

2.3 Memorial University of Newfoundland

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.

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

The charts on the following pages provide detailed financial information.

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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
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

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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
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)

Source: Audited financial statements

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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.

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.

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.

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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:

"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.

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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
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.

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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:

- 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.

2. Government monitoring

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

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.

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*.

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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

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.

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

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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.

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.

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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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.

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.

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4. Purchasing

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

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.

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;
- 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;

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- 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, 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.

The University also contravened the *Public Tender Act* in 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.

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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.

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 maintain architectural features and to remain within budget.
- 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.

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- 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.
- 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.

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- *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.
- *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:

- 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.

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- 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.

Findings and Recommendations

1. Board Governance

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

- Transparency and Accountability Act*
- Accountability to House of Assembly committees
- Government monitoring
- Province's Consolidated Summary Financial Statements
- Strategic planning
- 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.

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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.

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.

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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.

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

University not included in annual 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.

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.

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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.”*

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.

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.

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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.”

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 the Department of Education surrounding the Department's request that such an assessment occur.

Management agreements with SIEs not in place

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.

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.

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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.

2. Human Resources

Description

A. Compensation practices

All departments, boards, agencies and commissions use public money to compensate employees. Government is the ultimate employer of all public employees whether they work for Government departments or a Government entity. However, we continue to see that Government employees are not consistently compensated. These inequities usually result in increased costs for Government entities (such as the University) and therefore, less funding available for programs. In 1994, Cabinet attempted to address such inequities but their direction was never acted upon.

Our findings

Compensation practices inconsistent with Government standards

Our review disclosed that the University's compensation practices are inconsistent in these areas:

- I. Salaries
- II. Market differentials
- III. Administrative stipends
- IV. Individual staff benefits

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I. Salaries

University salary scales higher than Government's

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
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

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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
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 (Administration and Finance)	-	1	1
Oil and Gas Development	-	1	1

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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.

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.

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Stipends offered to academic administrators

III. Administrative stipends

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.

Other inconsistent benefits

IV. Individual staff benefits

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 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.
-

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);

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- 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.
-

C. Human resource database

Errors in 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).

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.

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

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

A. Cash management

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.

Audit and risk management reports reveal theft and missing money

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- 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.

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).

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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.

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

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*.

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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 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;
- 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.

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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.

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

B. Sole source exemptions

Eleven 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.

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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 Institutes 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.
6	Sept 2003	188,555	Recirculation water system components	(1) the saltwater recirculation 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 designers 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 required with existing animal rooms and equipment.	There was no indication that other vendors were considered.
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.

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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
10	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.
11	Various from March 2004 to November 2004	Total of \$43,000	Fitness equipment	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.

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.

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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.

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.

*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.

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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.

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.

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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 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*.

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.

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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.

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*.

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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.

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.

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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 \$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.

III. Continued need for cards

Card requirements not closely watched

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.

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Monitoring of card use inconsistent

IV. Monitoring

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.

Using cards to buy water not compliant with policy

V. Compliance with University 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.

Of 63 claims reviewed, problems found with overpayments, ineligible claims and no documentation

G. Travel claims

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).
- 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).

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- 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.
- 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.

We reached conclusions on the following areas.

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.

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Team travel allowances not consistently applied or monitored

III. Varsity travel

In 2004-05 the University spent a total of approximately \$400,000 for travel 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.

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.

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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

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 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
- 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.

2.3 Memorial University of Newfoundland

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%.

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. As well, claims for per diems, incidental fees and return trips were claimed and paid 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.

The Guidelines indicate that *“An application for deviation from these guidelines to cover household removal and 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.

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; and

*Insufficient
documentation
for liquor
expenses*

2.3 Memorial University of Newfoundland

- 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.

II. Dinner expenses

*Unsupported
dinner claims*

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

*Inappropriate
claim
preparation*

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).

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
-

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.

2.3 Memorial University of Newfoundland

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.



INCO Innovation Centre

2.3 Memorial University of Newfoundland

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

I. Expanded project scope

Project scope increased by \$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.

II. Modified design

Design modified to incorporate architectural features

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:

2.3 Memorial University of Newfoundland

- 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.

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.

IV. Increased project phases

*Reasons for
phase
modifications
unclear*

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.

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V. Consultant selection

Issues raised relating to selection of project consultant

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.

VI. Change orders

Change orders not compliant with Public Tender Act

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.

2.3 Memorial University of Newfoundland

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 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.
- 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*.

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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.

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.

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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.

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.



2.3 Memorial University of Newfoundland

I. Bid practices

Low bid response

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.

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.

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.

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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.

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.

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.

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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.

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

2.3 Memorial University of Newfoundland

- 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.

E. Facilities management contracts

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).

*Closer scrutiny
and monitoring
required of
contract
provisions*

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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.

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
-

2.3 Memorial University of Newfoundland

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.

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, which had been disposed.

2.3 Memorial University of Newfoundland

- 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.

D. Disposal of surplus assets

*No process to
select asset
disposal services*

Departments send forms detailing surplus assets to the Facilities Management Division. The Division then arranges to dispose of the assets 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

*Board
Governance*

The University should:

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

2.3 Memorial University of Newfoundland

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.*
-

Revenue

The University should:

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

2.3 Memorial University of Newfoundland

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.*
-

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

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.

2.3 Memorial University of Newfoundland

Memorial University of Newfoundland Response

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.

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.

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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.

General and Detailed Comments Available

In an effort to aid understanding, the University is providing general commentary as part of this report and more detailed comments on the findings in an annotated version of this report available on-line at www.mun.ca/agreport.

Introduction

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

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reflected in the powers and authority granted to the university [under the Memorial University Act]”.

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.

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

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.

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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.*

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.

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Requirements of 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's feels that its accountability mechanisms are adequate.

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.

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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/

4. Control of financial transactions and assets

As demonstrated in the University's detailed comments on the Auditor General's report (available on line at www.mun.ca/agreport/), 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

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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.

A. 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.

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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.

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/.

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.

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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.

B. 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.

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 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.

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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.

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.

C. Revenue

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 6.5m model, see <http://www.mun.ca/marcomm/gazette/2004-2005/dec16/newspage8.html>

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D. Purchasing

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.

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.

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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.

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.

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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.

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.

F. Facilities Management

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.*

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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.

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.

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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.

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.

G. Capital assets

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.

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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.

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.*

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Board Governance

The University should:

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

University Response:

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.*

University Response:

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.

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Revenue

The University should:

- *increase its efforts in reviews of cash handling;*
- *address inconsistent controls over revenue recording; and*
- *obtain independent appraisals for assigning values for charitable receipts issued for tax purposes.*

University Response:

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 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 should:

- *comply with the Public Tender Act and University purchasing policies;*
- *ensure adequate documentation exists for all purchases;*
- *ensure payments are made only 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.*

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University Response:

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 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 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.*

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University Response:

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% 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 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.

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

University Response:

The capital asset threshold of \$2,500 used by Memorial University is consistent with practices at other major universities in Canada.

Memorial University's policies and procedures for managing capital assets 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.

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Department of Education Response

A. Transparency and Accountability Act

Memorial University is a Category One Government Entity in accordance with the Transparency and Accountability Act.

Memorial University has only been exempted from very specific sections of the Transparency and Accountability Act for reasons of academic freedom and autonomy. However, the University must plan in accordance with the direction set by the Board of Regents, appointed by the Lieutenant-Governor in Council, who are accountable under the Act for the actual results achieved.

Section 4.(4) of the Transparency and Accountability Act only exempts Memorial University with respect to: planning in accordance with Government's strategic directions; Ministerial approval of the plan prior to tabling in the House of Assembly; and Lieutenant-Governor in Council direction if the Minister is of the opinion the University is not reaching its objectives in accordance with direction set by the Board of Regents.

The Transparency and Accountability Act does require Memorial University of Newfoundland to prepare and table in the House of Assembly, through the Minister of Education, three year Strategic Plans. (During the implementation phase of the Act, a two year plan shall be submitted in Fiscal Year 2006-07.) The Strategic Plan shall:

- *Set out goals and objectives to be met during the period covered taking into account the University's mandate and financial resources;*
- *Identify objective performance measures specific to the goals and objectives set out in the plan;*
- *Set out the fiscal years covered by the plan; and*
- *Any other information required by the Lieutenant-Governor in Council.*

In addition, Memorial University of Newfoundland must prepare and submit to the Minister of Education, for tabling in the House of Assembly, an annual report on its preceding fiscal year. This annual report will:

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- *Compare actual results with the projected results contained in the Strategic Plan;*
- *Provide an explanation of any variance between projected and actual results;*
- *Contain the audited financial statements of the University, comparing them to the amount voted by the House of Assembly; and*
- *Contain a statement that the Board of Regents is accountable for the actual results reported.*

Under the Act, the Minister may also:

- *Request other information from the University in addition to that included in the annual report; and*
- *Make recommendations to the University that, in the Minister's opinion, will ensure its activities are more consistent with the objectives of its Strategic Plan, if it is believed following a review of the annual report that the University is failing to meet those objectives.*

B. Accountability to House of Assembly committees

Memorial University has responded to this issue.

C. Government monitoring

The University frequently provides the Department with program information and contributes to Departmental publications. As well, it presents a budget submission to the Department, articulates its position to the Ministers of Finance and Education in a meeting as part of the pre-budget consultation process each fiscal year, and it provides annual financial statements at the end of each fiscal year.

In terms of the University's performance, a Memorial University Fact Book is released early in each calendar year detailing the previous fall's enrolment and the Department reviews this document and discusses findings with Memorial to determine trends in post-secondary education. This publication contains performance indicator profiles on students, research support, alumni information, human resource information, library information and financial information. Memorial University cooperates with the Department in the preparation of CareerSearch,

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which is a publication measuring the labour market performance and satisfaction of graduates with their program. The Department also monitors Memorial University's performance in relation to other universities. This is achieved through analysis of: the annual Maclean's Magazine ranking of Canadian Universities, publications from the Council of Ministers of Education Canada, publications from Statistics Canada, and publications from other applicable groups. Performance indicators in the annual ranking are compared to those of Memorial University's peers and include: the student body, classes, the faculty, finances, the library, and the University's reputation. Similarly, the Department reviews the findings of umbrella organizations representing colleges and universities as these organizations establish benchmarks when comparing university/college performances. One such association is the Association of Universities and Colleges.

Memorial University provides the Department with reports detailing student performance such as the rate of retention from first year into second year university, and the performance, at Memorial University, of students who completed their first year at College of the North Atlantic.

In Fiscal Year 2005-06, the University played an integral role by providing a very detailed submission and constructive feedback throughout the White Paper process.

National papers concerning quality and capacity are discussed in order to formulate provincial positions regarding same. The Department has a seat on the University's Senate and receives copies of all meeting minutes and documentation.

The University will present the Department with options when considering changes to admission requirements in order to facilitate discussions of potential impact to the K-12 education system and College of the North Atlantic.

Constant and constructive dialogue takes place with the Faculty of Education on the needs of the K-12 system, their capacity to deliver same and strategies regarding student retention.

In terms of program changes, such as the impact of national and international accreditation findings on Memorial University programs, the University provides detail to assist the Department in understanding their needs.

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In terms of finances, the Department analyzes the annual budget submission and annual audited financial statements. The analysis of the financial statements includes: a review of expenditure, including administration and other expenditures as a percentage of total expenditure; a year to year expenditure comparison; a review of the reasonability of the balance sheet; and a close review of all notes to the financial statements.

The Department and the general public also have access to a wide variety of information on the Memorial University website. Research is shared between the Department and University. Regular discussion regarding national and international tuition policies take place in order to prepare an appropriate response for this Province and the Memorial University Board of Regents is advised of same. Memorial University of Newfoundland is a mature institution which frequently provides a wide variety of program and financial information to the Department of Education.

D. Province's Consolidated Summary Financial Statements

Commencing in Fiscal Year 2005-06, Memorial University's financial statements will be included in the Public Accounts of the Province. Memorial is one of the first Canadian Universities to do same. As a result, they will be required to provide quarterly financial information and other accrual information to the Department of Education. In addition, as part of Government's transparency and accountability agenda, the Auditor General has been provided access to all of Memorial University's financial information.

E. Strategic planning

This issue is covered in the response to section A, Transparency and Accountability Act.

F. Other issues

Memorial University has responded to the issues raised by the Auditor General.