programs are offered in the following faculties (Arts, Business, Education, Engineering, Medicine and Science) and schools (Continuing Education, Graduate Studies, Music, Nursing, Pharmacy, Physical Education and Social Work). The academic year runs from 1 September to 31 August, with three 14-week semesters, a 6-week inter-session and a 6-week summer session.

Sir Wilfred Grenfell College (SWGc) in Corner Brook and the Marine Institute (MI) in St. John's also offer degree, diploma and certificate programs in areas including Fine Arts and Maritime Studies.

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Administration Building – St. John's Campus

**Financial
summary**

The University's audited financial statements for the year ended 31 March 2005 disclosed:

- Total assets of \$280 million (2004 - \$264 million) and a net asset deficiency of \$19 million (2004 - \$22 million)
- Total revenues of \$341 million (2004 - \$323 million), including \$170 million in Provincial Government operating grants (2004 - \$162 million)
- Total expenditures of \$340 million (2004 - \$348 million)

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- A surplus of \$1 million (2004 – deficiency of \$25 million)

Memorial University's Comment

The charts on the following pages provide detailed financial information.

ASSETS AND LIABILITIES

Classification	2005 (000's)	2004 (000's)
Assets		
Current assets		
Cash and cash equivalents	\$ 26,491	\$ 46,062
Short term investments	13,914	-
Accounts receivable	33,559	27,418
Inventory and prepaids	5,141	4,683
Accrued interest receivable	694	534
	79,799	78,697
Capital assets	152,374	142,053
Investments	47,136	42,997
Mortgage receivable	590	591
	\$ 279,899	\$ 264,338
Liabilities, Deferred Contributions and Net Assets		
Current liabilities		
Accounts payable and accrued liabilities	\$ 22,180	\$ 36,131
Deferred revenue	11,025	-
Bank indebtedness	7,142	7,776

Classification	2005 (000's)	2004 (000's)
Short term debt	1,573	1,501
	41,920	45,408
Long-term contributions		
Employee benefits obligation	74,019	70,830
Long-term debt	2,105	3,488
	76,124	74,318
Deferred contributions	180,399	166,605
Net Asset (deficiency)	(18,544)	(21,993)
	\$ 279,899	\$ 264,338

REVENUE AND EXPENDITURES

Classification	2005 (000's)	2004 (000's)
Revenue:		
Government grants	\$ 216,332	\$ 210,914
Student fees	52,408	50,096
Other income	35,213	26,172
Amortization of deferred capital contributions	18,585	18,428
Sales and services	14,773	14,067

Classification	2005 (000's)	2004 (000's)
Investment income	3,184	2,923
	340,495	322,600
Expenditures:		
Salaries	187,995	183,952
Employee benefits	30,478	26,816
Employee future benefits	3,587	24,819
Materials and supplies	28,251	27,044
Amortization	18,931	19,391
Utilities	15,043	14,581
Scholarships and bursaries	15,384	14,253
Externally contracted services	13,409	12,942
Renovations	14,205	10,796
Travel and hosting	10,026	10,291
Other	7,966	7,025
Professional fees	5,569	6,815
Equipment rentals	2,963	1,966
Books	708	677
External cost recoveries	(14,565)	(13,951)
	339,950	347,417
Surplus (deficiency) of revenue over expenditures	\$ 545	\$ (24,817)

Auditor General's Report

Previous audit attempts Memorial University of Newfoundland was created by the Memorial University Act. Under that Act, the majority of the Board of Regents is appointed by the Lieutenant-Governor in Council. Accordingly, the University meets the definition of a Crown agency under the Auditor General Act.

However, in 1993, the Memorial University Act was amended so that the University is not a Crown agency for purposes of the Auditor General Act. This amendment was Government's response to the issuance of a special report to the House of Assembly by the previous Auditor General, and related Court action initiated by the Auditor General. The special report noted that the Auditor General had not received all the information which was required in order to carry out an examination of the University.

Memorial University's Comment

Previous audit attempts

The 1993 revision of the Memorial University Act was not undertaken by government solely in response to the Auditor General's report or any related court action. Rather, it was a direct response to a request from Memorial University that it be exempted from the definition of an agency of the Crown in the Auditor General's Act because being captured under such a definition was contrary to the principles of intellectual freedom and autonomy from government control which form the cornerstone upon which universities operate in the free world. This independence allows university faculty to conduct teaching and research without being bounded by any established doctrine; it allows faculty to challenge accepted mores, to question the legitimacy of governmental and public policies, to explore uncharted waters, to be the one publicly funded institution in society that is not subject to the dictates of the government of the day.

In 1993 Government concurred that it was neither appropriate nor accurate to consider Memorial University to be an agent of the Crown and amended the Memorial University Act to read: "the university is not an agency of the Crown for the purpose of [the Auditor General's] Act or any other purpose" (Section 38.1(2)). The amendment also outlined specific audit and reporting requirements for the university and defined the scope of the Auditor General's actions respecting Memorial: "[These audit requirements] shall not be construed as entitling the Auditor General to question the merits of decisions or actions of the Board or the Senate taken in contemplation of the work customarily associated with a university as reflected in the powers and authority granted to the university [under the Memorial University Act]."

Auditor General's Report

The 1993 amendment to the Memorial University Act did include a provision whereby, if in specified circumstances the Auditor General considered it necessary, an examination and investigation of the records and operations of the University could be conducted.

In 1994, subsequent to the amendment to the Memorial University Act, the previous Auditor General wrote the then President of the University indicating the intention to conduct such an examination and investigation, and requesting information required to commence that work. The University did not provide the requested information and accordingly a section was included in the 1994 Annual Report to the House of Assembly indicating that since the University had denied the necessary access, the Auditor General could not report as required by the Auditor General Act and the Memorial University Act.

Given that the Office was unable to gather the necessary support from the University or from Government to conduct any further work at the University, no further attempts were made since 1994.

Memorial University's Comment

The Auditor General has not had the responsibility of auditing Memorial University's financial records since 1987 when Government authorized the University to call tenders for the provision of financial auditing services. Since that time a number of private auditing firms have carried out this function annually to the satisfaction of the university's governing Board of Regents and the Department of Education. Similarly, since 1987 the Auditor General has not exercised his/her right under the Auditor General's Act to review the private auditors' reports and, should they be insufficient to make a report to the House of Assembly, to conduct a review of the university's financial operations. In 1994 the Auditor General did request to review the university's financial records but without following this procedure outlined in the legislation: to first review the private auditor's reports and deem them insufficient. Because the Auditor General would not specify the grounds or authorities under which her request was being made, the 1994 request was declined.

The University had no difficulty supporting the Auditor General's review request in 2004 (which was consistent with the provisions of both the Memorial University Act and the Auditor General's Act) since the Auditor General committed to undertaking a "legislative audit" as well as respecting the autonomy of the University and academic freedom. The letter setting out the understanding between the Auditor General and the University is quoted in the Audit Objectives and Scope section that follows.

Auditor General's Report

In November 2004, I wrote the Chair of the Board of Regents indicating that I was planning a review of the University. I was quite pleased that this time, there was support for such a review.

Memorial University's Comment

If the Auditor General had given similar assurances in the past, it is likely that previous difficulties would have been avoided.

Academic Freedom

The main reason voiced by the University in 1993 and 1994 for not providing this Office with the necessary access was that the University's "academic freedom" could not be questioned. This was reflected in the 1993 amendment to the Memorial University Act which, under section 38.1, provided that the amendments shall not be construed as entitling the Auditor General to question the merits of decisions or actions of the Board of Regents or the Senate taken in contemplation of the work customarily associated with the University, as reflected in section 3(3) of the Act. That section states that:

Autonomy Essential to Preserve Academic Freedom

The Memorial University Act states that Memorial University is not an agency of the Crown. Memorial University's legislative framework provides it with the authority to operate in ways different from provincial government departments or agencies, particularly in terms of hiring, compensation, policies, planning, performance indicators, etc. In fact, in respect of the principle of academic freedom, Memorial has been granted special authorities in its legislation so that that it can operate autonomously and without direct Government control. Further, in order to serve the higher education mandate that Government has enshrined in its legislation, Memorial University operates within a global community of universities and must compete for faculty, resources and services worldwide. To successfully carry out its mission, Memorial must operate quite differently than Government, while ensuring that it is accountable for its use of public funds.

Auditor General's Report

Memorial University's Comment

"The university shall have full power and authority to establish and maintain those faculties, colleges, schools, institutions, departments, chairs and courses that may seem appropriate to the board, and

- (a) to give instructions and training in all branches of knowledge and learning, including physical instruction and training;
- (b) to grant degrees, including honorary degrees, diplomas and certificates of proficiency;
- (c) to provide facilities for the prosecution of original research in every branch of knowledge and learning and to conduct and carry on that research work; and
- (d) generally, to promote and carry on the work of a university in all its branches."

While this Office had never contended it would question the merits of the University offering various academic courses, or the merit of other decisions of a strictly "academic" nature, it has always contended that the University should be subject to the same review of its records and operations similar to any other publicly funded Government entity.

Auditor General's Report

Audit Objectives and Scope

Objectives We conducted our audit to determine if:

1. There are mechanisms in place to ensure the University is accountable to Government and the House of Assembly;
2. Government, primarily through the Department of Education, is adequately involved in monitoring the financial performance of the University;
3. The University follows a strong strategic plan; and

Memorial University's Comment

Audit Objectives and Scope

The agreed scope of the Legislative Audit was confirmed in a letter from the University President to the Auditor General dated December 13, 2004, and includes the following:

- The Corporate History, including mandate and authorities;
- Board of Regents, Senate and Committee Governance, including review of Minutes etc., roles and activities;
- Management Practices, organization, planning function, budgeting and financial reporting;
- Human Resources issues such as recruiting, training, payroll etc.;
- All sources of revenue including student fees, tuition, Provincial and Federal funding, commercial revenues, etc.;
- Purchasing practices and guidelines, such as contracting, compliance and monitoring;
- Capital Assets contracts and Facilities Management issues and contracts;
- Consultants, review of guidelines and selection process;
- Legislative compliance, e.g. with the Public Tender Act
- Performance indicators and assessment.

Auditor General's Report

4. The University uses a strong system of controls for its financial transactions and assets.

To achieve our objectives, we identified and assessed the University's systems and procedures in the following 6 sections:

- Section 1 - Board Governance
- Section 2 - Human Resources
- Section 3 - Revenue
- Section 4 - Purchasing
- Section 5 - Facilities Management
- Section 6 - Capital Assets

Scope

We completed our review of Memorial University of Newfoundland in July 2005. The period covered under the review was primarily the two years ended 31 March 2004; however, significant events occurring previous or subsequent to this period were also assessed as deemed appropriate.

Conclusions

Findings

We reached the following overall conclusions in our review of Memorial University of Newfoundland.

1. Accountability mechanisms

We learned that the University is unique among all other Government entities in the way it is held accountable to Government and the House of Assembly. At the time of our review, the University was the only Government entity:

Memorial University's Comment

Conclusions

Findings

1. Accountability mechanisms

Memorial University's special accountability mechanisms have been developed and approved by the provincial government and they are consistent with those in place at other Canadian universities.

Memorial University's unique status amongst government-supported entities is appropriate because it is a university. Freedom of inquiry, expression, teaching and learning are essential to the University and the well-being of society.

Auditor General's Report

- Not subject to all requirements of the Transparency and Accountability Act (to be proclaimed);

- Not included in the Province's Consolidated Summary Financial Statements; and

- Not compelled to have officials appear before Committees of the House of Assembly.

In our opinion, the University's accountability mechanisms are not adequate.

Memorial University's Comment

- The Transparency and Accountability Act (to be proclaimed)

The exemptions granted to Memorial University in the Transparency and Accountability Act are limited and are consistent with Memorial University being an autonomous institution, independent of Government. Similar autonomy is accorded to all other major Canadian universities and is a requirement for Memorial University's membership in the Association of Canadian Universities and Colleges (AUCC).

- Province's Consolidated Summary Financial Statements

It is Government's decision whether or not to include the University in the Province's Consolidated Summary Financial Statements. The University annually provides independently audited financial statements, which make such inclusion possible.

- Committees of the House of Assembly.

In order to preserve academic freedom and avoid politicization, the University reports to the House of Assembly through the Minister of Education.

Given the aforementioned points, the University believes that its accountability mechanisms are adequate.

Auditor General's Report

2. Government monitoring

Our review indicated that the Department of Education does not have significant involvement in monitoring the financial affairs of the University.

Memorial University's Comment

2. Government monitoring

Under the Memorial University Act and consistent with the autonomy of the University and the practice in all other major Canadian universities, the Board of Regents is responsible for overseeing and monitoring the University's financial affairs.

The Department of Education receives annual, independently-audited financial reports and other reports on Memorial University. In addition, the University makes available large amounts of data and reports to the public in printed and electronic format. As a publicly funded body, the University complies with by the provisions of a range of accountability-oriented legislation, including the Public Tender Act, the Access to Information and Protection of Privacy Act among others.

Auditor General's Report

3. Strategic plan

We also found that, while the University does have a strategic framework, it could not be considered as a comprehensive strategic plan to direct its operations. The University is currently developing a more comprehensive strategic plan.

Memorial University's Comment

3. Strategic plan

In 1999, it was decided that Memorial University should develop a Strategic Framework to provide strategic direction in 33 main action areas (together with many sub-areas). The University has pursued these areas vigorously over the past five years. It has been successful in achieving all of the key goals set out in the Strategic Framework, including major increases in student retention (from 75% to 86% in first to second year transition), increased participation by high school graduates from Newfoundland and Labrador (from 54% to 67% of those eligible), improved academic performance of students (first semester average grade has improved from 62% to 66% and the failure rate has dropped from 14% to 8%), increased graduate and undergraduate enrollment (increased by 42% and 9%, respectively), and increased sponsored research funding (increased by 120% to \$81.6 million).

These and other achievements have helped Memorial University rank amongst the top universities in Canada and amongst the top 500 (or 3%) of the universities in the world.

The Strategic Framework approach was in keeping with practices employed by other Canadian universities at the start of the decade. Many universities are now adopting a more integrated approach to planning that explicitly links plans at the department-, school- and faculty-levels to the university's strategic plan and to resource allocation. Memorial University is currently engaged in a new strategic planning process that will incorporate the best practices existing at other institutions in Canada.

For more information on strategic planning at Memorial, view the Strategic Planning website at www.mun.ca/strategicplanning/

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4. Control of financial transactions and assets

We learned that weaknesses exist in the University's system of financial transaction and asset controls. There are significant inconsistencies in compensation practices between University employees and other public sector employees, as well as inconsistencies with the University's own policies. We also found that the University is not always complying with the Public Tender Act

We reached these conclusions by examining the following areas:

1. Board Governance
2. Human Resources
3. Revenue
4. Purchasing
5. Facilities Management
6. Capital Assets

Memorial University's Comment

4. Control of financial transactions and assets

As demonstrated in these detailed comments on the Auditor General's report, the University believes there are no serious weaknesses in its financial system. In some cases where items were highlighted by the Auditor General, the University had identified the issues and rectified them before the Auditor General's visit.

There are no requirements that Memorial University must comply with government's compensation practices, in recognition of the different institutional objectives, required qualifications, duties, responsibilities and work environments for employees of the two organizations. Under the Memorial University Act the Board of Regents has the authority and responsibility to set salaries. However, in recognition of the significant public funding the university receives from the provincial government, the university makes every effort to achieve wage complementarity among any similar job classes.

Memorial must compete for faculty in national and international markets where shortages are becoming pronounced. Thus the university's compensation practices cannot be patterned on those of public sector employees in our province; instead they are patterned on those at other Canadian universities. To ensure that Memorial University is competitive in attracting and retaining staff, in some situations it pays market differentials, i.e. additional compensation necessary to recruit the best candidate for the post. This practice is common as competition for new faculty members becomes more intense in Canada, as retirements increase and as the number of doctorally-qualified candidates in many disciplines is insufficient to meet demand.

The University is consistent in the application of its policies; these policies also permit the President or Vice-Presidents to approve deviations from normal practice as appropriate.

The University complies with the Public Tender Act as directed in legislation and disagrees with the Auditor General's interpretation of some incidents as representing non-compliance.

Auditor General's Report

1. Board Governance

Transparency and Accountability Act

The University is excluded from many of the requirements of the Transparency and Accountability Act (to be proclaimed). This Act is intended to hold Government departments and other Government entities accountable to Government and the House of Assembly. However, unlike other Government entities, the University's strategic, business or activity plans do not require approval by the Minister, and the University is not required to address the Minister's recommendations in cases where he/she believes the University is failing to meet the objectives set out in its plan.

Province's Consolidated Summary Financial Statements

Although my Office has been recommending for years that the University be included in the Province's Consolidated Summary Financial Statements, this has never happened. I am pleased to report, however, that Government approved consolidation of the University commencing with the 31 March 2006 Public Accounts.

Accountability to Committees of the House of Assembly

An amendment in 1993 to the Memorial University Act states that where a matter pertaining to the University, including a report of the Auditor General, is referred to a Committee of the House of Assembly, the Committee shall conduct its examination through the Minister of Education. The Chancellor, President, Chairperson of the Board of Regents, vice-presidents and other officers and employees of the University are not compellable to attend as witnesses before the Committee.

Memorial University's Comment

1. Board Governance

The Transparency and Accountability Act

The Transparency and Accountability Act recognizes and respects the unique characteristics of the University as an autonomous institution of higher education. The University's accountability mechanisms have been developed and approved by the provincial government; they are consistent with those at other Canadian universities.

While the University is not required, and it would be inappropriate, to have the Minister approve its strategic plan, it is accountable to the government and the public for achieving the objectives set in its plan.

Province's Consolidated Summary Financial Statements

It is a decision of Government whether to include Memorial University in the Province's Consolidated Summary Financial Statements. Memorial University is cooperating to accomplish this integration.

Accountability to Committees of the House of Assembly

The Auditor General's report does not provide the full context of the legislative provisions governing the University's accountability to the House of Assembly. Under the Memorial University Act the Minister speaks for the University before the House of Assembly in order to preserve the institution's autonomy and to avoid academic matters becoming the subject of political debate.

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Government Monitoring

Other than approving the University's budget and reviewing other information in relation to Provincial funding, there has been little monitoring of the University's financial affairs by the Department of Education. One area where the Department did attempt to become involved related to approving the contract extension of the University's President. However, in December 2004, the Board of Regents approved the President's contract extension without any formal assessment, despite the Department's request that such an assessment be undertaken.

Strategic Planning

While a Strategic Framework was approved by the Board of Regents in 2000, it does not contain the comprehensive objectives and related performance indicators typically provided in such plans for use in assessing future progress. The University has started a new strategic planning process intended to set new goals and develop an integrated planning approach.

Memorial University's Comment

Government Monitoring

Memorial University has positive and effective working relationships with the Departments of Education and of Health and Community Services, both of which provide operating funding to the University. Department officials are provided with all the financial operations information requested.

According to usual practice when considering the extension of the University President's employment contract, the Board of Regents conducted a review of the President's performance, determined that his performance was exemplary, concluded that an additional assessment was not necessary, and extended his contract for a further three years as per his employment contract (available at www.mun.ca/president). The Board of Regents kept the Department of Education informed throughout, although there is no role for Government in this process.

Strategic Planning

As stated in Section 3 above, the University created a Strategic Framework, which sets out in general terms what the University wanted to achieve in 2000-05. Follow-up reports outlining accomplishments of the plans are available at www.mun.ca/strategicplanning/.

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Separately Incorporated Entities

The University has established several Separately Incorporated Entities. These entities are controlled by the University and included in its consolidated financial statements; however, management agreements are not in place with all SIEs to address responsibilities and accountabilities.

2. Human Resources

During 2004-05, the University spent \$218 million, or 64%, of the \$340 million in total expenditures on salaries and benefits. Our review disclosed that the University's compensation practices are not consistent with those of Government with regard to:

- Paying salaries;
- Paying market differentials;
- Paying administrative stipends;
- Issuing forgivable loans;
- Providing free course tuition; and
- Subsidizing membership fees.

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Separately Incorporated Entities

The intent of the Separately Incorporated Entities (SIE) structure is to have flexible organizations that are able to operate without the complexities of University structures (which are designed primarily for academic programs), to involve members of the community for their expertise and guidance, and to operate in a manner that focuses on the purpose for which the SIEs were created. Having policies and operating practices that are different from the University is a necessary part of the flexibility that allows SIEs to be successful.

There is no requirement to have management agreements; however, they have value and such agreements have been created for the Genesis Group and the Works (Memorial University Recreation Complex Inc.). Agreements are in progress for the other SIEs, including the Memorial University Botanical Garden, Newfoundland Quarterly Foundation, Canadian Center for Marine Communications, Canadian Center for Fisheries Innovation and C-CORE.

2. Human Resources

Memorial University's compensation practices reflect its unique mission and human resources requirements as a university, and are consistent with those at other universities across Canada.

The Memorial University Act specifically provides the Board of Regents with the authority to set salaries.

Memorial recruits faculty and some senior staff from a very competitive global marketplace. Because there is a worldwide shortage of doctorally-qualified personnel in many academic fields, competition among universities to recruit them can be intense. On occasion, Memorial must provide market differentials in order to be competitive and successfully

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Many of these benefits would not typically be available to employees in Government departments or other Government entities. These inequities usually result in increased costs and, therefore, less funds available within the University to fund programs.

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recruit candidates in Canada and internationally. Loans are sometimes made as part of faculty recruitment offers in order to be competitive.

Administrative stipends are paid to faculty who, in addition to their teaching, research and community service responsibilities, agree to take on additional administrative duties (such as heading an academic department) for a specified period. Stipends are paid on top of regular salary during the term of the appointments.

Tuition for one academic course per semester is a benefit available to employees as an incentive for them to pursue further education as part of their career development. It is also an incremental activity that does not have a significant impact on such factors as class sizes or operating costs. This benefit is considerably less than that offered by other universities, many of which provide employees with tuition for all their family members.

As part of a pilot wellness program, Memorial is subsidizing membership fees for about 800 employees in The Works, the university's fitness and recreation complex. The goal of this progressive program is to encourage more active lifestyles and thereby reduce work stress and sick leave.

Employee benefits available at Memorial are typical for Canadian universities and they are required for competitive reasons. In fact, many universities have much more generous benefits, e.g., full tuition for dependents. Memorial also has other employment provisions that are different from those of Government, including no accrued sick leave, an employee-funded long term disability program, separate pension plan, etc.

The quality of faculty and staff has a direct bearing on the quality of programs offered at the University. If Memorial is to achieve the goal of becoming one of the best universities of its size in the world, it must successfully compete nationally and internationally for faculty and staff.

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Our review of human resources also indicated: the University's recruitment policies were not always complied with or compliance was not documented; the computer system used by the University for personnel and payroll purposes was not accurate; and there were inconsistencies in leave management processes and in pension plan requirements. As well, an instance was identified where an employee's pay was deposited to the account of the wrong employee for a period of four years (totaling approximately \$35,000) without being detected by the University.

3. Revenue

During 2004-05, the University recorded a total of \$341 million in revenue, with \$216 million (64%) being from various levels of Government, \$52 million (15%) from student fees, and the remainder of \$73 million (21%) from other sources such as sales and services, and investment income.

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With regard to the unusual case of misdirected stipend payments, it resulted from an unusual combination of circumstances as follows:

- A keying error was made and went undetected
- The error resulted in a different but existing bank branch code being entered
- The branch to which the funds were sent had an active bank account with a number identical to that of the employee due the funds
- The person receiving the funds did not report the error
- The employee who should have received the funds did not notice the error for four years

Given the unusual circumstances, it is most unlikely that such an error would recur.

3. Revenue

Auditor General's Report

Our review indicated that the University had identified at least five instances between April 2002 and July 2004 relating to thefts of funds and missing deposits. One instance was noted in July 2004 where approximately \$90,000 in funds was missing from student registration fees at the University's Marine Institute Offshore Safety and Survival Center. At the time of our review, the matter was under investigation by the Royal Newfoundland Constabulary. Resulting from these issues, the University engaged a firm of private sector auditors to conduct a cash management review. That review had not been completed at the time of our review.

Issues were also noted with inconsistent controls over revenue recording and with the lack of independent appraisals obtained in assigning values for charitable receipts issued for tax purposes. Such receipts relate to Gift-in-Kind donations received by the University. In one case, a \$935,000 tax receipt was issued based on an appraisal obtained by the donor from a third party. This donation related to a White Rose FPSO Topsides Project model to be used for instruction purposes at the Marine Institute. As well as not receiving an independent appraisal, the University accepted the valuation based primarily on cost as opposed to the market value basis required under University policy.

4. Purchasing During 2004-05, the University spent approximately \$98 million for the acquisition of goods and services.

Memorial University's Comment

Over the three-year period reviewed by the Auditor General, Memorial University had approximately \$1 billion in revenue and executed hundreds of thousands of transactions. Memorial considers any fraudulent activity unacceptable and therefore the Enterprise Risk Management department has been charged with ensuring that the University's financial controls are in place and that any breakdown is identified in a reasonable timeframe, as was the case in the five instances noted in the Auditor General's Report.

The financial impact of the incidents was minor, given the small amounts of cash involved in the first three cases and given that the large item (\$90,000) was recovered from insurance.

With regard to the appraisal of the White Rose FPSO topsides model, its value was established by a professional firm that specializes in the construction of such assets. For more information on the donation of the 6.5 meter model, see <http://www.mun.ca/marcomm/gazette/2004-2005/dec16/newspage8.html>

4. Purchasing

Auditor General's Report

Our review of purchases, travel claims, relocation expenses and other expenses identified issues related to:

- non-compliance with the Public Tender Act
- inadequate documentation;
- non-compliance with University policies;
- claims for ineligible expenses; and
- overpayments of travel claims.

In the area of travel expenses in particular, the nature and extent of the errors and overpayments identified during our review indicates that the review of travel claims by source faculties, departments and divisions is unsatisfactory and that subsequent review at the Financial and Administrative Services Division is not always detecting errors missed.

Memorial University's Comment

Travel expenses

The Department of Financial and Administrative Services processed between 8,000 to 10,000 travel claims in each of the years reviewed by the Auditor General. The volume of travel has grown significantly in recent years given the increase in travel to undertake research projects and related activities. Many items the Auditor General has identified are not errors and overpayments but represent approved expenditures in accordance with policy in effect at the University.

Auditor General's Report

Of the 137 purchases sampled that were greater than \$10,000, we found issues with 21 as follows:

- 11 instances where the University claimed a sole source exemption when a tender could have been called;
- 3 instances where the University claimed an exemption for an emergency when a tender may have been able to be called or at a minimum the University could have obtained additional quotes;

Memorial University's Comment

Purchases

University policy regarding the establishment of fair and reasonable prices for goods is as follows:

- purchases valued to \$999 – judgment of the purchaser,
- purchases valued between \$1,000 and \$2,499 – three verbal quotations,
- purchases valued between \$2,500 and \$10,000 – three written quotations,
- purchases valued above \$10,000 – public tender.

Most of the issues identified are based on judgment and interpretation. The University strongly disagrees that there are issues with many of the 21 items reviewed.

Sole source purchases

The University firmly stands by its decision to sole source these 11 identified instances. Based on the facts and professional judgment, it was determined appropriate to use the sole source exemption. See the general comments below or refer to the University's detailed comments on specific examples at www.mun.ca/agreport.

Emergency purchases

The purchases identified were true emergencies at the time and the appropriate provisions of the **Public Tender Act** were invoked.

Auditor General's Report

- 2 instances where the tender evaluation or analysis report was dated after the purchase order was issued. In one of these instances, the University allowed the highest bidder to change their bid after the tender opening, with this bidder then being awarded the tender;

- 1 instance where the University indicated it was not advisable to invite tenders; however, some basis for specifying requirements for tender purposes was possible;

- 1 instance where two bidders submitted acceptable bids; however, instead of awarding the tender to the lowest bidder, the University ranked the bidders using a point scale and the lower ranked bidder's price was discounted;

Memorial University's Comment

Date of reports/Bid error

The first instance refers to the date of a status report and does not refer to the date the analysis was completed. In fact, the purchase order was not issued before the tender bid analysis was done.

In the second instance, one tender bid contained an arithmetical error resulting from the incorrect multiplication of the number of units and the unit price. University policy holds the bidder to the unit price as bid, as was done in this case. Had the bidder not informed the University of the error, it is likely that internal analysis would have found the error.

Not advisable to invite tenders

The item in question was a used car that was intended to be resold within one year. Purchasing and reselling was less expensive than renting and many dealers were visited to locate a vehicle that met the requirements and would be easy to sell. The final net cost will be far less than the tender limit.

Point scale

The University used a point scale in the tender bid evaluation to more fully assess the products being offered; the lowest priced item was ultimately selected.

Auditor General's Report

- 1 instance where the University negotiated with a specific bidder to change the tender specifications;
- 1 instance where the second, higher cost option provided by a single supplier was selected with no documentation provided to show the reason. In this case the tender specifically referenced equipment manufactured by the successful bidder; and
- 1 instance where labour rates paid to a supplier were higher than the amount specified in the tender.

In addition, our review of purchases of \$10,000 or less indicated that the University did not comply with the Public Tender Act in that three quotes were not always requested or a fair and reasonable price was not otherwise established.

Memorial University's Comment

Negotiation with successful bidder

The purchase of leading edge research computers by public tender is difficult due to the constantly changing nature of the product. In this case, the product changed between tender award and purchase, with the University receiving greater value from the bidder who had won the tender. The University agrees that while its actions achieved a better outcome, the practice does not comply with the Public Tender Act.

Sole supplier

The sole manufacturer and supplier of the required equipment was also the only bidder on the tender. The vendor provided a low-cost option that was unacceptable, in addition to an option that met the University's needs. The University chose the equipment that met its needs.

Labour rate of sub-contractor

Most of the work referenced was that of a sub-contractor performing specialized work that was not part of the tender.

University policy regarding the establishment of fair and reasonable prices is as follows:

- purchases valued to \$999 – judgment of the purchaser,
- purchases valued between \$1,000 and \$2,499 – three verbal quotations,
- purchases valued between \$2,500 and \$10,000 – three written quotations.

Auditor General's Report

The University also contravened the Public Tender Act that the Minister of Government Services (since December 2004, the Government Purchasing Agency) was not always informed of Public Tender Act exceptions within 30 days of the acquisition of the goods or services. Therefore the House of Assembly was not informed of these exceptions as required under the Act. On average, the University did not provide the required information until 3 months after the 30 day requirement, with the worst case being approximately 8 months.

In addition, the forms required under the Act to be forwarded to the Minister of Government Services (since December 2004, the Government Purchasing Agency) to explain these exceptions were not approved by the President or his designate until well after the goods or services had been acquired.

Our review of the use of University procurement cards indicated weaknesses in monitoring card limits and usage, and purchases that were not made in compliance with established University policies. Procurement cards are similar to a credit card and are used for the intended purpose of reducing costs associated with purchasing processes and accounting transactions. As of January 2005, the University had approximately 500 active procurement cards, with total annual purchases charged to these cards of between \$8 million and \$10 million, with a total credit limit for these cards of \$3.1 million.

5. Facilities Management

Responsibility for the day to day management of University buildings and properties has been assigned to the Facilities Management Division. As well, the Division is responsible for managing construction projects for the University, such as the recently constructed INCO Innovation Centre.

Memorial University's Comment

Reporting of Form B purchases

The general practice of the University was to have the reporting of purchases made as exemptions under the Public Tender Act- Form B reports – sent to the Government Purchasing Agency periodically. The University is now providing the reports on a monthly basis.

University procedures require the purchase order to be printed from the computer system and forwarded to Financial and Administrative Services with the completed Form B. As such, the computer-generated purchase order will always have a date prior to the Form B signature date. This does not mean the goods were ordered before approval.

Procurement cards

The procurement card system has been a great benefit in reducing unnecessary paperwork and administrative costs. Industry experience reveals a 70 per cent savings on purchasing processes by using the card system. No inappropriate use of the system has been observed; however, there are some areas where controls can be strengthened.

5. Facilities Management

Auditor General's Report

Our review of the Division's management of the INCO Innovation Centre construction indicated several areas of concern, including:

- The original funding for construction of the Centre was the \$10 million capital commitment from INCO; however, the University obtained additional funding and revised the scope of the project. The total expected project cost then increased to \$17.4 million. \$3 million of the additional funding was the result of redirecting funding from INCO originally intended for operational requirements after construction had been completed. This means that the University will not have the \$3 million available to fund operations of the completed Centre.
- The original plan was to provide a facility with three developed floors; however, only two of the three floors were developed in order to provide "architectural features" and to remain within budget.

Memorial University's Comment

Increase in scope of the Inco Innovation Center Project

The reallocation of \$3 million of the operating funds donated by Inco was made with full agreement of Inco, Government and the Board of Regents. With this reallocation, the University was able to leverage from the Atlantic Canada Opportunities Agency (ACOA) through its Atlantic Innovation Fund and Business Development Programs (AIF / BDP) an additional \$18 million for research programs.

Architectural features

The "architectural features" cited include:

- the exterior composite metal façade of the building, instead of the old brick of the former Thomson Student Centre,
- the atrium, used for public functions and to generate rental income,
- the staircase and elevator cone, which increase the functional space of the building
- some internal floor and wall finishes, resulting in reduced maintenance costs.

Auditor General's Report

- The expected completion date was December 2004; however, construction was still ongoing at the time of our review. Subsequent to our review, we were told that while the building was ready for occupancy in April 2005, tenants did not start moving in until June 2005. The Centre was officially opened on 30 September 2005; however, officials indicated that some architectural, mechanical, electrical and site restoration work was still ongoing, mainly related to installing the elevator.
- Instead of completing construction in 3 main phases as originally planned, 10 phases were tendered. Although the University maintains the main reason for moving to 10 phases was to “fast track” the project, a Facilities Management official in charge of the project indicated that one of the reasons for increasing the number of phases was to avoid issues with change order limits on the originally planned larger final phase.
- The University contravened the Public Tender Act in that change orders reviewed were not approved by the Board of Regents or University officials, as applicable, as required under the Act. Some of these change orders were indicated as resulting from unplanned changes requested by the University's President.
- The University contravened the Public Tender Act in that site work was completed by the contractor for the architectural, mechanical and electrical phase of the contract through the use of a change order even though the site work was not within the scope of the contract.

Memorial University's Comment

Completion date

The project could not commence until all financing was in place. The project officially commenced four months later than had been originally envisioned when the December target date was contemplated, and was completed on time and on budget in April 2005.

Project phases

The number of phases was changed to provide a better construction schedule and not to alter change order limits. The official in charge of the project indicates that he did not say that the phasing was done to alter change order limits. The Board of Regents has the authority to alter change order limits.

Improvements requested by the President

The change order problem was early in the project and resulted from the University official not being fully familiar with the requirements of the Public Tender Act. The improvements suggested by the President occurred at the end of the project and were not related to the early change order problems.

Site work

Site work, including excavation and trenching, was included in the contract. It is therefore unclear why temporary restoration would not be an acceptable change order under the Public Tender Act.

Auditor General's Report

The project's main contractor, in frustration over delays in obtaining change order approvals, was doing work in advance of receiving approval for the changes.

Our review of facilities management at the University identified the following additional concerns:

Vehicle Fleet Management inconsistencies and other issues with tender specifications for vehicles; predetermined criteria not in place to assess purchase vs. lease acquisitions; fuel purchases not adequately reviewed or monitored; and vehicle logs not reviewed.

Campus Planning the 1986 Campus Master Plan, identified in 2004 as in need of an update, had not been updated at the time of our review. It was indicated in 2004 that the planning process should address key issues such as traffic, parking, public transportation access, green space, development of common area spaces, and the enhancement of entrances to the campus, as well as review how expansion would fit within planning.

- **Maintenance** - approximately 700 maintenance work orders were outstanding, many for a long period of time. Examples of outstanding work orders range in degree of significance and include such items as fixing the time on a clock, repairs on elevators, repairs on warm refrigerators, and replacement of smoke detectors.

Memorial University's Comment

Contractor frustration

Working within the Public Tender Act sometimes causes frustration for contractors as the application of appropriate policies can be time consuming. In late September, the contractor had been instructed not to conduct any work on any change orders without official approval.

Vehicle Fleet Management

These items are addressed in the detailed comments on the report at www.mun.ca/agreport..

Campus Planning

The development of a Campus Master Plan is proceeding well and is expected to be complete by the end of the 2006 fiscal year. The process is complex, requiring many consultations and studies in order to ensure the plan meets the long-term needs of the University in St. John's and Corner Brook.

Maintenance

A long list of outstanding work orders is not unexpected given the size of the campuses and the amount of work required to maintain the buildings and property. A major reduction in the wait lists would require significant expenditures.

Auditor General's Report

- **Deferred Maintenance** - a June 2002 Deferred Maintenance Report indicated that at that time more than half of the University's space was built over 30 years ago, that much of the physical plant had reached the end of its design life, and that due to lack of funding to renew building components, significant maintenance items had been deferred resulting in a prolonged deterioration of facilities. Officials indicated that the funding provided by Government was not sufficient, with the result being that addressing the \$28 million in deficiencies identified in 2002 cannot be achieved and that additional items amounting to approximately \$7 million have been identified.

Facilities management contracts the dollar value of change orders is high in relation to the original purchase orders. This may result in some cases from establishing the fixed contract portion based on quoted prices, with extensive variable costs being addressed through change orders. As well, fire alarm inspections and cooling system inspections were not always performed on an annual basis in accordance with contract provisions. An issue was also identified with energy contract recoveries from Eastern Health (formerly the Health Care Corporation of St. John's) for the Health Science Complex. Due to a problem with meters used for energy measurement it was determined that the Health Sciences Centre was paying more than it should be.

6. Capital Assets

The University had capital assets at 31 March 2005 costing a total of \$358 million, with a net book value of \$152 million. These assets include buildings, furniture and equipment, computers, vehicles and others.

Our review of capital assets indicated that:

Memorial University's Comment

Deferred Maintenance

The deferred maintenance situation at the University is not unlike that of other major Canadian universities. The University is working within the available budget. It is also collaborating with other Atlantic Canadian universities in lobbying the Federal Government for infrastructure funding.

Facilities management contracts

The sharing of energy costs at the Health Sciences Centre were based on a formula created in the 1970s and agreed to by both the General Hospital Corporation and Memorial University. Meters have recently been installed and readings indicate that the formula requires changes. Funding from the Province for each institution's energy expenses is under negotiation.

6. Capital assets

Auditor General's Report

- While the University has a capital assets ledger, only items above \$2,500 are required to be recorded. Given this limit, a significant quantity of items such as office equipment and furniture are not tracked in the system. There is consequently no control mechanism in place to track these assets, many of which are more susceptible to theft than items costing over \$2,500.

- There is no formal policy and procedures manual in place to address how asset additions, transfers, disposals and other changes are to be handled and recorded.

- The University's capital asset ledger is not accurate.

- As well, there is no process in place for the periodic selection of auctioneering services relating to the disposal of University assets. In practice, one auctioneering services company has been used by the University whenever the disposal of assets is required.

Memorial University's Comment

Capital asset threshold

The capital asset threshold of \$2,500 was set in 2002 based on a materiality level deemed appropriate for an institution of Memorial University's size and complexity. The Comptroller, at the time, canvassed other organizations and institutions to determine their practices and determined this level was consistent with universities of comparative size to Memorial University. The threshold level is appropriate

Approval mechanisms are in place for all purchases at all levels and the tracking of minor purchases and inventory control is the responsibility of individual departments.

Policy and Procedures Manual

The University has policies that address the purchase, transfer, and disposal of capital assets. These policies are in a broad policy framework rather than a specific capital assets manual. For example the purchase of assets is covered in the Purchasing Policy whereas the disposal of assets is covered in the Surplus University Assets Policy.

Accuracy of ledger

The ledger is materially accurate. In the next fiscal year a review will be undertaken.

Auctioneering services

The University uses a respected local auctioneer, Fitzpatrick's Auctioneering Services, and has received excellent service. The University will, however, consider developing a process that provides opportunity for other firms to submit proposals for such work.

Auditor General's Report

Findings and Recommendations

1. Board Governance We reached conclusions on the University's Board governance based on a review of the following areas:

- A. Transparency and Accountability Act
- B. Accountability to House of Assembly committees
- C. Government monitoring
- D. Province's Consolidated Summary Financial Statements
- E. Strategic planning
- F. Other issues

A. *Transparency and Accountability Act*

University only entity excluded from Act requirements

The University is the only Government entity excluded from requirements of the Transparency and Accountability Act (to be proclaimed). The University's strategic, business and activity plans are not required to be approved by the Minister, and the University is not required to address the Minister's recommendations in cases where he/she believes the University is failing to meet the objectives set out in its plan.

All other Government entities must have plans and reports reviewed and approved by the applicable Minister.

Memorial University's Comment

Findings and Recommendations

1. Board Governance

A. *The Transparency and Accountability Act*

The University is subject to the Transparency and Accountability Act, which recognizes and respects the unique characteristics of the University as an autonomous institution of higher education. The University's accountability mechanisms have been developed and approved by the provincial government; they are consistent with those at other Canadian universities.

While the University is not required, and it would be inappropriate, to have the Minister approve its strategic plan, it is accountable to the government and the public for achieving the objectives set in its plan.

Auditor General's Report

B. Accountability to House of Assembly committees

No direct
accountability

The 1993 amendment to the Memorial University Act states, under section 38.2, that where a matter pertaining to the University, including a report of the Auditor General, is referred to a Committee of the House of Assembly, the Committee shall conduct its examination through the Minister of Education. The section also states:

“Where a committee of the House of Assembly conducts an examination of a matter pertaining to the university, the chancellor, the president, the chairperson of the board and the vice-presidents and other officers and employees of the university are not compellable to attend as witnesses before the committee.”

The University is unique in this regard as officials from other Government entities are required to appear before a Committee of the House of Assembly.

Memorial University's Comment

B. Accountability to House of Assembly committees

The Auditor General's report does not provide the full context of the legislative provisions governing the University's accountability to the House of Assembly. Under the Memorial University Act the Minister speaks for the University before the House of Assembly in order to preserve the institution's autonomy and to avoid academic matters becoming the subject of political debate.

Auditor General's Report

C. Government monitoring

Weak
Government
monitoring

Previous Auditor General's reports have commented on the Department of Education's lack of monitoring of the University. In response to past requests for information on this process, Department officials indicated that they received standard financial reports, including audited financial statements, budget submissions and periodic financial information, and that the Department also regularly engages with University staff on issues.

In October 2005, we contacted the Deputy Minister of Education requesting information on the specific methods the Department uses to monitor the University, and to ask if there have been any changes in the monitoring process. In response, the Deputy Minister indicated the Department:

“...Continues to improve accountability mechanisms, through its own actions and through broader Government-wide initiatives, for all entities reporting to the Minister of Education, including Memorial University.”

These initiatives include developments relating to the White Paper on Post-Secondary Education released in July 2005 and the Transparency and Accountability Act. No information was provided in the request as to the specific methods used to monitor the University.

Based on our review, with the exception of approving the University's budget and reviewing other information in relation to Provincial funding requirements, the Department has performed inadequate monitoring of the University's financial affairs.

Memorial University's Comment

C. Government monitoring

Memorial University has positive and effective working relationships with the Departments of Education and of Health and Community Services, both of which provide operating funding to the University. Department officials are provided with all the financial and operational information requested.

Under the Memorial University Act and consistent with the autonomy of the University and practice in all other major Canadian universities, the Board of Regents is responsible for overseeing and monitoring the University's financial affairs.

The Department of Education receives annual, independently-audited financial reports and other reports on Memorial University. In addition, the University makes available large amounts of data and reports to the Government and the public in printed and electronic format.

Auditor General's Report

Regarding the Deputy Minister's comment about using the Transparency and Accountability Act to improve accountability mechanisms, this Office does not see that Act as being a strong example of how the Department will monitor the University. As explained earlier, the University is the only Government entity excluded from the Act's requirements in relation to ministerial authority.

D. Province's Consolidated Summary Financial Statements

The Province's Consolidated Summary Financial Statements include all organizations controlled by Government, except Memorial University of Newfoundland. I am pleased to report that Government approved the consolidation of Memorial University of Newfoundland commencing with the 31 March 2006 Public Accounts and directed the Office of the Comptroller General to engage in further discussion with the University to facilitate consolidation.

University not
included in
annual
statements

Memorial University's Comment

D. Province's Consolidated Summary Financial Statements

It is a decision of Government whether to include Memorial University in the Province's Consolidated Summary Financial Statements. Memorial University is cooperating to accomplish this integration.

Auditor General's Report

E. Strategic planning

Planning does not include comprehensive objectives and related performance indicators

Strategic Framework

In 2000, the Board of Regents approved a Strategic Framework to guide the University's development. While the Framework outlined the University's vision, mission, principal goals and areas for strategic development, and does indicate some "illustrative rather than exhaustive" actions to be taken in areas such as student recruitment and retention, research, and resource management, it did not contain comprehensive objectives and related performance indicators typically provided in such plans. Such objectives and performance indicators would address: strategic directions, lines of business, primary clients and related expectations, environmental impacts, identified strengths and weaknesses, and previously perceived opportunities and/or threats.

When asked about the general nature of the Strategic Framework, University officials indicated that: "The goals outlined at the beginning of the framework are not overly prescriptive. This was deliberate and in keeping with the nature of the institution. The university is a very complex and dynamic organization that employs people in a variety of disciplines who need the creative latitude that a flexible strategic plan provides. Memorial's approach has been to allow the units, both academic and administrative, the flexibility to plan within the general strategic directions set out in the framework."

Memorial University's Comment

E. Strategic planning

Strategic Framework

Memorial's Strategic Framework was written in the late 1990s and a review of strategic planning documents from other institutions will show that the framework is in fact very similar in approach to those of other institutions in Canada and the United States.

The goals outlined at the beginning of the framework are not overly prescriptive. This was deliberate and in keeping with the nature of the institution. The university is a very complex and dynamic organization that employs people in a variety of disciplines who need the creative latitude that a flexible strategic plan provides. Memorial's approach has been to allow the units, both academic and administrative, the flexibility to plan within the general strategic directions set out in the framework.

In the university environment, there is a distinction between strategic frameworks or plans, which set broad directions, and operational plans which seek to provide more specific strategies and actions. However, the distinctions between strategic and operational planning are blurring. While the first half of Memorial University's strategic framework does speak to principles and general goals, the second half of the framework outlines some 27 specific actions and the university was successful in achieving most of them. Some of the more notable successes include:

- 9% growth in undergraduate enrollment,
- 42% growth in graduate student enrolments,
- An increase in first-year student retention from 75% to 86%,
- Faculty renewal targets have been met,
- A doubling of external research funding to \$81 million,
- Significant increases in distance education enrollment.

Auditor General's Report

Memorial University's Comment

Memorial's planning efforts have not been limited to the Strategic Framework. Some academic units have developed detailed strategic plans and are actively pursuing them. The Marine Institute has just completed a process called **Vision 2020** that takes a long-range view to how to position the institute in the next 15 years. There have also been successful planning processes for pan-university issues such as recruitment and student success. The university pays very close attention to the goals associated with these documents and they are available on request.

Overall, the Department of Education has indicated it is satisfied with Memorial's planning processes, the information that it makes available, and the cooperation that it has received from the University. The attached letter from the Deputy Minister to the Auditor General in November 2003 attests to the department's level of satisfaction.

Memorial is now engaged in a **new strategic planning process** that will guide the development of the university through the next five years and beyond. This document will be more explicit in setting high-level goals for the university. These measures will meet the planning requirements outlined in the Transparency and Accountability Act, as it applies to Memorial University.

The process to develop the new strategic plan is roughly at its mid-point. Two university assemblies were held in St. John's and Corner Brook to establish a list of the key strategic issues facing Memorial. Eighteen issues were identified and small groups of faculty staff and students were put together to write position papers for each issue. A Key Strategic Issue Forum was held on November 4, at which time issue papers were presented and discussed among the 275 people who participated in that forum. The university has also sought submissions from all of its academic and administrative units and is preparing to engage in a series of external

Auditor General's Report

Strategic Risk Self-Assessment Study

In August 2003, the University received a consultant's report stemming from a Strategic Risk Self-Assessment Study. The report, which identified Strategic/Relevance and Organizational Alignment risks, stated:

- A lack of focus on strategic activities threatens the University's capacity and ability to successfully achieve its goals;
- The strategic plan was viewed as vague and unlikely to produce tangible results;
- The risk that the failure to align process objectives and performance measures with objectives and strategies may result in conflicting, uncoordinated activities throughout the University;
- There was no feedback as to whether the University is successfully meeting its objectives; and

There was inconsistent interpretation of the strategic plan – any actions can be made to fit / align.

Memorial University's Comment

consultations. The KSI papers, the unit-level submissions and the information gathered through the external consultation process will serve as the basis for the development of a draft strategic plan. A second round of consultations will be held to discuss the draft plan, after which it will be finalized and presented to Senate and the Board of Regents for approval.

The university is also considering the use of integrated planning as its approach to ongoing strategic planning. This practice has been adopted by a number of Ontario and Western Canadian institutions in an effort to more closely link unit-level strategic planning to the global strategic planning process. It also is intended to provide an explicit link between planning resource allocation, and budgeting. Full implementation of this process would require two to three years, though the initial global plan could be in place by the spring of 2006.

Strategic Risk Self-Assessment Study

The self-assessment study findings referenced were the opinions of some members of the University community who support a greater level of coordinated planning. This opinion is not universal within the University community and it is not a conclusion or recommendation of the consultants who facilitated the study.

The study report produced was viewed as weak by the Board of Regents and has not been referenced in a significant manner since it was produced in 2003.

Auditor General's Report

Strategic Framework - Progress Report

In January 2004, a Strategic Framework - Progress Report presented information on progress made with respect to the Framework since 2000. However, it was based on the original Framework and did not address the issues contained in the Strategic Risk Self-Assessment Study.

Minutes from a meeting of the Senate held on 11 May 2004 noted:

“...The importance of moving beyond setting targets to developing strategic implementation plans at both the University-wide level and the unit level in order to meet the agreed upon targets in undergraduate and graduate education as well as in research.”

Memorial University's Comment

Strategic Framework - Progress Report

The University has been successful in achieving all of the key goals set out in the Framework including major increases in student retention (from 75% to 86% in the first to second year transition), increased participation by high school graduates from Newfoundland and Labrador (from 54% to 67% of those eligible), improved academic performance of students (first semester average grade has improved from 62% to 66% and the failure rate has dropped from 14% to 8%), increased graduate and undergraduate enrollment (increased by 42% and 9% respectively), and increased sponsored research funding (increased by 120% to \$81.6 million).

These and other achievements helped Memorial University rank amongst the top universities in Canada and amongst the top 500 (or 3%) of the universities in the world.

The Strategic Framework approach was in keeping with practices employed by other Canadian universities at the start of the decade. Many universities are now adopting a more integrated approach to planning that explicitly links plans at the department-, school- and faculty-levels to the university's strategic plan and to resource allocation. Memorial University is currently engaged in a new strategic planning process that will incorporate the best practices existing at other institutions in Canada.

The Report on the Strategic Framework reported on achieving the comprehensive objectives and related performance indicators provided in that plan. The Strategic Risk Self-Assessment Report supported the creating of the Enterprise Risk Management Department and the creation of the Audit and Risk Management Committee of the Board of Regents. Otherwise, that report was viewed as weak by the Board of Regents and has not been referenced in a significant manner since it was produced.

Auditor General's Report

New planning process

The University has started a new strategic planning process intended to set goals and develop an integrated planning approach. The objective is to build on the Strategic Framework developed in 2000 and to guide the development of the University through the next five years and beyond. It was indicated that "This document will be more explicit in setting high-level goals for the university."

F. Other issues

President's contract renewed without formal assessment

President's contract renewal

In July 2004, the Board of Regents commenced a review leading to the renewal of the contract for the University's President and Vice-Chancellor. The Board approved the contract renewal in December 2004 without any formal assessment despite significant discussion with Department of Education surrounding the Department's request that such an assessment occur.

Separately Incorporated Entities

The University has established several Separately Incorporated Entities (SIEs), which are controlled by the University and included in its consolidated financial statements. These organizations are governed by separate boards of directors and are accountable to the Board of Regents through a Board committee.

Memorial University's Comment

F. Other issues

President's contract renewal

The Board of Regents' employment contract with President Meisen, which was duly approved pursuant to the Memorial University Act provides for the contract to continue, by mutual agreement, for an additional three years following an initial six-year term which ended in September 2005. Following past practice (Presidents May, Harris), the Regents conducted a presidential leadership review at a special session of the Board on July 21, 2004, and continuing with meetings on September 3, 2004, September 9, 2004, and December 9, 2004. They voted unanimously to inform President Meisen of their satisfaction with his leadership and of their desire to continue his employment for the additional three years anticipated in the contract (available at www.mun.ca/president). The Board of Regents kept the Department of Education informed throughout, although there is no role for Government in this process.

Separately Incorporated Entities

The intent of the Separately Incorporated Entities (SIE) structure is to have flexible organizations that are able to operate without the complexities of University structures (which are designed primarily for academic programs), to involve members of the community for their expertise and

Auditor General's Report

Management agreements with SIEs not in place

While the University has varying involvement with the SIEs (in some cases the University acts as a financial management and payroll agent), we noted that the University does not have management agreements in place with all of them to outline specific roles and responsibilities of the Boards of Directors of the SIEs and the University.

At the time of our review:

- five SIEs did not have signed agreements. Of these, University officials indicated two were in the final stages of completion (Newfoundland Quarterly and Memorial University Botanical Garden) and three were in the early stages of discussion (Canadian Center for Marine Communications, Canadian Center for Fisheries Innovation, and C-Core).
- two SIEs had signed agreements (Genesis Center and Memorial University Recreation Complex).

We also noted that many SIEs have not adopted or do not follow University policies. In particular, policies dealing with financial management, recruitment and other human resource processes vary, as well as involvement in University or private pension plans.

Memorial University's Comment

guidance, and to operate in a manner that focuses on the purpose for which the SIEs were created. Having policies and operating practices that are different from the University is a necessary part of the flexibility that allows SIEs to be successful.

There is no requirement to have management agreements; however, they have value and such agreements have been created for the Genesis Group and the Works (Memorial University Recreation Complex Inc.). Agreements are in progress for the other SIEs, including the Memorial University Botanical Garden, Newfoundland Quarterly Foundation, Canadian Center for Marine Communications, Canadian Center for Fisheries Innovation and C-CORE.

Auditor General's Report

University salary scales higher than Government's

I. Salaries

Salary scales at the University are significantly higher than in Government departments or other Government entities. For example, University directors are paid at generally the same salary range as many deputy ministers in Government, with vice-presidents and the President and Vice-Chancellor paid well in excess of deputy ministers. To illustrate, the Comptroller General of the Province is paid less than the University's Director of Financial and Administrative Services. The Comptroller General oversees approximately \$4.8 billion in expenses while the Director of Financial and Administrative Services oversees approximately \$340 million.

A total of 214 employees were paid over \$100,000 during 2004, with a total paid to these employees of \$25,543,961. Of the 214, 7 were paid in excess of \$200,000 (average of \$233,842), with the remainder of 207 paid between \$100,001 and \$200,000 (average of \$115,493). The following table provides further details.

Department/Division	Employees Paid In Excess of \$200,000	Employees Paid Between \$100,001 and \$200,000	Totals
Medicine	6	36	42
President's Office	1	-	1
Engineering	-	19	19
Education	-	14	14
Business Administration	-	11	11

Memorial University's Comment

I. Salaries

The analysis of salaries greater than \$100,000 requires explanation. The salaries of individuals in excess of \$200,000 are primarily (6 out of 7) the result of paying Treasury Board scales for salaried physicians. The University salary for these individuals averages \$73,000 with the remainder paid by the health care system. The other individual in the group is the University President; his **employment contract** is publicly available. Published information indicates the President's salary and benefits is ranked 29th lowest of 44 universities in Canada. Dalhousie University, a university smaller in size than Memorial but a close competitor, pays its President 25% higher than Memorial (14th of the 44 Canadian universities).

Academic salaries comprise the vast majority of the group earning between \$100,000 and \$200,000 and were most recently adjusted in 2000 by an occupational adjustment that was negotiated with and funded by Government. The basis for such salaries is Canadian market rates

The comparison of salaries at the University to that of the Deputy Minister of Education is illogical in the context of demand and supply at Canadian and international universities. A review of other comprehensive universities indicates that Memorial's salaries are at the low end of the scales compared to competitors. For example, data from Ontario indicate that University Presidents in Ontario are paid on average \$88,000 per year more than Deputy Ministers.

With regard to the comment that "without Treasury Board review the above noted inequities cannot be detected or addressed", it should be noted that **salary range information for the University** is widely available including on our website and as part of our regularly published and widely distributed annual reports. Also there is no requirement that University salaries must be equal to provincial civil service salaries; rather they must be competitive

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Psychology	-	9	9
Mathematics and Statistics	-	8	8
Earth Sciences	-	7	7
Marine Institute	-	7	7
Sociology	-	6	6
Biochemistry	-	5	5
Chemistry	-	5	5
C-Core	-	4	4
English	-	4	4
Social Work	-	4	4
Arts	-	3	3
Geography	-	3	3
History	-	3	3
Ocean Sciences	-	3	3
Philosophy	-	3	3
Political Science	-	3	3
Sir Wilfred Grenfell College	-	3	3
Anthropology	-	2	2
Biology	-	2	2
Canadian Centre for Marine Communications	-	2	2
Computer Science	-	2	2
Economics	-	2	2
Library	-	2	2

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in the markets in which the University operates.

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Linguistics	-	2	2
Nursing	-	2	2
Office of the Vice President (Academic)	-	2	2
Office of the Vice President (Research)	-	2	2
Pharmacy	-	2	2
School of Music	-	2	2
Science	-	2	2
Canadian Centre for Fisheries Innovation	-	1	1
Computing and Communications	-	1	1
Distance Education and Learning	-	1	1
Facilities Management	-	1	1
Faculty Relations	-	1	1
Financial and Administrative Services	-	1	1
French and Spanish	-	1	1
Genesis Group Inc.	-	1	1
Graduate Studies	-	1	1
Human Resources	-	1	1
Human Kinetics and Recreation	-	1	1
Lifelong Learning	-	1	1
Office of the Vice President	-	1	1

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(Administration and Finance)			
Oil and Gas Development	-	1	1
P.J. Gardiner Institute	-	1	1
Registrar's Office	-	1	1
Religious Studies	-	1	1
Student Affairs	-	1	1
Student Health Services	-	1	1
Student Recruitment	-	1	1
Technical Services	-	1	1
Total Number of Employees	7	207	214
Total Salaries	\$1,636,894	\$23,907,067	\$25,543,961
Average Salaries	\$ 233,842	\$ 115,493	\$ 119,364

The University determines salaries and position classifications and no review is required by Treasury Board. Without Treasury Board review, the above-noted inconsistencies cannot be either detected or addressed.

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II. Market differentials

No consistency
in paying market
differentials

The University offers some faculty members a market differential as an incentive to attract qualified candidates. Paying these salary differentials can result in salaries that exceed the maximum levels in the approved salary range for the position. These differentials vary in amount and have been offered to about 20% of existing Faculty members. To illustrate, for one of the files reviewed, an Associate Director hired in November 2004 was provided with a \$10,808 market differential in addition to a base salary of \$65,822 (total salary of \$76,630).

While the Board of Regents has approved paying these differentials, there are no criteria in place for determining individual differentials. We learned that the amounts are based on negotiation with the recommended candidate.

III. Administrative stipends

Stipends offered
to academic
administrators

Administrative stipends are incentives offered to academic deans and department heads depending on their position with the University, the size and complexity of their academic responsibilities, and whether they are serving a first or second term in the position. The stipends range from \$6,000 to \$25,000.

IV. Individual staff benefits

Other
inconsistent

Forgivable loans are another incentive the University uses to attract qualified candidates. While the Board of Regents approves the loans, there are no criteria for setting individual loan amounts or repayment terms. The amounts

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II. Market differentials

Market differentials for faculty are determined on the basis of academic performance and the salary that each individual can command in the national and international market. A standard amount cannot be used as it would result in overpaying some individuals and an inability to attract others. There can be no formula that fits all circumstances but the University is guided by factors such as the salary indicated by our collective agreement, statistics for similar positions within Canada, as well as the compensation required to attract the best candidate.

The Memorial University Act specifically provides the Board of Regents with the authority to set salaries.

III. Administrative stipends

Administrative stipends are not incentives; they are the accepted method of compensation for additional administrative duties undertaken by academic staff for specified periods (such as department headships) in Canada and at universities throughout the world.

Administrative stipends are paid to faculty who, in addition to their teaching, research and community service responsibilities, agree to take on additional administrative duties (such as heading an academic department) for a specified period. Stipends are paid on top of regular salary during the term of the appointments.

IV. Individual staff benefits

Forgivable loan arrangements are rare at Memorial but common at other Canadian universities. Doctoral loan agreements have been used in the

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benefits are based on negotiation with each candidate. For example, in April 2004, one of the University's Vice-Presidents was provided with a \$30,000 loan under an employment contract with the University, with \$6,000 to be forgiven for each year of service as Vice-President.

The University also offers its faculty and staff:

- Free tuition at the rate of one course per semester;
- Cost-shared membership fee subsidy at The Works fitness facility (currently offered to over 600 employees); and
- Residence accommodation at the Harlow campus in England.

Memorial University's Comment

Faculty of Business Administration, for example, to support potential tenure track faculty members to undertake doctoral programs. This approach facilitates the University's ability to develop and retain qualified faculty in the highly competitive Business disciplines, but these agreements also ensure a minimum post-doctoral commitment to the University of at least five years. If this commitment is not met, the faculty member is obliged to compensate the University.

The benefit provided to Memorial employees to take one credit course per semester at no cost is also a significant benefit for the University as an employer from a training and career development standpoint. Over the years Memorial has benefited considerably from the fact that employees have used this program to upgrade their knowledge and skills. Memorial's policy in this regard is quite conservative compared to the practice of many other Canadian universities, including several Atlantic region universities, of providing free tuition to employees and immediate family members. It is also an incremental activity that does not have a significant impact on such factors as class sizes or operating costs.

Employee wellness is an increasingly important issue for many reasons, and Memorial has been very progressive in promoting and facilitating wellness and active living in the workplace. One of the many initiatives the university has started is the Fitness Facility Preferred Rate Program for Employees, under which the University will equally share the cost of a membership in The Works, the University's fitness and recreation complex, up to a certain limit. Many employers, including Newfoundland employers and other Canadian universities, do likewise. This pilot program has been valuable in encouraging a healthier and more active lifestyle among many of our employees, which is expected to yield significant long term benefits to Memorial. The goal of this progressive program is to encourage more active lifestyles and thereby reduce work stress and sick leave.

B. Faculty recruiting

Recruiting practices non-compliant with University policy

We selected a sample of 39 recruitments (11 faculty and 28 staff) during the period 1 April 2002 to 31 December 2004. We reviewed information on file at the Human Resource Division to determine if recruiting practices followed University policies, and identified instances where:

- Letters of appointment were dated after the individual had started in the position (23 files - 5 faculty and 18 staff);
- The Request to Fill a Position form was not approved by all levels (9 staff files);
- The Recommendation for Appointment form was not approved by all levels (3 faculty files);
- The Request to Fill a Position form was dated after the individual had started in the position (2 staff files);
- Requests for tax, insurance and pension information were not made until over a month after the appointment date (1 faculty file); and

Insufficient competition information was on file to support the appointment and as a result, we were unable to determine on what basis the individual was selected (17 files - 2 faculty and 15 staff). Examples included no competition held, no application on file, no interview held, and experience requirements not met.

Residence accommodation at the University's campus in Harlow, England, is only provided to employees in the event there is space available. In any such cases, employees are charged normal rates for these accommodations – they are not provided free of charge. Similar provisions exist at the University's other residences (St. John's, Corner Brook) where employees, conference attendees or others may rent rooms outside peak occupancy periods.

B. Faculty recruiting

The following commentary addresses the points raised by the Auditor General:

Letters of AppointmentThe University's policies do not dictate that a letter of appointment must be issued prior to an employee's start date. However, most letters of appointment are in fact issued prior to this time. In any event, the University's processes ensure that the necessary written authorities are in place before any person is placed on the University's payroll. This includes the written request of the hiring unit as well as an inter-office memorandum signed by the originating HR staff person and either the Associate Director or Director of Human Resources. In the meantime, the objective of ensuring that all letters of appointment pre-date an employee's start date had already been identified by the Department of Human Resources as a service improvement opportunity, and process changes will be implemented in 2006 to accomplish this.

Requests to Fill a PositionThe current Request to Fill (RTF) form was developed during a time of significant financial restraint in the 1990s and required the signature of the respective Vice-President. In addition, that was a time when budget authority was highly centralized within the VP offices. For reasons of efficiency and effective management, the University

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decentralized budget accountability throughout the institution in 2000. Since then, as a matter of policy, Human Resources has required the signature of the respective Dean or Director as the accountable budget authority, and not the signature of the Vice-President. With the benefit of the Auditor General's observation, the Department of Human Resources will now consider modifying the RTF form to remove any reference to the Vice-President.

Recommendation for Appointment All faculty appointments are approved by the University's Board of Regents. If a recommendation to hire a faculty member misses the cut-off date for the preparation of the Board's meeting agenda, it could be two months before the Board meets again.

Occasionally, there are circumstances where the University would risk losing a candidate if the starting date cannot be on a date that precedes the next Board meeting. This would occur, for example, when a candidate is currently on a post-doctoral fellowship where the income will end by a certain date, and where he/she is not willing to wait a month with no income. Increasingly, the Board is using its Appointments Committee to meet between regular meetings of the Board to approve appointments on behalf of the Board. This practice should sharply reduce, if not eliminate, instances of appointment beginning prior to Board approval.

Request to Fill a Position Form Post-Dating Start Date The University is aware of only one case where a Request to Fill (RTF) post-dated the employee's start date. This involved a temporary appointment through external funds. Research grant holders have the latitude under University policy to hire contractual staff directly, without advertising, based on their knowledge of the availability of graduate students or others who the training, knowledge or skills have directly related to the area of research involved. The fact that the RTF was received subsequent to the employee's start date did not result in any deviation from policy in terms of the University's recruitment and advertising processes.

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C. Human resource database

The Human Resources Division maintains a database containing information on all employees such as name, hire date, position, and payroll and bank account details. The information in the history database is not accurate. For example, some employee numbers had more than one employee name assigned to them. It was also noted that due to a keying error, one employee's pay was deposited to the wrong employee's bank account each pay period for four years (totaling approximately \$35,000).

Errors in
database

Competition Information- Most of the instances cited by the Auditor General involve casual call-ins or short term appointments to cover short-notice/emergency situations. Advertising is not required for casual call-ins under our collective agreements (they are often governed by seniority), for externally funded (research) positions, or for recruitment we may coordinate on behalf of an agency (e.g., MUN Students Union). In other instances, Human Resources is often called upon on short notice to provide a short-term replacement for an employee who is unexpectedly unavailable for various reasons. It is not practical in these cases to advertise and Human Resources utilizes its own list of available casual employees to meet these requirements. Similarly, for entry-level positions (e.g., Library Assistant I, Clerk I, etc.), the University will often place a general ad once or twice a year and then fill positions as and when they become available by referring to this pool.

C. Human resource database

The employee history database is not used to pay employees or to calculate retroactive pay. It is simply an archive which is used by a variety of HR staff when reviewing employee files and determining their employment history with Memorial, without having to access our active databases. It is relied upon with caution as resources are not available to ensure the database is 100% accurate.

Tens of thousands of transactions are keyed to the University's Human Resources Management System (HRMS) on an annual basis, and human errors will occur. However, various processes are in place to minimize or correct any mistakes, and our record of ensuring payroll accuracy has been extremely good.

With regard to the unusual case of misdirected stipend payments, it resulted

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from an unusual combination of circumstances as follows:

- A keying error was made and went undetected
- The error resulted in a different but existing bank branch code being entered
- The branch to which the funds were sent had an active bank account with a number identical to that of the employee due the funds
- The person receiving the funds did not report the error
- The employee who should have received the funds did not notice the error for four years

Given the unusual circumstances, it is most unlikely that such an error would recur.

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D. Other human resource issues

Inconsistencies in extensions, orientations and monitoring

Our review of the sample recruitment files as well as discussion with University officials also indicated:

- Multiple extensions are sometimes granted to existing employees in lieu of holding a competition for a position;
- Required orientations are not always provided;
- Required probationary period reviews are not always conducted; and
- Required exit interviews are not always conducted.

As well, leave management in various faculty areas is not consistent and not monitored as is done for administrative divisions.

Memorial University's Comment

D. Other human resource issues

Multiple Extensions - The University employs hundreds of contractual employees at any given time, in both non-academic and academic positions. These persons are employed on a term basis for a variety of reasons, but most commonly because the work for which they are hired is not expected to be permanent and/or long-term funding for the position is not guaranteed. Extensions are common because departments are often in a position of not knowing from one year to the next if funding will continue to be available. In most cases, contractual employment is for one year or less, with this in mind. In the event any contractual position becomes permanent, however, the position is opened to competition and advertised.

Orientations -The University commenced an orientation process for new (non-academic) staff in the past two years. The process has received positive feedback. An orientation process for new faculty has existed for many years.

Probationary reviews -The University agrees that such reviews have not always been conducted and is making improvements.

Exit interviews -These interviews are offered to staff but are sometimes declined. Participation is not mandatory.

Faculty leave - Faculty leave is managed differently from that of employees in administrative positions due to the different natures of the two types of roles. This is the accepted practice at Canadian universities.

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3. Revenue

During 2004-05, the University recorded a total of \$341 million in revenue: \$216 million from various levels of Government, \$52 million from student fees, and \$73 million from other sources such as sales, services and investment income.

We reached conclusions on the University's revenue management based on a review of the following areas:

- A. Cash management
- B. Revenue recording
- C. Gifts-in-kind

Memorial University's Comment

3. Revenue

Auditor General's Report

A. Cash management

Audit and risk management reports reveal theft and missing money

The University has approximately 30 offices/locations that together, handle between \$7 million and \$9 million annually.

In Internal Audit Division reports and later, Enterprise Risk Management Division reports, issues were noted relating to thefts of funds, missing deposits, and an ongoing cash handling review. In our review, we learned:

- An Internal Audit Report dated April 2002 identified that a \$60,963 deposit (including \$2,191 in cash) from the Marine Institute had not been deposited into the University's bank account. Neither the cash nor the missing cheques were recovered, and replacement cheques had to be requested.
- A Risk Management Report dated May 2003 identified that about \$6,944 was unaccounted for from the University's bookstore.
- A Risk Management Report dated March 2004 revealed University funds were being "borrowed" by an employee of Printing Services.
- A Risk Management Report dated April 2004 identified a "small amount of money" stolen from the cash float in the International Student Office.
- A Risk Management Report dated July 2004 identified that approximately \$90,000 in funds were missing from student registration fees at the University's Marine Institute Offshore Safety and Survival Center. At the time of our review, the matter was under investigation by the Royal Newfoundland Constabulary.

Resulting from these issues, the University engaged a firm of private sector auditors to conduct a cash management review. The report on that review was not available at the time of our review.

Memorial University's Comment

A. Cash management

The internal audit issues noted by the Auditor General occurred over a three-year period and were detected through normal university internal controls, at which time the university directed Enterprise Risk Management to investigate the issues. The engagement of a private sector audit firm is part of the mandate of the Enterprise Risk Management unit. As a result of a Request for Proposals, the university chose a private audit firm to conduct major internal audit assignments. The university develops an internal audit program on an annual basis and a campus-wide cash management review was part of that annual plan. The financial impact of the issues was minor given the small amounts of cash involved in the first three cases and given that the large item (\$90,000) was an insured loss.

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B. Revenue recording

Lack of controls with invoicing Invoicing of miscellaneous receivables by Departments/Divisions is mainly done through invoices generated in word processing software and are not directly recorded in the University's financial management system (Banner System).

Copies of the invoices are sent to the Cashier's Office for subsequent matching to the receipt; however, the existing process does not permit use of controls such as pre-numbering and also results in a lack of aging ability. Both could occur if the invoices were directly recorded in the Banner system. Using pre-numbered invoices, in particular, would provide the University with more assurance that all revenue was recorded and received.

C. Gifts-in-kind

Appraisals not independently performed Instances were noted where donors of Gifts-in-Kind items to the University provided appraisals that they obtained by hiring an appraiser. These appraisals are used by the University to issue charitable receipts. While these donations are not cash revenues, the University does have an obligation to ensure that tax receipts for charitable donations provided are for the most appropriate amount.

Use of a donor's appraisal could raise an issue with respect to the objectivity or independence of the estimate provided. As an example, we noted one instance in which a donor obtained a third party appraisal where the valuation appears to have been based primarily on cost as opposed to market value as required under University policy (i.e. valuation guidelines issued by the Canada Revenue Agency).

Memorial University's Comment

B. Revenue recording

All significant accounts receivable are recorded in the university's financial system (i.e. student receivables, external parties to whom the university supplies services). Each department is responsible for issuing its own invoices for miscellaneous revenue and for collection of revenues on those invoices. Invoices are uniquely numbered by each department with the preface of the department initials as part of the invoice number. All invoices are centrally controlled by the Cashier's Office.

The controls were considered adequate given the nature and value of transactions and the cost of implementing a system as recommended by the Auditor General. The University will, however, review the situation to determine how improvements can be achieved.

C. Gifts-in-kind

Gifts-in-kind can be manuscripts, paintings, equipment, books, software, etc., and accepting them as donations to Memorial usually involves a select group of appraisers to establish market values. The University performs due diligence on the appraisals provided by donors by reviewing them for reasonableness as to independence and compliance with Canada Revenue Agency (CRA) guidelines. The cost to have the University hire an appraiser in all cases for a second opinion was determined to be prohibitive. However, on several occasions, when a review determined it necessary, a second appraisal was obtained by the University.

University policy states that "valuation guidelines issued by Canada Revenue Taxation should be strictly followed in order to determine the value of donated gifts for tax purposes" and "only where a valuation by a

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This donation consisted of a White Rose FPSO Topsides Project model donated to the University to be used for instruction purposes at the Marine Institute. The charitable receipt was issued for \$935,000; however, the estimate appears to be based primarily on the number of hours required to construct the model as opposed to a market value of the model at the time of the donation.

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third party of a gift-in-kind is required, the cost of this valuation shall be borne by the donor". In the case referenced, the Marine Institute (MI) had advised the donor in December 2003 that the company should discuss appropriate valuation with CRA to ensure its acceptability, given that this was a **unique large-scale model** with a potentially large value. MI was advised by the donor on Mar. 2, 2004, that the company held discussions with CRA and CRA informed them they were responsible for the valuation process and CRA does not assist in or provide information on acceptable valuations. Further MI was advised that the donor's legal department researched the issue and secured the rules that CRA abides by for tax purposes and determined that an independent third party evaluation was required. The valuation was carried out by House of Kevin Inc. of Burlington, Ontario, and the report was dated May 2004. It was then forwarded to the Director of Alumni Affairs and Development for issuance of a receipt for tax purposes in accordance with University policy, after delivery of the model to MI (September 2004).

In conclusion, the value of the White Rose FPSO topsides model was established by a professional firm that specializes in the construction of such assets. For more information on the donation of the 6.5 meter model, see <http://www.mun.ca/marcomm/gazette/2004-2005/dec16/newspage8.html>

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4. Purchasing For the year ended 31 March 2005 the University spent approximately \$98 million for the purchase of goods and services.

We reached conclusions on the University's purchasing practices based on a review of the following areas:

- A. Public Tender Act
- B. Sole source exemptions
- C. Emergency exemptions
- D. General tendering processes
- E. Timeliness of required forms
- F. Procurement cards
- G. Travel claims
- H. Relocation expenses
- I. Board of Regents' expenses

Memorial University's Comment

4. Purchasing

Auditor General's Report

A. Public Tender Act

University contravening Public Tender Act The Public Tender Act requires that the University invite tenders where the estimated cost of goods and services is more than \$10,000 and in the case of construction or enlargement of a building the estimated cost is more than \$20,000.

Where tenders are not called for amounts in excess of these threshold amounts, or where the tender is not awarded to the lowest bidder, the University must report the matter (through a "Form B") to the Minister of Government Services (as of December 2004 the Government Purchasing Agency) who then tables a report in the House of Assembly.

As part of our review of the University's operations we tested for compliance with the Public Tender Act.

The University is contravening the Public Tender Act in that it does not always call public tenders for purchases greater than \$10,000 and it does not always obtain 3 quotes or establish a fair and reasonable price for purchases \$10,000 and less. Furthermore, the Minister of Government Services (as of December 2004 the Government Purchasing Agency) was not always informed and therefore the House of Assembly was not informed of Public Tender Act exceptions as required.

Of the 137 purchases sampled that were greater than \$10,000, we found issues with 21 as follows:

- 11 instances where the University claimed a sole source exemption when a tender should have been called;

Memorial University's Comment

A. Public Tender Act

The Public Tender Act sections 3(2)(a through j) lists exceptions whereby a government funded body is not required to invite tenders. For all exceptions noted by the Auditor General, a Form B was completed in compliance with the spirit of the Public Tender Act. The Form Bs were submitted to the Government Purchasing Agency and were accepted. The University was never notified of any problems with the explanations on the Form Bs.

The University is of the opinion that it did not contravene the objective of the Public Tender Act in all the instances noted. When evaluating tender submissions, the University takes a multi-dimensional approach to the evaluation and its officials exercise careful and prudent judgment in making sound business decisions to arrive at the best solution within the spirit of the Public Tender Act.

University policy regarding the establishment of fair and reasonable prices for goods is as follows:

- purchases valued to \$999 – judgment of the purchaser,
- purchases valued between \$1,000 and \$2,499 – three verbal quotations,
- purchases valued between \$2,500 and \$10,000 – three written quotations,
- purchases valued above \$10,000 – public tender.

Most of the issues identified are based on judgment and interpretation. The University disagrees that there are issues with many of the 21 items reviewed. Please see the chart below for details.

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- 3 instances where the University claimed an exemption for an emergency when a tender may have been able to be called or at a minimum the University could have obtained additional quotes;
- 2 instances where the tender evaluation or analysis report was dated after the purchase order was issued. In one of these instances, the University allowed the highest bidder to change their bid after the tender opening, with this bidder then being awarded the tender;
- 1 instance where the University indicated it was not advisable to invite tenders; however, some basis for specifying requirements for tender purposes was possible;
- 1 instance where two bidders submitted acceptable bids; however, instead of awarding the tender to the lowest bidder, the University ranked the bidders using a point scale and the lower ranked bidder's price was discounted;
- 1 instance where the University negotiated with a specific bidder to change the tender specifications;
- 1 instance where the second, higher cost option provided by a single supplier was selected with no documentation provided to show the reason. In this case the tender specifically referenced equipment manufactured by the successful bidder; and
- 1 instance where labour rates paid to a supplier were higher than the amount specified in the tender.

In addition, numerous Form Bs completed by University officials were not approved by the President or designate until well after the goods and/or services were acquired. The average time between when a contract was awarded and when it was reported was approximately 4 months. In the worst case the delay was approximately 8 months. As a result of the delays, the Minister was not notified within the time frame stated by the Public Tender Act for tabling in the House of Assembly.

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Additional findings related to vehicle acquisition are outlined in the Facilities management section of this report (Section 5).

B. Sole source exemptions

11 instances of unnecessary sole source exemptions Section 3(e) of the Public Tender Act provides an exception from the normal requirement to tender for goods and services “where the dealer, supplier or contractor providing the work or acquisition is the only source of that work or acquisition.”

Our review identified 11 instances where, according to the Form B used in the situation, the University claimed a sole source exemption when a tender could have been called.

#	Date	Cost	Item Purchased	Reason Given for Sole Source	Issue with Sole Source
1	August 2002	\$13,898	Audiovisual equipment	To ensure compatibility with existing equipment	There was no indication that other vendors were considered.
2	April 2003	17,969	Used scaffolding	No reason given beyond the fact that the scaffolding was used.	There was no indication that other vendors were considered.
3	May 2003	17,083	A used evacuation slide	No reason given except that the slide was used.	There was no indication that other vendors were considered.

Memorial University's Comment

B. Sole source exemptions

The university firmly stands by its decision to sole source the 11 identified instances. Based on the facts and professional judgment it was determined appropriate to use the sole source exemption. Refer to the university's response to the specific examples provided below.

1. The vendor is the sole provincial authorized dealer for this equipment.
2. The type of scaffolding required was of an industrial nature which is not readily available from multiple sources. By purchasing used scaffolding, Memorial saved approximately 50 per cent on the cost of purchasing new scaffolding. Due diligence is carried out to ensure what is bought as used goods is the best value.
3. New slides of this nature can cost as much as \$100,000. With the limited research funds available for this purchase, considerable effort was made to source a slide that was in good used condition, common in use on international passenger vessels, and of a size and configuration

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4	May 2003	20,493	Audiovisual equipment	No reason given beyond the fact that this vendor was the authorized dealer for the equipment and to ensure compatibility with existing classroom equipment. A supporting e-mail indicated that faculty were already familiar with this type of equipment and no training would be needed.	Given the nature of this equipment, an assessment of tendered prices may have resulted in savings for the University, even with any possible added orientation/technical training requirements. The Marine Institute's tender for seemingly similar equipment revealed equipment available from at least one other vendor. Furthermore, a University official appeared to have questioned the sole source as we found the notation "sole supplier - no tender?" on documentation.
5	July 2003	24,025	Rented wharf and dock space	It was the only type of service in the area, i.e. with water and electrical hookup.	There was no indication that other wharf and dock space was considered.

Memorial University's Comment

that would be suitable for installation in the University facility. As this is a specialized piece of equipment, there are a limited number of suppliers world wide and the only slide available meeting the criteria was sourced through an agent who located it in Northern Ireland.

4. A company by the name of West Burry Audio located outside the province won the Marine Institute tender. The Marine Institute has had numerous problems with this company. A local service dealer was specified to eliminate the possibility of undue delays from having to ship outside the province for service or replacement. Breakdowns of this equipment and delays getting the equipment repaired/replaced would cause undue delays in course delivery to students. Furthermore, having several different systems in classrooms would mean extensive training for professors in the operation of the equipment so it is crucial to have compatibility campus wide. The two control systems in use in all MI classroom audio-visual set-ups are AMX and Extron. The company chosen is the sole provincial authorized distributor and repair centre for both systems.

5. That there are numerous criteria that must be satisfied for a facility to meet our training needs. The facility must be secure, safe for embarking and disembarking a vessel, have change rooms available, have space for the provision of food, have shelter for foul weather and be reasonably close to the training centre and close to a sea training area free from

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6	Sept 2003	188,555	Recirculation water system components	(1) the saltwater re-circulation technology is relatively new and (2) the company had initially designed the specialized system.	There was no indication that other vendors were considered. The concern in these situations is that the specifications could be set so stringently that only the designer's product would meet such specifications.
7	Dec 2003	12,716	Rat and mouse cages and accessories	The cages and accessories (including bottles and bottle baskets, drinking tubes, etc.) were purchased directly from the manufacturer and compatibility was	There was no indication that other vendors were considered.

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pollution and suitable for safe training. Training was moved from the St. John's area due to pollution and the only suitable wharf and facility within a reasonable distance was the Royal Newfoundland Yacht Club. MI's Offshore Training Centre personnel, who are quite familiar with dock space, in conjunction with MI purchasing staff, determined that this was the only suitable space for stated purposes within a reasonable distance.

6. Uni-Aqua specializes in saltwater re-circulation systems. A prototype of this system was being used in the Halibut Broodstock Facility in Winterton, NL, and worked excellently. Memorial's Ocean Sciences Centre staff availed of this system at the Halibut Facility from time to time and as a result became quite knowledgeable with the system's design and performance, which was well suited to the University's aquaculture research needs.

The design or equipment specifications were not set so stringently that only this designer's product would meet such specifications. Rather, the decision to purchase from Uni-Aqua was based on highly successful working experience with the system at Winterton; Uni-Aqua happens to be the sole supplier of this prototype. Additionally, saltwater re-circulation is very new in Canada and Uni-Aqua APs has been involved with systems like this in Europe for many years.

7. This was a one-time purchase of this equipment without going through a tendering process because of previous problems with non-compatible sizes of existing equipment in a particular area. Bottles purchased from other companies will not fit the existing baskets in the cleaning process. Cages stacked with existing cages in this area would stick together making it almost impossible to separate them. These problems are being rectified by separating any new (different) materials from older models in some of our other facilities, and all equipment and materials are

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				required with existing animal rooms and equipment.	
8	May 2004	13,754	Academic dress	The design, colours and specified trim pattern were on file and in the vendor's inventory.	There was no indication that other vendors were contacted.
9	Sept 2004	15,295	22 used office workstations	No reason given beyond the fact that the equipment was used. Supporting documentation suggests there was some urgency surrounding this purchase and that it was "too good a bargain to pass up".	It was also indicated that there was some "checking of prices - new and used around the University". The fact that such requests were made would suggest that some basis for specifying equipment requirements for tender purposes was possible

Memorial University's Comment

tendered on a regular basis.

8. Since 1950, Memorial has amassed an inventory of custom-made hoods as part of our unique academic dress. Today there are 30 different colours of velvet trimming the hoods for each degree family – e.g. tan for B.Comm., B.Comm. (co-op) and MBA; light blue for B.Ed., B.Ed. (Intermediate/Secondary) and M.Ed.). As additional hoods are required (for replacing worn hoods or expanding inventory due to increasing graduate numbers), the University orders from this vendor who has maintained a stock of velvets exactly matching our colours. Past investigations into other vendors in this very specialized academic garment industry have demonstrated that other vendors cannot provide sufficiently good colour matches required to maintain continuity and distinctiveness of colours among the University's hood stock.

9. The Facilities Management (FM) Department sometimes handles tenders/purchases of various types of office equipment for various university departments. Also FM sometimes has parts of furniture systems that came from other departments when new systems were purchased to replace whole or parts of existing ones. The reference by the department requiring the workstations to "checking prices around the university" referred specifically to some discussions they had with FM to see if FM had anything in stock suitable for the requestor's needs. At that time it was determined that either there was no suitable stock at FM OR that FM did not have sufficient stock to meet requirements. Facilities Management then indicated that East Coast Liquidation did have sufficient stock of used equipment and that it met the requirements of the requesting department at a greatly discounted price.

<u>Auditor General's Report</u>					
1 0	Dec 2004	47,817	Voice pagers	The vendor was recommended by the Department of Computing and Communications.	There was no indication that other vendors were considered.
1 1	Various from March 2004 to November 2004	Total of \$43,000	Fitness equipments	The manufacturer was the sole source and compatibility with existing equipment was needed (staff was certified to perform repairs and warranty work).	Given the number of vendors of fitness equipment and the number/ cost of equipment purchased, an assessment of tendered prices may have resulted in savings, even with any possible new certification requirements.

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10. The Telecommunications Officer in the Computing and Communications Department sourced the paging system for the purchasing department. Based on his experience, the Officer advised that there were only two suppliers of air time available locally who offered pagers: Aliant and Downeast Communications. Of the two suppliers, only Downeast would supply voice pagers. Aliant was approached by Computing and Communications for pricing but were advised that Aliant was phasing out of the voice service and would not supply any further pagers.

11. The Works fitness centers have Cybex equipment. In The Works' 25 years of experience, this equipment is far superior to all other fitness equipment. It has a three-year warranty, as opposed to most others who offer one year, parts are readily available and cheaper than other suppliers, and the equipment lasts much longer than others. Due to the volume of equipment and the size of the fitness club, it was decided it was cheaper to focus on one brand - Cybex, and to hire/train an equipment repair person who would have an inventory of parts and be on hand to repair equipment immediately. (Prior to this approach, equipment would have to be shipped out for repairs which cost significantly more than doing it in house.) The equipment down time now is minimal which translates into providing students and other customers with exceptional service.

However, before the equipment was purchased, a survey was conducted of other brands and prices. In all cases the Cybex commercial equipment was cheaper. Spartan Athletics is the sole supplier for Cybex Equipment in Atlantic Canada. This tender was for numerous pieces of new cardio equipment to outfit the expanding fitness center. The tendered called for specific types of equipment or equivalents. The decision was made to purchase Cybex equipment on the basis of product quality, price, and warranty; the company also agreed to train a staff person to be a maintenance specialist to perform in-house repairs, including any warranty

<u>Auditor General's Report</u>					

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work. Another factor in the decision to choose this product and vendor was the matter of a parts inventory. Now a parts inventory is maintained on Cybex equipment to ensure equipment repairs can be done immediately. If there were many different lines of equipment then The Works would need to stock a range of repair parts for different suppliers' makes and models, which is not practical or economical, and would require additional training and/or expertise to do repairs.

C. Emergency exemptions

Three instances found of questionable emergency purchases

Section 3(d) of the Public Tender Act provides an exception from the normal requirement to tender for goods and services "in the case of a pressing emergency where the delay resulting from inviting tenders would be injurious to the public interest".

We reviewed 3 instances where the University claimed an exemption for a pressing emergency. In these instances, while the issue was a pressing emergency at the time, it could be questioned whether delays in deferred maintenance, upgrading, or inspections may have contributed to the emergency condition and whether tenders could have been called if the required work had been detected earlier or, at a minimum, the University could have obtained additional quotes. The following details were derived from Form Bs completed.

C. Emergency exemptions

Auditor General's Report

I. Emergency generator replacement:

Replacing a generator on an emergency basis in March 2004, at a cost of \$23,575, was considered an emergency. According to officials at the Facilities Management Division, the situation was urgent because the existing system no longer carried the facility's load with any reliability and had to be replaced quickly.

While the reason would appear to be an emergency at the time, it could be questioned whether delays in deferred maintenance, upgrading, or inspections may have contributed to the emergency condition and whether tenders could have been called if the required work had been detected earlier. In addition, a quote was requested from only one supplier. Given the type of equipment it is likely that other vendors could have provided quotes on acceptable equipment within the necessary time frame.

Memorial University's Comment

I. Emergency generator replacement:

The old generator was manufactured in 1974. The normal life expectancy for an emergency generator of this type would be approximately 30 years. Sometimes this can be extended if the generator is well maintained throughout its life. In this case, despite regular maintenance, inspections and test runs being performed on a continual basis, the wear rates of the internal components deteriorated and caused the generator to fail. This may have occurred due to high load capacities during the life of the generator. The timing of failure is impossible to predict but due to the good maintenance executed on this generator, it was reasonable to expect an extended life. Due to the urgent nature of this project, calls were made to the following local suppliers:

- Air Cooled Engine Service Ltd.
- Toromont Cat
- Cummins Power
- Honda One
- Sansom Equipment
- Newfoundland Kubota
- Sommers Motor Generator Sales
- Viking Power Systems

Only Toromont Cat had a generator readily available locally of the correct size, voltage and transfer switch sizing.

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II. Kitchen work:

Work completed at a residence kitchen (Hatcher House) to sanitize ceiling space, grease duct and HVAC duct in April 2004, which cost \$60,393, was considered emergency work. The reason stated for the emergency was a health hazard that caused the facility to close.

III. Residence work:

Work identified as residence remedial work that was completed in April 2004 and cost \$32,085, was considered emergency work. The reason stated for the emergency was a health hazard that caused the facility to close.

In both of the above cases, while the reasons would appear to be emergencies at the time, it could be questioned whether delays in deferred maintenance or inspections may have contributed to the emergency condition and whether tenders could have been called if the required work had been detected earlier.

D. General tendering processes

Our review identified the following issues with University tenders.

Memorial University's Comment

II. Kitchen work:

No symptoms of system failure or deterioration had been identified or suspected up to this point. The ceiling was opened to deal with an unrelated issue and the first indication of a system failure was identified. The main dining hall at Gushue Hall was undergoing scheduled renovations. The dining hall at Hatcher was the only one operating to provide food services to resident students and conference clients. Therefore, this facility could not be taken off stream for an extended time to facilitate calling a tender. This was an emergency.

III. Residence work:

No symptoms of system failure or deterioration had been identified or suspected up to this point. The ceiling was opened to deal with an unrelated issue and the first indication of an issue or a system failure was identified. The main dining hall at Gushue Hall was undergoing scheduled renovations. The dining hall at Hatcher was the only one operating to feed resident students and conference clients. Therefore, this facility could not be taken off stream for an extended time to facilitate calling a tender. This was an emergency.

The purchases identified were true emergencies at the time and the appropriate provisions of the Public Tender Act were invoked.

D. General tendering processes

Auditor General's Report

Seven instances found with tendering problems I. Wireless LAN

The tender for a wireless local area network was opened on 14 October 2003 with related purchase orders issued on 24 October 2003 and 12 November 2003. However, the tender evaluation report was dated 3 March 2004, subsequent to the purchase orders being issued.

The tender files also indicated that shortly after the tender was awarded, a number of the unsuccessful bidders contacted the University to ask who won the bid and why their bids were unsuccessful. Evaluating tender bids and approving the evaluation should be conducted prior to awarding a tender in order to ensure the tender is awarded to the lowest acceptable bidder.

II. Refrigeration system for Technical Services

It was observed that after this tender opened, the bidder who was subsequently awarded the tender made an error in the extensions on their bid. At tender opening, they were listed as the highest bid at \$98,385 (plus tax). A letter clarifying that the correct bid total was \$65,925 was sent to the University the day after the tender opened on 8 January 2004. Accepting a change in the original bid amounts to "bid repair" and is not permitted. The lowest tender at opening should be used as a basis for awarding the tender.

In addition, the tender analysis form that was prepared to determine the winning bidder was signed off on 26 January 2004 while the purchase order was issued earlier, on 21 January 2004. Reviewing tender bids and approving the review should be conducted prior to awarding a tender to ensure the tender is awarded to the lowest acceptable bidder.

Memorial University's Comment

I. Wireless LAN

This comment refers to the date of a status report and does not refer to the date the analysis was completed. In fact, the purchase order was not issued before the tender bid analysis was done.

It is not unusual, especially in tenders of this type, for unsuccessful bidders to inquire regarding the winning bidder and for further information on their bids in the evaluation. This particular tender had technical complexities, and in many instances, companies are attempting to evaluate their company's technology in the marketplace, i.e. Did the customer find the solution attractive, but too expensive? Did the customer believe that it was a poor solution? Memorial did receive inquiries from three unsuccessful bidders and a letter was sent to each of them explaining why they were unsuccessful.

II. Refrigeration system for Technical Services

One tender bid contained an arithmetical error resulting from the incorrect multiplication of the number of units and the unit price. Under the University's General Terms and Conditions for Tendering, Item 13 states that "in case of error in the extension of prices, the unit price will govern." Therefore the correction was permitted.

Had the bidder not informed the University of the error, it is likely that internal analysis would have found the error.

The tender analysis form was completed after the purchase order was issued, however, the actual analysis was completed prior to the issuing of the purchase order.

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III. Used vehicle for Alumni Affairs (through President's Office)

The Form B indicated that a used vehicle acquired in September 2004 costing \$15,130 was exempted from tendering under the exemptions section of the Public Tender Act which exempts purchases from being tendered when the nature of the acquisition is that it is not advisable to invite tenders. The reason given for not tendering was that it was a used vehicle and therefore not practical to go to tender as it would be too difficult to compare options, mileage and mechanical conditions of vehicles. It was indicated that prices were requested from 4 suppliers, which resulted in receiving prices for 6 vehicles. The successful supplier had the lowest quote.

The fact that requests were made from 4 dealers would suggest that some basis for specifying vehicle requirements for tender purposes was possible.

IV. Station folder inserts for Computing and Communications

In this tender two bidders submitted acceptable bids; however, instead of awarding the tender based on the lowest bid, the University ranked the bids using a point scale. While the successful supplier had the lowest cost before and after the point ratings were factored into the analysis, the use of a point ranking scale to evaluate acceptable bids in this type of tender is not permitted under the Public Tender Act

V. Computer equipment for Computer Visualization Centre

In a 4 December 2003 letter from the Director of the Physics and Physical Oceanography Department to the Vice President of Research, the Director indicated that tender bids received for the purchase of server/computer

Memorial University's Comment

III. Used vehicle for Office of Alumni Affairs (through President's Office)

This vehicle was expected to be required for a maximum 12-month period. The Executive Director of the President's Office asked the Department of Facilities Management (FM) to provide advice on the practicality of (a) leasing a vehicle on a 6-12 month basis; (b) rental of a vehicle on a monthly basis; (c) purchase and subsequent sale of a new or used vehicle. It was determined that leasing a vehicle or renting a vehicle on a short term basis would be very expensive.

It was therefore decided that the provisions of Section 3.2.b. of the Public Tender Act would be invoked. The University requested prices from four dealers on similar late model vehicles which resulted in purchase prices being received for six vehicles. The final net cost will be far less than the tender limit.

IV. Stationery folder inserter for Computing and Communications

The University used a point scale in the tender bid evaluation to more fully assess the products being offered; the lowest priced item was ultimately selected.

V. Computer equipment for Computer Visualization Centre

The University agrees that the process used does not comply with the Public Tender Act but the following describes what was done and why:

Auditor General's Report

equipment had been evaluated as itemized in the letter.

A 16 December 2003 e-mail from the Director indicated that they wished to enter into negotiations with a vendor (who was referred to only as vendor A) "with a view to acquiring a particular configuration which is a mix of their proposed options" The final purchase order value of \$528,801 (excluding tax) does not directly correspond with any of the bids received and thus it appears that the actual purchase was a mixture of the options proposed by the successful vendor. The purchase price also exceeded all but one of the bids received from all vendors.

Negotiating with a specific bidder to change the specifications of a tender does not comply with the spirit and intent of the Public Tender Act

Memorial University's Comment

In December 2003, the Computational Visualization Centre purchased an upgrade to an existing server through a tender call. The successful vendor was able to provide the technology required and enable the trade-in of certain old equipment thus providing better value. The vendor initially proposed Itanium2, 1.5 Ghz. Processors in a Symmetrical Multiprocessing configuration which would run open source Linux. This configuration met the tender specifications for processing style, memory and processor interconnect and therefore was selected by the evaluation team. A substantial amount of time passed between the closing of the tender and the award due to delayed receipt of external research funding for this purchase and during that time the vendor introduced a new packaging for the equipment and renamed it. This new cabinetry still met the specifications and was, in fact, cheaper than the originally selected equipment. Fundamentally, the processors, the interconnects, the operating system and the included software (compilers) etc. were as originally tendered. It was calculated that the cost per delivered Gigaflop was better with the repackaged solution. Given that there was now the financial flexibility to acquire more processors, the number of processors was increased from 38 to 42 and therefore were able to provide more computational capacity. While the cabinetry (and name of the server) changed, the underlying processors and technology of the equipment purchased remained the same and met the technical specifications of the tender.

Initially, the lower bidders were not qualified, i.e. they did not meet the tender specifications. The vendor chosen was the lowest bidder that met the specifications. Even with the changes that were made to determine the final purchase, the other bidders would not have met the specifications for the type of equipment that was required.

The University agrees that while its actions achieved a better outcome, the practice does not comply with the Public Tender Act.

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VI. Digital camera for Earth Sciences Department

The only vendor responding to this tender submitted two bid options (Option 1 - \$10,114 and Option 2 - \$11,974). The second, higher cost option was selected. No documentation was provided to support why the lowest cost option was not selected. We also note that the tender specifically referenced equipment manufactured by the lone bidder.

Making a selection other than the lowest acceptable bid does not comply with the Public Tender Act. If a bid other than the lowest is selected, the University is required to inform the Minister of Government Services (as of December 2004 the Government Purchasing Agency) to explain why. A further concern in this situation is that specifically referencing one vendor's product in the specifications could deter other potential vendors.

Memorial University's Comment

VI. Digital camera for Earth Sciences Department

The sole manufacturer and supplier of the required equipment was also the only bidder on the tender. The vendor provided a low-cost option that was unacceptable, in addition to an option that met the University's needs. The University chose the equipment that met its needs.

The tender specifically referenced equipment that was manufactured by Leica, the lone bidder, to ensure compatibility with the department's existing software with which the digital camera would be used.

Auditor General's Report

VII. Refit of MV Louis Lauzier for Marine Institute

The original tender and purchase order for refit work on the MV Louis Lauzier were for \$16,950. The final value of the work was \$50,810 (a 200% increase).

Documentation indicated that most of the increase was attributed to additional work that resulted from the vessel's inspection while in dry dock. We found that the labour rate charged on the invoices for the additional work did not agree to the amount specified in the tender. The hourly rate specified in the tender for additional work was \$30 per hour; however, the invoices indicated that the rates billed to the Marine Institute varied from \$30 to \$50 per hour. Marine Institute officials could not explain why different rates were used.

It would appear in this instance that the invoice was paid without being reviewed to ensure the amounts charged agreed with the tender bid.

E. Timeliness of required forms (Form Bs)

Form Bs not completed as required

The Public Tender Act provides an exemption from tendering requirements when the goods and/or services are only available from one source. When the University claims a sole source exemption it must notify the Minister of Government Services (as of December 2004 the Government Purchasing Agency) through a Form B within 30 days of awarding the contract, executing a public work, or acquiring goods or services.

Our review disclosed instances where the University did not file the necessary tender exception forms within the required timeframe.

Memorial University's Comment

VII. Refit of MV Louis Lauzier for Marine Institute

The tender was originally called for "known" work and awarded appropriately. Once the vessel was on dry dock, other major work was identified and required by an inspector. Since the vessel was already out of the water, it was not feasible due to time constraints to re-tender the additional work, even though the change was significant. The original tendered work was carried out by the bidder at the tendered rate of \$30 per hour. Due to its nature, much of the additional work had to be subcontracted by the original bidder to a contractor capable of performing the specific work, who billed at a higher rate of \$50 per hour. The original bidder simply re-billed the subcontracted work at cost and further, did not add any mark-up, to help keep the cost down.

E. Timeliness of required forms (Form Bs)

The general practice of the University was to have the reporting of purchases made as exemptions under the Public Tender Act Form B reports – sent to the Government Purchasing Agency periodically. The University is now providing the reports on a monthly basis.

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During the 2002-2003 and 2003-2004 fiscal years, numerous Form Bs completed by University officials were not approved by the President or designate until well after the goods and/or services were acquired. The average time between when a contract was awarded and when it was reported was approximately 4 months. In the worst case, the delay was approximately 8 months.

As a result of these approval delays, the Province was not notified within the prescribed time frame stated in the Public Tender Act

F. Procurement cards

Insufficient controls and procedures in place

The University uses a procurement card system for many purchases. This card is similar to a credit card and is intended to reduce costs associated with purchasing processes and accounting transactions. When cards are issued, divisions are responsible for determining initial monthly and per transaction limits for the new card. Any changes to card limits are made at the discretion of the divisions.

As of January 2005, the University had approximately 500 active procurement cards. Total purchases charged to these cards for 2002-03 was \$8.5 million, 2003-04 - \$9.7 million, and 2004-05 to the end of January 2005 - \$7.4 million. The total monthly credit limit for these cards is \$3.1 million.

Based on our review, we reached the following conclusions.

Memorial University's Comment

F. Procurement cards

The procurement card system has been a great benefit in reducing unnecessary paperwork and administrative costs. Industry experience reveals a 70 per cent savings on purchasing processes by using the card system. No inappropriate use of the system has been observed; however, there are some areas where controls can be strengthened.

Initial card set up and changes to card limits are approved by a departmental signing authority and by Financial and Administrative Services. Card limits and any changes to those limits are established based on justification provided by departments and their purchasing requirements.

Auditor General's Report

I. Card limits

Card limits not regularly reviewed

While officials told us that related reports from the computerized accounting system were periodically reviewed, there was no evidence of these reviews or their frequency. Regular documented reviews would ensure that monthly and single transaction limits are reasonable and would reduce the risk of card misuse by an employee.

II. Purchase controls

Policy not followed

The nature of procurement cards means individual cardholders are able to initiate purchases without the same degree of control that applies to other University transactions. Normal controls would include checking to ensure sufficient funds are available, prior purchase approvals, and obtaining quotes. The delay between when a card transaction occurs and when it is recorded in the University's financial system makes it even more difficult to monitor current expenditures.

While University officials indicated that the purchasing policy for procurement card purchases is the same as for other purchases, our review of pre-printed forms accompanying card payment requests indicated that there were varying thresholds used for obtaining purchase quotations.

The University's purchasing policy requires at least 3 telephone or current catalogue quotations for purchases between \$1,000 and \$2,500, and 3 written quotations for purchases between \$2,501 and \$10,000; however, most pre-printed forms accompanying card payment requests required at least 3 telephone or current catalogue quotations for purchases between \$400 and \$999, with 3 written quotations required for purchases in excess of \$1,000.

Our review of card transactions disclosed examples of purchases between

Memorial University's Comment

I. Card limits

The University reiterates that each procurement card transaction is reviewed by the University's accounts payable staff to ensure adherence to university policy, including appropriate departmental approval. This also ensures there is no inappropriate use of the procurement card, including personal use.

II. Purchase controls

The forms referenced (with lower limits) were old forms that did not have the proper higher cutoffs for verbal and written quotations. However, the University's current policy was followed (i.e. obtaining verbal quotes for purchases between \$1,000 and \$2,500, and written quotations for purchases between \$2,501 and \$10,000).

The purpose of implementing a procurement card system is to eliminate the administrative costs (i.e. purchase orders, cheques, staff time and resources) of low-dollar purchases. Therefore it would be expected that there would be a large volume of low-dollar items. One hundred per cent of procurement card purchases are checked by accounts payable staff for compliance to University policy and procedures.

Auditor General's Report

\$400 and \$999 where no telephone or current catalogue quotations were documented, as well as purchases in excess of \$1,000 where no written quotations were evident.

The total value of card purchases under \$1,000 for 2003-04 was over \$7 million or 61% of total card purchases. Specifically, over 40,000 transactions representing 93% of all card transactions were for purchases of less than \$1,000. 20 individuals had card purchases in excess of \$100,000, with the highest level being \$668,000.

Memorial University's Comment

Of the 20 individuals with annual card purchases in excess of \$100,000, in all cases the average transaction was \$575 or less. The cardholder purchases consisted of library materials, postage, textbooks for resale, customs clearance fees, and consumables for university-wide usage (i.e. paper, sanitary supplies, etc.).

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Card requirements not closely watched

III. Continued need for cards

The University does not review card usage to determine if the cards are still required by the holder. As well, at the time of our review there was no process in place to ensure cards are returned and cancelled when an employee leaves the University. Specifically, we found:

- 3 cards that have not been used in over 3 years (since 1 January 2002);
- 5 cards that have not been used in over 2 years; and
- 18 cards that have not been used in over a year.

We also learned that 21 cards had never been used as of January 2005. Of these, 7 had been issued to employees prior to 1 April 2004. Our review indicated that 2 of these employees are no longer with the University: 1 ceased employment in February 2005 and the other in August 2004.

III. Continued need for cards

Although the University does not have a formal policy regarding review of non-use or inactivity of procurement cards, secondary controls are in place to ensure there is no inappropriate use the procurement cards. For example, sometimes individuals working on research projects do not need to use their procurement card for some time but they keep them for future use. The university has now implemented a regular review process of all cards. The fact that the cards are not used is not a concern as transactions are 100% audited. Procurement cards have a 3-year expiration period, so there are not an unlimited number of cards in circulation. Each cardholder is required to sign a cardholder agreement which details appropriate use of the card. The electronic software supporting the procurement card system provides a report showing the last activity date to determine if unused cards are in circulation. These can be followed up and cancelled if necessary.

When an employee leaves the university, an Employee Termination Form is completed and signed off by Financial and Administrative Services. It is noted on this form if the person had a procurement card and its return is followed up with the department before the employee's final pay is issued.

With respect to the 2 employees who left the university, their cards were not cancelled and this should not have happened; however, because the university has multiple controls in place (100% audit of all procurement card transactions) any inappropriate use would be discovered and followed up.

Auditor General's Report

IV. Monitoring

Monitoring of card use inconsistent Differences were noted in the procedures the divisions use to monitor and control monthly card usage. Some divisions were proactive in ensuring limits were reasonable and transactions were approved in advance. However, other divisions indicated their primary method of monitoring and controlling card use was via the month-end payment batch preparation process.

V. Compliance with University policy

Using cards to buy water not compliant with policy The University's Purchasing Policy indicates that the purchase of "Water and Water Coolers is strictly prohibited". However, while reviewing procurement card purchases we found several instances where bottled water was being purchased.

G. Travel claims

Of 63 claims reviewed, problems found with overpayments, ineligible claims and no documentation The University spends about \$10 million each year on travel and hosting expenses. We selected a sample of 63 travel claims during the period 1 April 2002 and 31 December 2004 and examined travel documentation to determine if the University's travel policies were complied with. Our review of the 63 claims identified instances where:

- Overpayments were made totaling \$6,576 (5 claims).
- There was no support included with the claim for the foreign currency conversion rate used (14 claims).

Memorial University's Comment

IV. Monitoring

On a monthly basis, every cardholder who uses a procurement card during the month prepares a reconciliation of all card purchases and this reconciliation is approved by the cardholder's supervisor who has departmental signing authority and who verifies compliance with university policy. In addition an audit of 100 per cent of transactions is completed by accounts payable staff in Financial and Administrative Services.

V. Compliance with University policy

Under the University's purchasing policy, the purchase of water and water coolers is prohibited for general use. According to the university's hosting policy (H-3.1.7), the purchase of bottled water by a Dean/Director's office for hosting is permissible. The instances noted were for this purpose.

G. Travel claims

Five of the claims selected by the Auditor General were inadvertently overpaid; however, one of these was corrected within one day of the payment being issued when it was discovered. During this period, approximately 20,000 travel claims were processed totaling approximately \$20 million.

Documentation of foreign currency translation:

University policy has been to verify the conversion rates used via the claimant's credit card statement or a financial website; however, the university policy has been changed to require a printout of that website to document the conversion rate if a credit card statement is not provided as

Auditor General's Report

- Amounts were claimed and paid that were ineligible under the University's travel policy (3 claims).
- Meal per diems were claimed in cases where meals were included in other expenses paid by the University (1 claim).
- There was insufficient documentation to support the amounts claimed and paid, the reason for the expenditure or whether the expenditure was approved (8 claims). Examples include claims for airline tickets, equipment, ceramic plates, fees for flight changes, and cash payments for honorariums, taxis, an entry visa to Qatar, and per diems paid to persons other than the claimant. In 5 of these 8 claims, the claim was paid based on an affidavit from the claimant that the expenditures were incurred.

Memorial University's Comment

documentation

Ineligible expenses

University policy permits Vice-Presidential approval of extraordinary expenses. In all three cases, the approved was obtained in accordance with policy.

Meal per diems claimed in one case where meals were included in other expenses paid by the University

This was an error but was picked up and was part of one of the overpayments noted above.

Use of Affidavits where receipts lost

University policy is that if a receipt is lost, a signed affidavit witnessed by a Commissioner of Oaths is acceptable. These affidavits state that the receipts were indeed lost and they will not be used to obtain reimbursement from another party. It also states the nature and reason of the expenditure. The expenditures for equipment and ceramic plates noted by the Auditor General relate to establishing a hospital clinic in Vietnam which is funded through the Canadian International Development Agency, a federal government granting agency.

Auditor General's Report

We reached conclusions on the following areas.

- A payment of \$12,737 was made in April 2002 to the wrong employee. In attempting to correct this inappropriate payment, a subsequent payment was made but was again made to the wrong person (in this case to another employee with the same name). A third payment was made to correct the second error.

I. Documentation

Insufficient documentation on extended period travel claims

Travel claims submitted are often for travel over an extended period of time. Much of this travel spanned numerous cities and countries and the claims did not always indicate details of the business being carried out by the claimant or how that business related to the University. Similarly, travel claims that included entertainment expenses contained minimal details and did not adequately identify the guests.

II. Review of travel claims

Claims not adequately reviewed

The nature and extent of the errors and overpayments identified during our review indicates that the review of travel claims submitted by source divisions/departments is unsatisfactory and that subsequent reviews by the Financial and Administrative Services Division do not always detect errors missed at the divisional/department level.

Financial and Administrative Services Division officials indicated too few employees are assigned to perform comprehensive travel claim reviews: two clerks review approximately 8,000 to 10,000 claims each year.

Memorial University's Comment

Overpayment of \$12,737

The internal controls in place at the University ensured the errors were identified in a timely manner and corrective action taken several years ago. The situation involved two persons with the same name.

I. Documentation

A travel request form is approved by appropriate University officials before any travel expenditures are incurred. The request outlines the reason for travel and estimated expenditures, and is attached to the travel claim form.

II. Review of travel claims

The volume of travel has grown significantly in recent years, given the increase in the University's research activities. Given the fact that some errors have been found in processing of travel claims, the University will undertake a review of processes and resource allocation.

Auditor General's Report

III. Varsity travel

Team travel allowances consistently applied or monitored In 2004-05 the University spent a total of approximately \$400,000 for travel not costs associated with varsity sports teams. Air transportation costs account for the majority of these costs. Our review of varsity travel during the period October 2004 to February 2005 indicated the following:

- In most cases, airline billings did not identify the number and names of individuals who traveled and airline tickets or boarding passes were not retained to support the travel. In addition, hotel billings did not always identify players and coaches accommodated. As a result, officials could not demonstrate the appropriateness of the expenses incurred.
- There is no documented policy to deal with group travel as it relates to varsity sports teams. For example, the meal per diem used for a varsity team member is \$21 per day, which is significantly less than the meal per diem approved by the University for its employees. No rationale was provided for the lower payment level.
- Travel advances and claims are used to account for meals, hotel and transportation costs each time a sports team takes a trip. Our review indicated that an administrative assistant prepares the advances and claims on behalf of the coaches. In most cases, we were unable to determine if players received their per diems because coaches did not always require players to sign that they received them.

Memorial University's Comment

III. Varsity travel

The University provided the number and names of individuals who traveled for the varsity team events and therefore we disagree that the appropriateness of expenses could not be verified. The airline billings do not identify the actual names of students who traveled on the tickets included on the billing; however, the University is provided with a confirmation listing of the names of all students for who travel was booked and this will now be attached to the invoices as further backup for payment. The University does not require employees or students to keep and return their boarding passes when flying on behalf of the University. Hotel billings have not always included the names of students and coaches accommodated, but we will require this in future. The University mainly books lodging with one main hotel chain operating in most Atlantic provinces if there are such properties in the destination city and in future will make arrangements with the hotels for this information to be included in all billings.

The University is in the process of preparing a written policy for varsity travel. Meanwhile, the per diem rate of \$21 was set many years ago. At that time the Physical Education department conducted a survey of Atlantic universities and colleges, and determined that \$21 was a reasonable rate. In August 2005, St. Thomas University conducted a similar survey of over 60 Canadian universities and colleges; the data show that \$21 continues to be a very reasonable per diem. Effective September 2005, the University is requiring all students to sign for their per diems. Previous to this, a sign-up sheet was provided by the Administrative Assistant to the coaches for students' signatures, but this was not always completed. There is no evidence that students did not have their claims settled properly or that they filed incorrect claims.

Auditor General's Report

IV. Corporate credit cards

Corporate credit cards not monitored Employees who travel on University business are encouraged to obtain a University corporate American Express card. The credit card is to be used for advance airline ticket purchases and other trip expenses.

As of 1 January 2005, there were 698 Corporate American Express credit cards issued to University employees. We were unable to determine whether these cards were in good standing because the University does not request or receive this information from American Express. Officials indicated that the University is not responsible for balances owing on the cards and therefore does not need such information. However, given that these are corporate cards associated with the University, it would be expected that the University would, as a minimum, request and review information on card standing.

As well, some University employees hold Diners Club International credit cards. In these cases, the University does receive reports on cards with outstanding balances. As of 23 December 2004, there were 105 cards issued to employees. We found that 7 of these cards had overdue balances, with 2 carrying balances overdue greater than 90 days. The 2 cards have since been cancelled by Diners Club.

H. Relocation expenses

Instances of higher than allowable payments and ineligible expenses of The University has Household Removal and Relocation Guidelines in place that include the reimbursement of relocation expenses for employees of up to 75% of the cost of relocation. We selected a sample of 7 relocation reimbursement claims during the

Memorial University's Comment

IV. Corporate credit cards

There are no corporate credit cards in the traditional sense. The credit cards cited are personal cards offered as an option to University employees who travel on behalf of the university. The credit card statement is sent directly to the cardholder and he/she is responsible to pay all charges. The University has no liability for the balances on these cards and has never had any occurrence of liability.

H. Relocation expenses

Due to the competitive marketplace for the recruitment of faculty and other senior staff, University policy provides the Vice-President and President with the flexibility to approve deviations from normal practice where necessary to recruit qualified candidates to the University. The payments are not higher than allowed, as the policy specifically allows for approved

Auditor General's Report

period 1 April 2002 and 31 December 2004 to determine compliance with the University's guidelines. We learned.

- 100% of moving costs were paid rather than the maximum 75% provided for in the Guidelines (4 claims);
- There was no support included with the claim for the foreign currency conversion rate used (2 claims);
- House hunting trips were claimed and paid even though such expenses are excluded in the Guidelines (2 claims);
- Immigration expenses of \$3,996 were claimed even though such expenses are excluded in the Guidelines (1 claim);
- Moving costs included shipment of a vehicle even though shipment of vehicles is excluded in the Guidelines (1 claim);
- The number of days per diem prior to and after the move exceeded the number of days permitted under the Guidelines (1 claim);
- Incidental fees were claimed even though such expenses are specifically excluded in the Guidelines (1 claim); and

Memorial University's Comment

deviations.

Specific responses to the instances raised are as follows:

- 100% of moving costs paid
All 4 claims had approvals signed by the Vice-President.
- Support for foreign currency translation
The University policy was to verify exchange rates on a financial website without attaching written documentation. The policy has been changed to require the web page be printed out and attached to the claim to verify the exchange rate. However, all exchange rates were verified at the time of occurrence and this is evidenced by the signoff of the travel claim clerk.
- House hunting trips
Both claims had approvals by the Vice-President and by the President in one case. The travel was not solely due to house hunting, but also included consultations with senior University officials.
- Immigration expenses
There was an approval by the Vice-President.
- Cost of moving a vehicle
There was an approval by the Vice-President.
- Number of days per diem
There was an approval by the Vice-President and the President.
- Incidental fees
There was a deviation from normal practice approved by the Vice-President and the President.

Auditor General's Report

- There was insufficient documentation attached to the claim to support the amount claimed and paid for accommodations (1 claim). In this instance the claim was paid based on an affidavit from the claimant that the expenditures were incurred.

Of particular note was the inconsistency in the level of reimbursement of relocation expenses. In many cases, most notably in our sample in the relocation of executive employees, payments were made for 100% of relocation costs even though the Guidelines provide a maximum of 75%. As well, claims for per diems, incidental fees and return trips were claimed and paid.

Several of these findings relate to amounts paid for the relocation of one of the University's Vice-Presidents. In this case, 100% of moving costs were paid rather than the maximum 75% provided for in the Guidelines contrary to the Guidelines. This Vice-President was also provided with a \$30,000 loan under their employment contract with the University, with \$6,000 to be forgiven for each year of service as Vice-President.

Memorial University's Comment

- Lost receipts

University policy permits acceptance of a signed affidavit witnessed by a Commissioner of Oaths to support a payment if the original receipt is lost.

All of these instances presented were properly approved in accordance with policy.

Auditor General's Report

The Guidelines indicate that “An application for deviation from these guidelines to cover household ~~reimbursement~~ relocation expenses for which no provision is made in these guidelines must be made to the Vice-President (Administration and Finance) via the Director of Financial and Administrative Services.”

Since the Guidelines clearly contain a provision that 75% is the maximum reimbursement, we conclude there should be no payments exceeding the stated 75% maximum. However, University officials have interpreted this section to mean that payment of amounts in excess of limits contained in the Guidelines, or amounts specifically excluded in the Guidelines, is appropriate as long as it is approved. There are no criteria in place to define the circumstances in which excess payments would be approved.

Memorial University's Comment

In advance of an expenditure being incurred which is outside of University guidelines, a department can apply for deviation from normal practice to the appropriate Vice-President or President detailing the rationale. If deemed appropriate, the Vice-President or President has the authority to approve the expenditure. In the case of housing relocations, sometimes in order to attract qualified faculty and other senior members of staff, 100 per cent of relocation expenses is required to be paid. In all cases, the amounts paid are carefully reviewed and are within reasonable amounts for such relocations. Recruitment of faculty is in a very competitive market and the Vice-Presidents and President must have the flexibility to deal with individual deviations due to the nature of this market.

The circumstances outlined above demonstrate that the University is diligent in ensuring proper approvals are obtained when operational requirements dictate that the application of regular guidelines is insufficient to achieve desired outcomes.

Auditor General's Report

Insufficient
documentation
for liquor
expenses

I. Board of Regents' expenses

I. Liquor expenses

Instances were noted where claims for liquor charged to the Board of Regents either did not reference the function for which the liquor was required and/or did not include listings of attendees at the function. Examples include:

- Liquor costing a total of \$4,965 charged in October 2002 that included 11 bottles of liquor, 168 bottles of wine, 45 drinks and 2 bottles of beer.
- Liquor costing a total of \$2,957 charged in March 2004 that included 180 bottles of wine.
- Liquor costing a total of \$851 charged in July 2003 that included 24 bottles of wine, 45 drinks and 2 cases of beer.

University officials indicated that the first two instances related to the replenishment of liquor supplies purchased for Board dinners and receptions on the St. John's campus. The third instance related to a Board dinner held in St. Anthony.

Memorial University's Comment

I. Board of Regents' expenses

I. Liquor expenses

The purchase amount of \$4,965 referenced by the Auditor General is overstated by \$1,642. The actual liquor purchase was \$3,323 and represents bulk supplies that were inventoried and used for Board of Regents events occurring over a period of approximately 18 months. The difference in the cost figure relates to an internal University charge that accompanied the liquor charge and was meant to allocate internal labour costs.

The purchase amount of \$2,957 was another purchase of inventory to be used over a period of approximately 18 months.

The purchase of \$851 is correct except that the charge included 2 bottles of beer instead of 2 cases. The event was a Board / Community Dinner held in St. Anthony with 48 attendees.

Auditor General's Report

Unsupported
dinner claims

II. Dinner expenses

Instances were noted where expenses for Board of Regents dinners were either not supported by invoices listing the actual dinner items, were not supported by a list of dinner attendees, and/or required that a "deviation" be approved for exceeding the University's maximum \$50 per person policy. For example, the Secretary to the Board of Regents submitted travel claims for the following instances in which a "deviation from policy" was approved by the Vice-President of Finance and Administration:

- A dinner attended by the Board of Regents, held in St. Anthony in July 2003. This travel claim indicated that the total cost for the dinner was \$2,486 or \$83 for each of the 30 people attending. In this case, the only support for this payment was a credit card slip and there was no list of attendees.

- A dinner attended by the Board of Regents and University staff, held in Corner Brook in January 2005. This travel claim indicated that the total cost for the dinner was \$1,937 or \$102 for each of the 19 people attending. Again, the only support for this payment was a credit card slip.

III. Approval of payment requests

During our review of expenditures incurred by the Board of Regents it was noted that the Secretary to the Board had both prepared and approved various payment requests. In addition, it is likely that this same individual also initiated and received the purchased goods and services. This practice does not provide the necessary level of control (i.e. segregation of duties).

Inappropriate
claim
preparation

Memorial University's Comment

II. Dinner expenses

July 2003 - A listing of attendees at the Board of Regents dinner should have accompanied the claim, however, the number of attendees was provided and the event was described in documentation as a Board Dinner. The Vice-President who approved the claim was aware of attendees. The University will ensure attendee lists accompany future claims.

This particular function was held at the Norseman Restaurant at Griquet. The total cost of \$83 per person (including gratuities and taxes) is not unreasonable for a formal dinner of this type.

January 2005 - The event was held at the restaurant in the hotel being used by the attendees which negated the cost of transportation. The total cost of \$102 per person (including gratuities and taxes) is not unreasonable for a formal dinner of this type.

III. Approval of payment requests

The description of the situation was accurate; it has been addressed through a change in procedures to require a separation of duties. This procedure requires that the requests for payment initiated by the Secretary of the Board of Regents are countersigned by a member of the Board of Regents or a senior University official.

Auditor General's Report

**5. Facilities
Management**

The University maintains about 4 million square feet of floor space in 100 buildings and properties in the St. John's and Corner Brook areas.

The Facilities Management Division is responsible for the day-to-day management of these buildings and properties, which it does through several functional areas:

- Facilities Engineering and Development
- Building Services and Grounds
- Campus Enforcement and Patrol
- Custodial Services
- Safety and Environmental Services
- Operations and Maintenance.

As well, the Division manages construction projects for the University, such as the recently constructed INCO Innovation Centre.

We reached conclusions on the Facilities Management Division based on a review of the following areas:

- A. INCO Innovation Centre construction
- B. Vehicle fleet management
- C. Campus planning
- D. Maintenance
- E. Facilities management contracts

Memorial University's Comment

5. Facilities Management

Auditor General's Report

A. INCO Innovation Centre construction

Background

On 30 September 2002, the Government of Newfoundland and Labrador entered into an agreement with INCO Limited (INCO) and Voisey's Bay Nickel Company Limited (VBNC) related to development of the Voisey's Bay project. As part of this agreement, INCO and VBNC expressed a desire to make monetary gifts to the University. The money would be used to construct and operate a research facility dedicated to education and research in mineral exploration, mining and metallurgical processing.

On 31 March 2003, the University signed a memorandum of understanding with INCO and VBNC detailing the funding partnership:

- Capital funding totaling \$10 million was to be provided in 20 monthly payments of \$500,000 commencing in May 2003.
- Operational funding totaling \$10 million was to be provided in annual payments of \$1 million to start after construction was finished.
- The University would use best efforts to complete construction and start operating the facility by 31 December 2004.
- The University may choose to apply up to a maximum of \$3 million of operating funding towards construction and design of the facility.
- The University would provide INCO/VBNC with charitable receipts on an annual basis for capital and operating funding received.

On 9 June 2003, the University received approval from the then Department of Mines and Energy to proceed with the INCO Innovation Centre project.

Memorial University's Comment

A. INCO Innovation Centre construction

Auditor General's Report

Our review of the Division's management of the INCO Innovation Centre construction indicated several areas of concern.

Project scope I. Expanded project scope

increased by The original funding for construction of the Centre was the \$10 million
\$7.4 million The original funding for construction of the Centre was the \$10 million capital commitment from INCO; however, the University obtained additional funding and revised the scope of the project.

In a June 2002 meeting of the President and senior University officials, it was recognized that it would be difficult to construct the Centre on the proposed site (the former Thompson Student Centre (TSC)) for that amount.

In June 2003, the University obtained the Province's approval to redirect \$3 million of INCO's operating fund commitment for capital instead of operating. As well, approval for \$4.4 million in funding was obtained from the Federal Government through the Atlantic Canada Opportunities Agency (ACOA). This brought total funding for the project to \$17.4 million.

The redirection of INCO's \$3 million operational funding means that the University will not have those funds available to operate the completed Centre. It was noted that the Province's approval to redirect INCO's operating funding was subject to the condition that the University would not seek any capital or operating funding for the Centre from the Province or from any of its agencies.

Construction was ongoing at the time of our review; however, University officials subsequently indicated they expected construction to be completed within the \$17.4 million budget.

Memorial University's Comment

I. Expanded project scope

The University had two principal objectives for this project:

- 1) Fulfill the mandate to create an innovative research facility, funded by Inco in the order of \$10 million, and dedicated to education and research in mineral exploration, mining and metallurgical processing.
- 2) Create additional research and educational opportunities for the University as a whole and accomplishing this in a refurbished and renovated building that was the Thomson Student Center (TSC).

It was known from the outset that Item 1 could be accomplished within the \$10 million budget. It was also known from the outset that adding Item 2 could not be accomplished for a total budget of \$10 million.

The reallocation of \$3 million of the operating funds donated by Inco was made with full agreement of Inco, Government and the Board of Regents. With this reallocation, the University was able to leverage from the Atlantic Canada Opportunities Agency (ACOA) through its Atlantic Innovation Fund and Business Development Programs (AIF / BDP) an additional \$18 million for research programs.

The project has been completed within the approved budget of \$17.4 million. The only remaining work pertains to the installation of the elevators which will be completed once the labour dispute of elevator technicians is over. Completion of this work will take less than two weeks and will not cause any cost overruns.

Auditor General's Report

Design modified to incorporate architectural features

II. Modified design

The initial concept for the building, as indicated in a February 2003 functional plan study, was for all three floors of the former Thompson Student Centre (TSC) to be renovated. However, correspondence on file indicates that concern was expressed by the University's President that the design and cost estimates based on the functional plan study were not within the desired \$17.4 million budget.

Subsequently, in May 2003 three options were presented to the Board for its review and decision. These were:

- Use the consultant's design including the major architectural features,
- not develop the third floor, and complete the structure within the \$17.4 million budget.
- Use the consultant's design without the major architectural features, develop the third floor, and complete the structure within the \$17.4 million budget.
- Do a reduced renovation at a lower cost of about \$13 million.

The Board approved the first option - maintaining the architectural features, which included a cylindrical column added to the exterior of the building to house an elevator and spiral staircase, an atrium and a waterfall.

Memorial University's Comment

II. Modified design

The documents being referenced throughout by the Auditor General are part of the process of the project definition during which the University tried to expand the scope as much as possible to include additional research and funding opportunities for the University beyond those originally envisioned and to accomplish this in a refurbished and renovated building that was the TSC. The fact that the third floor of the facility has not been completed has in no way impeded any of the goals of the mandate for this facility. Fulfilling the mandate of an innovative research facility funded by Inco in the order of \$10 million and dedicated to education and research in mineral exploration, mining and metallurgical processing has been more than satisfactorily accomplished, in addition to the provision of significant extra opportunities referenced above.

The architectural features cited include:

- the exterior composite metal façade of the building, instead of the old brick of the former Thomson Student Centre,
- the atrium, used for public functions and to generate rental income,
- the staircase and elevator cone, which increase the functional space of the building
- some internal floor and wall finishes, resulting in reduced maintenance costs.

Auditor General's Report

III. Delayed completion

Delayed construction completion

The March 2003 memorandum of understanding indicated that best efforts should be taken to complete the project and have it ready for occupancy by December 2004. This date was incorporated in initial plans for the project; however the desired date could not be met. When we commenced our review of this project in January 2005, Division officials indicated that the anticipated opening date was late March or early April 2005. Subsequent to our review, we were told that while the building was ready for occupancy in April 2005, tenants did not start moving in until June 2005. The Centre did not officially open until 30 September 2005, at which point some architectural, mechanical, electrical and site restoration work was still ongoing, mainly related to installing the elevator.

Memorial University's Comment

III. Delayed completion

The memorandum of understanding was based on the project starting in May of 2003. This did not occur due to the necessity to wait for approval of funding from the Atlantic Innovation Fund. The decision from the AIF was not received until August 2003 and the actual project budget of \$17.4 million was not confirmed until September 2003; as a result, the project could not be completed by December 2004. Reaching completion by April 2005 was an excellent accomplishment on a challenging renovation project.

With the exception of the elevators for reasons noted above, the building was fully operational in April 2005. Users were advised that they could move in then. All users indicated that they preferred to wait until after the semester was completed in May.

The official opening of the building in September was ceremonial. As is customary for major construction projects, it occurred well after the building became operational in April 2005. In this case, it was decided to have the official opening coincide with the meeting of the Inco Board of Directors in St. John's.

In summary, the project could not commence until all financing was in place. The project officially commenced four months later than had been originally envisioned when the December target date was contemplated, and was completed on time and on budget in April 2005.

Auditor General's Report

IV. Increased project phases

Instead of completing construction in 3 main phases as originally planned, at the time of our review there were 10 phases relating to the facility's construction. Although the University maintains the main reason for moving to 10 phases was to "fast track" the project, a Facilities Management official in charge of the project indicated that one of the reasons for increasing the number of phases was to avoid issues with change order limits on the originally planned larger final phase.

While the change order dollar limit at which Board of Regents' approval is required is higher in large phased contracts than in "fast track" contracts, the cumulative value may be reached at an earlier point. This means that every change order above that limit must have the Board of Regents' approval.

V. Consultant selection

The University's policy for selecting consultants, which was used to select the project consultant for the INCO project, states that a selection committee be established to screen and review proposals and provide a summary of the proposals to the Board of Regents. The committee does not rank bids or make recommendations. As a result, the University's selection process is not transparent.

There were only 3 bidders for the project consultant (architectural and engineering services) contract. In January 2003, the University received a complaint from the Association of Professional Engineers and Geoscientists of Newfoundland relating to the request for Expressions of Interest for these services. They indicated the timing given to respond to the request (three weeks over Christmas ending 10 January 2003) and knowledge of the project by the consultant who completed the functional plan study gave that consultant a competitive advantage.

Memorial University's Comment

IV. Increased project phases

The reason for changing the number of phases of the project is clear. Three phases were planned based on the initial project budget established in May 2003. The number of phases, and hence packages, changed due to the project budget not being finalized until September 2003 after the AIF funding was confirmed. The project architect advised that if the project could be tendered in smaller packages, the target completion date of April 2005 would still be attainable. Tendering in smaller packages allowed some portions of the construction work to commence before completing the design of all components. The University accepted the advice.

The Facilities Management official in charge of the project has indicated that he did not make the statement attributed to him by the Auditor General. Given that the Board of Regents has the authority to alter change order limits, there would be no rationale for increasing project phases to alter change order limits.

V. Consultant selection

The referenced correspondence of January 2003 was from the Joint Board of Practice of the Professional Engineers and Geoscientists Association and the Newfoundland Architects Association. Memorial provided a response outlining the consultant selection process for the project and this was accepted by the Joint Board.

Reasons for phase modifications unclear

Auditor General's Report

Change orders
not compliant
with Public
Tender Act

VI. Change orders

Phase CP1 (Demolition, Foundation, and Structural Steel)

At the time of our review, the cumulative value of change orders for Phase CP1 amounted to \$227,903 or 12% of the original contract price of \$1,896,391. This amount significantly exceeded the 5% change order limit, which - under the Public Tender Act - can be approved by a delegated official.

The Facilities Management Division official who authorized the change order indicated that they did so without the required Board approval. It was later indicated to us by senior Division officials that the official who authorized the change order "thought, incorrectly, that the threshold was 10% not 5%".

Phase CP2 (Architectural, Mechanical and Electrical)

At the time of our review, the cumulative value of change orders for this phase amounted to \$741,961 or 7.8% of the original contract price of \$9,482,608. This amount also exceeded the 5% change order limit for approval by a delegated official.

There was no evidence of approval by the Board of Regents at the time the change orders were approved; however, subsequently, as a result of our inquiry, Board approval was documented in a meeting held March 2005.

There were other issues related to Phase CP2:

- A copy of change order # 13, totaling \$26,704, was not signed as approved by a University official (as required under the Public Tender Act) Division officials indicated the change order resulted from the President's request to change flooring in five corridors from cushion

Memorial University's Comment

VI. Change orders

Phase CP1 (Demolition, Foundation, and Structural Steel)

The thresholds for change orders, permitted under the Public Tender Act vary depending upon the value of the construction contract. The Facilities Management (FM) official in charge of this project had only recently joined the University when the construction of this project commenced. He thought, incorrectly, that the threshold was 10 per cent, not 5 per cent, on projects valued at two million dollars. Secondly, the Architect had planned to remove the \$118,000 space frame from this contract and requested a full credit for this amount, which the contractor agreed to provide. Subsequently, it was decided to leave the space frame in this contract for scheduling reasons, which decreased the amount of the threshold the official thought he had.

Phase CP2 (Architectural, Mechanical and Electrical)

Documentation detailing the 7.8 per cent change order amount was sent to the Board of Regents in October 2004 and was approved. However, the approval was not formally documented in the minutes. The October Board approval was documented during the March 2005 Board meeting. The approved documentation reads: "The Board of Regents at its meeting on Oct. 21, 2004, approved a recommendation from the university administration that the cumulative value of change orders be allowed to exceed the 5 per cent limit by \$270,000 for a total of 7.8 per cent of the tendered contract amount."

• Change Order # 13

Four copies of each change order are normally signed by an FM official. In this case, three of the four copies of the change order were signed. The only one that was not signed was the one the auditor discovered in the project

Auditor General's Report

flooring to porcelain tile. Division officials could not explain at the time why the change order copy provided for review had not been signed; however, they later indicated other copies of the change order had been signed.

- Change order # 22 included an amount of \$25,300 resulting from the President's request to use coloured glass rather than clear glass for the Centre's atrium. Officials indicated they thought the architect had specified coloured glass in the tender package but it appeared they had not.
- There was a significant extension on the original 24 February 2004 tender closing date for this contract, evidenced by 11 addendums to the tender call. The final tender closing date was 1 April 2004.
- In October 2004 the CP2 contractor wrote to the project consultant indicating that, in frustration over delays in obtaining change order approvals, unplanned work was being done in advance of receiving approval for the changes.

Memorial University's Comment

file. The change order in FM's administration file were signed as was the consultant's and the contractor's copies.

Changing the floor finish in the corridors from vinyl sheet flooring to ceramic tile was highly beneficial. The ceramic tile is more durable, has a much longer life cycle and is easier to maintain.

- **Change order # 22**
The architect's drawings and renditions of the building indicated tinted glass. This is was an important feature for the building and a major improvement over clear glass because it decreases solar gain and thereby reduces energy consumption for air conditioning. It also improves the building environment. The University thought that the architect had specified colored glass in the tender package.
- **Extension to closing date**
An attempt to shorten the construction period resulted in the tender call being premature, causing the need for addendums.
- **Contractor frustrations**
The Facilities Management official in charge of this project responded in writing on Oct. 22 to the Oct. 19 correspondence from the contractor. In his response, he indicated that the contractor did not advise anyone prior to their correspondence that delays in approving these change orders would in any way impact the schedule. The contractor was made fully aware that the change orders were going to the Board of Regents for approval at its Oct. 21 meeting. The contractor did not express any concerns with this timing. In a project meeting held on Oct. 12 the only concern pertaining to schedule mentioned by the contractor was that colours had not been approved. In late September, the contractor had been instructed not to conduct any work on any change orders without official approval.

Auditor General's Report

- In October 2004, the University issued a tender call for outside site work in the area of the INCO Centre. Two bids were received; however, as the lowest bid was not within the budget level for the work, it was decided not to award the tender at that time but to re-tender the work in Spring 2005.

However, officials determined that there was a need for some immediate site work to be completed for such items as paved walkways. Work totaling \$26,400 was assigned to the contractor for the CP2 phase as a change order to the CP2 phase contract. While some site work was included in the original scope of the CP2 contract, it did not extend to paved walkways. As such, this decision did not comply with the Public Tender Act

Memorial University's Comment

- **Site work**
Once it was decided not to proceed with the site restoration and landscaping until the spring, the temporary sitework mentioned was necessary. There was not sufficient time to do a public tender as the batch plants for asphalt would have been closed. Therefore a change order was issued. Site work, including excavation and trenching, was included in the CP2 contract. It is therefore unclear why temporary restoration would not be an acceptable change order under the Public Tender Act

Auditor General's Report

Subsequent to CP2

Successful bidders for work on a number of phases subsequent to the CP2 phase were required to bid on the work under the understanding that they would be assigned to the CP2 contractor and that the CP2 contractor would coordinate and manage these projects. Project phases assigned were:

- CP3A- Architectural Millwork
- CP4 - Laboratory Fumehoods
- CP8 - Miscellaneous Interior Masonry

Officials indicated these phases were assigned to the CP2 contractor for project management purposes. This meant that purchase orders and payments made on these contracts were made to the CP2 contractor in the same fashion as for the CP2 contract even though they had not won the contract.

For this, the CP2 contractor was paid a 10% management fee that had been agreed to in advance. Officials indicated that under this arrangement the CP2 contractor would cover costs such as bonding and insurance.

Memorial University's Comment

Subsequent to CP2

These arrangements were essential to ensure that liability provisions were properly covered and warranty periods would be consistent with the entire structure. Co-ordination problems would also be avoided by having the sub-contractors coordinated through the general contractor. The University obtained a legal opinion prior to proceeding in this manner to ensure that its actions in this regard would be in compliance with the Public Tender Act.

Auditor General's Report

VII. Other issues with the INCO facility construction

Other issues
noted

Labradorite order

Division officials indicated that a senior INCO official agreed to arrange for the donation of Labradorite material to be used in the Centre. We learned that the INCO official left the company before the Labradorite was required and that the University did not pursue the issue further. This resulted in purchasing the Labradorite at a cost of about \$70,000.

Aboriginal circle

The initial plan for the Centre included an "Aboriginal Circle" but the University decided not to include this feature. Division officials indicated that INCO may have wanted the feature in the Centre due to the Labrador connection; however, the University learned through consultation with aboriginal communities that aboriginal circles are not used by aboriginals in this Province.

Lecture theatre

Documentation indicates that the CP1 contractor proceeded with installing structural steel for theatre seating support without the support of shop drawings. We were told that reviewed drawings were not available due to the excessive number of structural questions/clarifications required.

Memorial University's Comment

VII. Other issues with the INCO facility construction

Labradorite Order: There was no commitment from Inco to donate Labradorite or to arrange for its donation. In an early project meeting, there was a very casual reference to the possibility of Inco donating raw Labradorite, but this did not develop any further. Even if raw Labradorite was donated, it would have required finishing, polishing and shipping the stone. All of these expenses were included in the \$70,000 final cost of the Labradorite.

Aboriginal Circle: While the Aboriginal Circle was an early concept considered, consultations with Aboriginal communities concluded that such circles are not utilized by Aboriginal peoples in this province. The concept was therefore not pursued further. The Canada Research Chair for Aboriginal Studies and associated meeting space has been located in the building.

Inco did not have any involvement in this matter. The Facilities Management official in charge of the project has indicated that, during a lengthy meeting with the Auditor General's representative, he may have led the representative to think that Inco wanted the Aboriginal Circle. This would have been incorrect.

Lecture Theatre: The contractor was advised in writing that any additional costs as a result of proceeding without reviewed shop drawings would be at his expense. There were no additional charges or expenses to the project as a result of this issue.

Auditor General's Report

B. Vehicle fleet management

The University currently owns or leases approximately 50 vehicles. Our review of vehicle fleet management indicated:

- The number of bids received from tenders were limited in many cases to one bid;
- Predetermined criteria were not in place to assess purchase vs. lease acquisitions;
- Specifications used as minimum in most tenders were stated as exact specifications on others;
- A used vehicle was purchased without being tendered;
- Fuel purchases were not adequately reviewed or monitored; and
- Vehicle logs required to be maintained were not reviewed.

We discovered weaknesses in several of the University's processes related to vehicle fleet management.

Memorial University's Comment

B. Vehicle fleet management

Auditor General's Report

I. Bid practices

Low
response

bid

In 4 of the 10 new vehicle tenders we reviewed, there was only one bid received. This suggests consideration should be given to reviewing the process used in order to increase competition for vehicle acquisitions. This would ensure the University acquires vehicles at the lowest cost possible.

Example

In one instance relating to the Marine Institute's purchase of a 2003 Chevrolet C25, the tender specifications contained the following specific requirements that were normally noted as minimum on other tenders we reviewed:

- Power 325 HP @3300 RPM,
- Torque 560 lb-ft @ 2000 RPM, and
- 6.0 L V8 diesel engine.

The employee responsible indicated these were intended to be minimum standards and vehicles exceeding the standards would be considered.

Memorial University's Comment

I. Bid practices

The University would like to receive as many bids as possible in response to tender calls but it cannot control how many dealers choose to respond to tenders for one vehicle at a time. Measures to increase competition will be considered as suggested.

The University agrees that the tender specifications should have included wording to the effect that the power requirements were a minimum specification. This said, had bids been received for vehicles with greater power, they would have been considered.

Auditor General's Report

II. Used vehicle purchases

Used vehicle purchased without proper documentation

A tender exception report related to the Marine Institute's purchase of a 1999 F150 pick-up indicated the purchase was made from the only available source (Section 3(2)(e) of the Public Tender Act) A buyer at the Marine Institute told us there were no set specifications for the purchase; officials visited various dealers and selected the vehicle they felt best met their needs. There was no support on file for the other dealers visited or vehicles considered.

Memorial University's Comment

II. Used vehicle purchases

The University is in general agreement with this assessment. There were no written specifications for the acquisition of this vehicle. However, since only used equipment was being considered, the Manager of the end user department visited the used vehicle dealers in the St. John's area to review their inventory. As the end user, he knew what was required of the vehicle. Numerous suppliers were visited to ensure the best truck available suiting the needs of the department was purchased for the lowest price. Used vehicles of this sort were selling quickly at that time so selection was limited.

There is no evidence in the files regarding what other suppliers/vehicles were considered; this was an oversight which will be rectified for such purchases in the future.

Auditor General's Report

III. Purchase vs. lease

Decision to purchase made without proper documentation

In one instance, a tender call was made for either the purchase or lease of a vehicle. There was a memo on file that stated the vehicle with the lowest purchase price and the vehicle with the lowest lease option. However:

- There were no predetermined criteria on file that could be used to decide between the lease and the purchase.
- There was no evaluation on file to document how the lease or purchase decision was subsequently made. This was especially important in this instance due to the fact that the low bidder for the purchase option was different from the lease option.

Officials indicated the purchase option was chosen primarily because (1) funds were available for the purchase that would save the incremental lease financing charges and (2) they wanted to keep the vehicle beyond a normal five-year lease. These factors should have been known prior to issuing the tender call. Consequently the decision to purchase versus lease, and the decision to award the tender, were not adequately supported.

Memorial University's Comment

III. Purchase vs. lease

The normal course of business would be for the University to obtain tender quotes for the purchase of a vehicle. In this case, the University requested bids for both the purchase and the lease of a vehicle in order to generate accurate and current cost data to inform the decision as to which method would be most economical. Additional factors were that the vehicle would likely be kept for more than five years and that the department had funds to purchase the vehicle outright. This process is part of making an informed business decision when purchasing a \$15,000 vehicle.

Auditor General's Report

IV. Fuel purchases

Fuel purchases
not properly
reviewed

Statements showing detailed vehicle fuel purchase transactions are approved for payment based on a general scrutiny for reasonableness by accounting officials in the Facilities Management Division. User departments do not certify the statements for payment purposes and there is no effort to match the actual receipts to the supplier statements. They only notify the Division of any problems.

During our review of one statement (December 2004) instances were noted where unexplained miscellaneous charges were included, identified as a "Conv", "Misc" or "Tip" product type. The Facilities Management official who approved the payment told us:

- They did not know the reasons for the specific charges, and
- They felt it was the responsibility of the user department to ensure charges are valid.

Instances were also noted where larger purchases of diesel fuel appeared on cards for gas powered vehicles. We were told it was likely the purchases related to a boat and that the cards should not be used for this purpose.

The Division maintains a system that provides for tracking of operating costs by vehicle and department. Given the fact that monitoring of operating costs is a key component of vehicle fleet management, we would expect regular cost reports to be issued to user departments. However, we were informed that reports are only issued when requested and this occurs infrequently.

Memorial University's Comment

IV. Fuel purchases

Since the Auditor General's review was performed, Facilities Management has implemented an updated authorization procedure. User departments are now required to review all charges and to provide FM with written confirmation of that review within two weeks of notification. This new procedure has been in place since June 2005.

The miscellaneous charges noted in the review and identified as "Conv", "Misc" or "Tip" were quite minor in nature. The revised procedure noted above will ensure that a user department review occurs and that any of these charges are accepted and signed off by the user department.

There are separate cards for boats and small engines but occasionally user departments have used their vehicle gas card to purchase diesel fuel for boats and other equipment. The revised procedure noted above will ensure that departmental review occurs for the accuracy and the appropriateness of the expenses.

Typically, individual accounts do not carry multiple vehicle expenses. The Banner accounting system details monthly, annual and comparative histories that detail by individual their expenses by type including: vehicle license; insurance; gasoline; and repair costs. User departments can access this information on Banner at any time. Reports that provide more detailed information are available on request.

Auditor General's Report

V. Vehicle logs

Logs not
checked

Vehicle logs are required for each vehicle but there is no procedure in place to review the logs to ensure they are properly completed and that they support the level of vehicle use. Facilities Management Division officials indicated the logs would only be checked in special instances, such as in the event of an accident involving the vehicle.

C. Campus planning

Campus plan
last updated in
1986

In 2004, the University identified a need to update its Campus Master Plan. The most recent plan was prepared in 1986. It was further indicated that the planning process should address key issues such as traffic, parking, public transportation access, green space, development of common area spaces, and the enhancement of entrances to the campus, as well as review how expansion would fit within planning. At the time of our review, the 1986 Plan had not been updated.

Memorial University's Comment

V. Vehicle logs

There is a procedure in place. The following clause from the University Vehicles procedure indicates that it is the responsibility of the applicable official:

“Deans, Directors, Principal and Department Heads will ensure that vehicle users follow the operational requirements of the University, that a log book for each vehicle is kept up to date, that a ‘Vehicle Mileage Weekly Update’ Form be completed and that drivers of University vehicles are authorized and have an applicable license.”

C. Campus planning

In 2005, the University began a process to update its Campus Master Plan. A proposal call was prepared detailing the scope of work to be carried out. Proposals were received, evaluated and a commission was awarded to the successful proponent. This is an extensive piece of work involving the future development potential for the university's campuses for the next fifty years. Much of the detailed work is well underway or has been completed. The complete plan is scheduled for release by the end of the first quarter of 2006.

Auditor General's Report

D. Maintenance

Continued deferred maintenance a growing risk for University

A Work Order System report provided during our review indicated that approximately 700 work orders were outstanding, with many of the items listed having been in the system for a long time. Examples of outstanding work orders range in degree of significance and include such items as fixing the time on a clock to repairing elevators and replacing smoke detectors. Officials indicated that some of the items in the system may have been completed but not properly cleared.

Deferred maintenance

A June 2002 deferred maintenance report identified the most urgent maintenance areas and estimated the cost to address them to be \$28 million.

The report indicated that the University at that time had approximately 80 buildings ranging from 7 to 40 years in age and that more than half of the space was built over 30 years ago. It further indicated that much of the physical plant has reached the end of its design life. Due to lack of funding to renew building components, significant maintenance items had been deferred. This resulted in a prolonged deterioration of facilities.

The report concluded that if left unattended, deferred maintenance will threaten the University's ability to provide high-quality space environments and that building infrastructure that has exceeded its useful life may fail.

The University's 2003-04 budget submission to Government (which included submissions for 2004-05 and 2005-06) referenced the fact that it was faced with major challenges due to these maintenance issues.

Memorial University's Comment

D. Maintenance

A long list of outstanding work orders is not unexpected given the size of the campuses and the amount of work required to maintain the buildings and property. A major reduction in the wait lists would require significant expenditures.

Work orders cannot be closed until all financial transactions are posted, which sometimes delays the closing of the orders. All invoice information is fed directly from the accounts payable system. Therefore, charges are posted based on actual payment.

Deferred maintenance

The deferred maintenance situation at the University is not unlike that of other major Canadian universities. The University is working within the available budget. It is also collaborating with other Atlantic Canadian universities in lobbying the Federal Government for infrastructure funding.

Auditor General's Report

The submission indicated that three steps had been taken to address the problems:

- A review was performed to identify areas needing the most urgent attention;
- A five-year action plan was developed to meet those needs; and

- A financial plan was developed that involves borrowing the funds necessary to complete the work.

Division officials indicated that Government did not approve the financial plan and, instead, provided funding for deferred maintenance as part of its annual grant to the University. We were told this funding was not sufficient to meet the proposed five year plan, with the result being:

- The original five year plan for addressing the \$28 million in deficiencies cannot be achieved;
- Additional items amounting to about \$7 million have since been identified and added to the plan; and
- Approximately \$8 million has been spent in the first 2 fiscal years of the plan.

There has not been a detailed review of deferred maintenance since the 2002 report. Items in that report have been carried forward and adjusted for new requirements and work done in the first 2 years of the plan.

Memorial University's Comment

Auditor General's Report

E. Facilities Management contracts

Closer scrutiny
and monitoring
required of
contract
provisions

I. Change orders

The dollar value of change orders for certain facilities management contracts is quite high in relation to the original purchase orders. This may be caused in some cases by the Division establishing the fixed contract portion based on quoted prices, with extensive variable costs being addressed through change orders.

For example, a tender for providing cleaning services for 2002-03 had three bidders and the tender was awarded based on fixed cost bids that ranged from \$38,052 to \$86,527. However, the low fixed cost bidder had significantly higher variable costs per hour (\$16.50 for snow shoveling and \$14.50 per hour for other cleaning services) than the higher fixed cost bidder (\$12.00 for snow shoveling and \$10.00 per hour for other cleaning services).

While factoring all costs into the tender analysis would not have resulted in the final combined fixed and variable costs being higher in this situation; had the fixed costs bids been closer, it may have occurred.

II. Inspections

Errors were found in the monitoring reports used for fire alarm inspections and cooling system inspections. We also found examples in the reports where inspections were not performed annually according to contract provisions; specifically, 3 cooling systems and 2 fire alarms were overdue for inspection.

Memorial University's Comment

E. Facilities Management contracts

I. Change orders

The contracts being referred to here are for standing offer agreements. A review of the extra costs for the cleaning contract for the fiscal years 2002/2003/2004/2005 indicates that the average extra costs are \$8,762.50 which, when added to the lowest bidder, brings the total to \$46,814.50. This is \$18,882.10 less than the next lowest bidder of \$64, 771.00

Facilities Management identified weaknesses internally in our service contract monitoring capabilities in 2003, and a Contracts Administrator position was subsequently created. Reporting systems and new procedures have been created for inspections. The Contracts Administrator has been assigned responsibility for monitoring and following up on deficiency reports related to these contracts. Deficiency reports that also identify actions initiated are generated on a monthly basis.

II. Inspections

The new procedures ensure that inspections occur in a timely fashion.

Auditor General's Report

III. Energy contract recoveries

Due to a problem with meters used for energy measurement, the Health Sciences Centre (part of Eastern Health – formerly the Health Care Corporation of St. John's) paid more than it should for energy contract recoveries. Officials indicated this situation may have had a significant negative future budget impact, projected to be approximately \$900,000. However, it was also indicated that Eastern Health “has agreed that funding for this resulting energy differential can be transferred from their budget to Memorial's”.

6. Capital Assets At 31 March 2005, the University had capital assets costing a total of approximately \$358 million, with a net book value of \$152 million. These assets include buildings, furniture and equipment, computers, vehicles and others.

We reached conclusions on the University's capital assets based on a review of the following areas:

- A. Threshold amount
- B. Policies and procedures
- C. Report accuracy
- D. Disposal of surplus assets

Memorial University's Comment

III. Energy contract recoveries

The sharing of energy costs at the Health Sciences Centre was based on a formula created in the 1970s and agreed to by both the General Hospital Corporation and Memorial University. Meters have recently been installed and readings indicate that the formula requires changes. Funding from the Province for each institution's energy expenses is under negotiation.

6. Capital Assets

Auditor General's Report

A. Threshold amount

Only items valued at \$2,500 or more recorded The threshold amount for recognizing and tracking capital assets has increased significantly over the years.

Division officials indicated that prior to 1997-98 a database was maintained for assets with a value of \$150 or greater. At that time the threshold limit for individual capital assets recorded was increased to \$1,000. Subsequently, items valued at less than \$1,000 were removed from the database.

With the implementation of a new computerized accounting system in 2002, the threshold for individual capital assets was again increased, this time to \$2,500. Officials indicated the higher threshold was introduced due to the administrative challenges of maintaining the existing level.

Given the \$2,500 limit, a significant quantity of new items such as office equipment and furniture are not tracked in the system, which are often more susceptible to theft than items costing over \$2,500.

B. Policies and procedures

No policies and procedures guidelines for managing capital assets

While there are informal practices and standard forms in place for additions, asset movement, disposals and other changes, there is no policy and procedures manual in place for managing capital assets.

There is also no process in place to require the various departments to review assets assigned to them in the capital asset system.

Memorial University's Comment

A. Threshold amount

The capital asset threshold of \$2,500 was set in 2002 based on a materiality level deemed appropriate for an institution of Memorial University's size and complexity. The Comptroller, at the time, canvassed other organizations and institutions to determine their practices and determined this level was consistent with universities of comparative size to Memorial University. The threshold level is appropriate.

Approvals are in place for all purchases at all levels and tracking of minor purchases is the responsibility of the individual departments purchasing the items.

B. Policies and procedures

The University has policies that address the purchase, transfer, and disposal of capital assets. These policies are in a broad policy framework rather than a specific capital assets manual. For example the purchase of assets is covered in the Purchasing Policy whereas the disposal of assets is covered in the Surplus University Assets Policy.

Auditor General's Report

C. Report accuracy

Capital asset report not accurate

Our review of a sample of 20 items included in the capital asset report for the Facilities Management Division, and a general review of the report, indicated that the report is not accurate. For example:

- The report included a vehicle, as well as 4 other items, that had been disposed of.
- Two pieces of equipment relating to carpet cleaning were assigned in the report to a room at the Thompson Student Centre; however, the Thompson Student Centre no longer exists. Officials indicated the assets had been moved; we reviewed these items with cleaning supervisors but were unable to identify their current location.
- In 4 cases, assets had been moved from the location in the report without the necessary adjustment being made.

As well, in some cases, only the name of the asset supplier was indicated in the asset description field, rather than a model number, serial number or other specific identifier.

Memorial University's Comment

C. Report accuracy

The ledger is materially accurate. In the next fiscal year a review will be undertaken .

Notification of the vehicle sale was provided to Financial and Administrative Services via a surplus asset disposal form. As regular reports are not generated from the system, postings are not necessarily confirmed in a timely manner.

The carpet cleaning items were transferred to the Smallwood Centre and were cannibalized to keep other units operational. The disposal was not reported as required. Supervisors have been instructed as to proper procedures to be followed in future.

Regarding the asset supplier being indicated in the asset field description, sometimes the asset description field is not properly completed by the transfer of information within the Banner system. These items are manually followed up by an accounting clerk to correct in the Banner Finance system as time permits. However, asset tags are disseminated for these items and the numbers are recorded in Banner.

Auditor General's Report

D. Disposal of surplus assets

No process to Departments send forms detailing surplus assets to the Facilities select asset Management Division. The Division then arranges to dispose of the assets disposal services through an auctioneering services company. There is no process in place for the periodic selection of auctioneering services. In practice, one company has been used whenever asset disposal is required.

Recommendations

Memorial University of Newfoundland

Memorial University's Comment

D. Disposal of surplus assets

The University uses a respected local auctioneer, Fitzpatrick's Auctioneering Services, and has received excellent service. The University will, however, consider developing a process that provides opportunity for other firms to submit proposals for such work.

Recommendations

Memorial University of Newfoundland

After a six-month, in-depth examination of Memorial University's policies, procedures, practices and records, the Auditor General makes 26 recommendations. The recommendations, taken individually and collectively, indicate that the University has no major problems.

With respect to the 26 recommendations:

- 14 reflect actions that Memorial University had initiated before the Auditor General reported;
- 5 are inconsistent with well-established practices at Memorial University and other major Canadian universities or otherwise do not require change;
- 7 are recommendations by the Auditor General on which the University will take action.

Auditor General's Report

Memorial University's Comment

Board Governance

The University should

- continue with its efforts to complete a strategic plan; and
- finalize management agreements with Separately Incorporated Entities (SIEs)

Board Governance

The University is developing a strategic plan since the objectives of its Strategic Framework, approved by the Board of Regents and Senate in 2000, have largely been met or exceeded.

Management agreements with SIEs are also under development. It is expected that both the Strategic Plan and the management agreements will be completed, on schedule, in 2006.

Human Resources

The University should:

- ensure the University's recruitment policies are complied with and that compliance is documented
- address the inaccuracies in the computer system used by the University for personnel and payroll purposes; and
- address the inconsistencies in leave management processes.

Human Resources

While deviations from the University's recruitment policies have occurred, steps have been taken to ensure full compliance and documentation in future.

There are no known inaccuracies in the database used for payroll purposes. The employee database is primarily used for statistical purposes and minor inaccuracies have no significant consequences.

Like most major Canadian universities, Memorial University has leave management processes for academic staff that are different from those of non-academic staff. The processes are effective and change is unwarranted.

Revenue

The University should:

- increase its efforts in reviews of cash handling;
- address inconsistent controls over revenue recording; and

Revenue

The Auditor General did not find any significant cash handling issues that were not previously known to the University and on which the University had not already taken action. Such action includes a comprehensive cash

Auditor General's Report

- consider whether independent appraisals should be obtained in assigning values for charitable receipts issued for tax purposes.

Purchasing

The University should:

- comply with the Public Tender Act and University purchasing policies;
- ensure adequate documentation exists for all purchases;
- ensure payments are made for eligible expenses;
- recover any overpayments as identified;
- ensure only authorized expenditures are made;
- address issues identified with the review of travel claims by source faculties, departments and divisions, and subsequent review at the Financial and Administrative Services Division; and
- review controls over the use of university procurement cards

Memorial University's Comment

handling audit, which will be completed in 2006.

The University will review its procedures for issuing invoices for miscellaneous revenues to determine how improvements can be achieved.

The University is in full compliance with tax regulations regarding charitable receipts. For all major and special gifts, the University uses evaluations from independent, professional evaluators, to value charitable donations.

Purchasing

The University is committed to complying fully with the Public Tender Act and all University purchasing policies. The few instances in which problems have occurred will be reviewed carefully with the view of eliminating them in future. It is important to note that none of the problem cases have had adverse consequences for the University.

The University's policies regarding the documentation of purchases are appropriate.

The University's policies regarding eligible expenses are appropriate.

All identified overpayments have been recovered.

Mainly as a result of greatly increased research activities (in 2004/5 Memorial University attracted \$81.6 million in research funds, compared with \$37 million in 1999/2000), the volume of faculty, staff and student travel has grown substantially. While the error rate in submitting and processing travel claims is very low, the Travel Claims Section in the Department of Financial and Administrative Services is stretched to full capacity. The section will be reviewed and provided with additional

Auditor General's Report

Memorial University's Comment

**Facilities
Management**

The University should:

- review its procedures for managing construction projects;
- comply with the Public Tender Act in approving change orders;
- address issues identified with Vehicle Fleet Management;
- update the University's 1986 Campus Master Plan;
- address maintenance work orders in a timely manner;
- address the significant deferred maintenance issue; and
- review its method of awarding Facilities Management contracts.

resources as indicated by the review.

While there have been administrative time savings and no financial losses resulting from the use of procurement cards, their controls will be reviewed in 2006 and changed, if warranted.

Facilities Management

The University's procedures for managing construction projects have resulted in projects, particularly major projects such as the Inco Innovation Centre, to be completed safely, on time and on budget. Respectful and effective working relationships exist between University staff and outside contractors. The University's procedures for managing construction projects are therefore sound.

The one instance where the Auditor General identified a change order violation of the 5 per cent limit specified in the Public Tender Act was caused by a new construction manager being unfamiliar with the rules. The error will not recur.

The University's vehicle fleet management policies and practices will be reviewed. However, it should be noted that no inappropriate use of University resources was found.

The Campus Master Plan was last reviewed in 1986 and has served the University well, partly because there were few changes until the late 1990s. Since that time, the University has grown in student numbers and research activities. New buildings have been added, notably the Smallwood Centre, the Field House, the Inco Innovation Centre and the extension of the Music School in St. John's and the addition of the new residences on the campus of Sir Wilfred Grenfell College. The University is in urgent need of

Auditor General's Report

Memorial University's Comment

modern science and health sciences research facilities, student residences, library facilities and business school expansion. Proposals have also been developed for a major capital fundraising campaign. For these reasons, the master plans for the St. John's campus and Sir Wilfred Grenfell College campus are being reviewed. The expected completion date is Spring 2006.

The policies and procedures governing maintenance work orders are appropriate. The Auditor General has identified significant delays in acting on some, non-emergency work orders. These delays are well known to the University and result from the limited financial resources available to conduct the work. Until the present fiscal year, the University's government grant did not even reflect inflationary increases.

In 2003, the University developed and submitted a five-year Deferred Maintenance Plan to government. As a result of a special annual allocation from government for deferred maintenance, the plan is now being executed over time. The plan is reviewed on an annual basis to ensure that it reflects current priorities.

The methods used by the University's Department of Facilities Management have resulted in appropriate contract awards. However, the methodology used for standing offer contracts with high variable costs will be reviewed.

Capital Assets

The capital asset threshold of \$2,500 used by Memorial University is consistent with practices at other major universities in Canada and no problems have been identified. The threshold is therefore also appropriate for Memorial University.

Memorial University's policies and procedures for managing capital assets

Capital Assets The University should:

- review the threshold used for recording capital assets;
- develop a formal policy and procedures manual to address how asset additions, transfers, disposals and other changes are to be handled and recorded;
- ensure its capital assets ledger is accurate; and

Auditor General's Report

- review its process for selecting auctioneering services relating to the disposal of University assets.

Memorial University's Comment

are consistent with those of other major universities in Canada. No significant problems have been reported. The policies and procedures are therefore also appropriate for Memorial University.

While Memorial University's capital asset ledger is materially accurate, it will be reviewed in 2006.

The University uses a respected local auctioneer, Fitzpatrick's Auctioneering Services, and has received excellent service. The University will, however, consider developing a process that provides opportunity for other firms to submit proposals for such work.

Department of Education

The Department of Education should be more proactive in monitoring the financial activities of the University and in holding the University accountable.

