



UNIVERSITY OF  
CALGARY

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UNIVERSITY AUDIT SERVICES

**Special Investigation**

**Research & Trust Accounts RT73-2028 & RT73-2153**

**Prepared by  
University Audit Services**

**Final Report Issued  
April 1, 2008**

**Executive Summary**  
**Special Investigation- Research & Trust Accounts RT73-2028 & RT73-2153**

**Background**

UAS was advised by the University of Calgary's ("U of C") General Counsel and Corporate Secretary of allegations of unethical and potential illegal activities brought forward by a citizen involving Friends of Science ("FOS"), a third-party Society, and a University of Calgary Research & Trust ("R & T") account holder ("Researcher"). The allegations were as follows:

- A. The U of C was a conduit in the funding of the FOS via the Researcher's trust account.
- B. FOS ran an anti-Kyoto radio campaign during the last federal election in contravention of the Canada Elections Act. The radio ads were paid for by the Calgary Foundation's Science Education Fund either directly or indirectly through the Researcher's trust accounts.

Severed under Section <sup>24(1)(a)</sup> 16(1) of the FOIP Act

- D. Activities funded by grants from the Science Education Fund to <sup>17(1), (4)(b) & (d)</sup> trust account were not legitimate scientific research and education and were funded by anonymous donors to promote special interests.

UAS was asked to review the funding and expenditures on R & T accounts, RT73-2028 and RT73-2153 ("the Accounts"), which were the Accounts administered by the Researcher that related to the allegations. Matters for follow-up were identified during the course of the review. UAS was asked to complete the review of the Accounts once the Accounts were closed out.

**Audit Work Performed**

UAS performed a detailed review of all funding and expenditures to the Accounts and assessed compliance with U of C policies and procedures and legislation.

**Findings**

**A. Allegation**

The U of C was a conduit in the funding of the FOS via the Researcher's trust account.

**Audit Conclusions**

In order to conclude whether the Accounts were used as conduits to fund FOS activities it was necessary to examine the evidence and determine whether it supported that the Project was a legitimate project undertaken in collaboration with FOS or whether the actual substance of the Project was to fund FOS activities and enable donors supporting FOS to receive tax-deductible donation receipts issued by the U of C.

Although there was evidence that the Project was legitimate and there was collaboration between the Researcher and FOS, the evidence was not conclusive. The risk is that the donations to the Accounts were intended for FOS and that the Accounts were used as conduits to fund FOS and to provide donation receipts to the donors.

Severed under Section <sup>20(1)(f)</sup> 24(1)(a) of the FOIP Act

24(1)(a)

27(1)(a) & (b)(iii)

The difficulty in conclusively determining whether the Accounts were legitimate can mainly be attributed to the lack of an agreement between the U of C and FOS outlining the terms of the relationship.

The U of C has Gift Acceptance Guidelines ("Guidelines") that assign responsibility for the management of charitable tax receipting to the Development Office ("DO"). In order to fulfill their responsibilities with respect to charitable tax receipting the DO would need to assess donations to ensure that they qualified as gifts. During our review UAS found that although the DO follows the Guidelines to evaluate donations, the process may not identify instances where donations on projects are ineligible for donation receipts.

Severed under Section 20(1)(F) of the FOIP Act  
24(1)(a)

UAS found that the rights to the IP of the Project had not been adequately protected since no formal agreement was signed with either the company that produced and distributed the Video or FOS.

### **Audit Recommendations & Management Responses**

UAS made recommendations that included implementing processes to identify collaborative relationships and funding of research projects through donations. Recommendations were also made to strengthen internal controls to ensure compliance with the Intellectual Property policy.

Management agreed with the recommendations and has committed to an action plan.

### **B. Allegation**

FOS ran an anti-Kyoto radio campaign during the last federal election in contravention of the Canada Elections Act. The radio ads were paid for by the Calgary Foundation's Science Education Fund either directly or indirectly through the Researcher's trust accounts.

### **Audit Conclusions**

#### Third Party Electoral Advertising

The Canada Elections Act ("Elections Act") governs activities during an election and includes legislation relating to third-party advertising during an election period. Third parties incurring election advertising expenses of at least \$500 must register with the Chief Electoral Officer and fulfill other requirements. Non-compliance with the Elections Act can result in fines and/or imprisonment.

UAS found that FOS radio ads did run during the last election and were paid from the Accounts. The ads may be considered third party advertising under the Elections Act.

Severed under Section 20(1)(F) of the FOIP Act  
24(1)(a)  
27(1)(a) & (b)(iii)

#### Calgary Foundation Support

There were two grants to the Accounts of \$100,000 each from the Calgary Foundation's Science Education Fund. The grants were in support of the Climate Change Documentary Project.

#### Political Activities/Partisan Political Activities

Severed under Section 20(1)(F) of the FOIP Act  
24(1)(a)

Severed under Section 20(1)(f) of the FOIP Act

24(1)(a)

27(1)(a) & (b)(iii)

#### Form T3010

Participation in political activities must be identified on Form T3010- Registered Charity Information Return ("T3010") along with total expenditures on political activities.

Severed under Section 20(1)(f); 24(1)(a) of the FOIP Act

UAS

reviewed processes in Financial Services relating to the completion of the T3010 and noted that there is currently no process in place to identify political activities at the U of C and track expenditures on those activities for reporting purposes.

#### Audit Recommendations & Management Responses

UAS made recommendations that included implementing processes to identify potential political activities on research projects so that expenditures can be tracked for T3010 reporting purposes and to identify partisan political activities. Further, recommendations were made to implement processes to identify budgeted advertising costs in order to provide information on third party advertising during an election to researchers.

Management agreed with the recommendations and has committed to an action plan.

Severed under Section 24(1)(a) of the FOIP Act

1(6)(1)

#### D. Allegation

Activities funded by grants from the Science Education Fund to 17(1), (4)(b) & (d) trust account were not legitimate scientific research and education and were funded by anonymous donors to promote special interests.

#### Audit Conclusions

UAS cannot conclude on the legitimacy of the research undertaken in the Accounts however there is no evidence to suggest that the Project objective was not based on an intellectually honest search for knowledge. None of the grants funding to the Accounts were from anonymous donors.

#### E. Other Matters

During the course of the special investigation other matters were identified that did not relate specifically to the allegations. UAS made several recommendations relating to internal controls over research account funding, expenditures, coding, proper approvals, management and reporting. Management agreed to the recommendations and has committed to an action plan.

**University Audit Services ("UAS") Report  
Special Investigation- Research & Trust Accounts RT73-2028 & RT73-2153**

**Background**

In March of 2007, UAS was advised by the University of Calgary's ("U of C") General Counsel and Corporate Secretary, Linda Barry-Hollowell, of allegations of unethical and potential illegal activities brought forward by a citizen involving Friends of Science ("FOS"), a third-party Society, and a University of Calgary Research & Trust ("R & T") account holder, 17(1), (4)(b)+(d) ("the Researcher"). The allegations were as follows:

- A. The U of C was a conduit in the funding of the FOS via 17(1), (4)(b)+(d)'s University of Calgary trust account.
- B. FOS ran a politically motivated anti-Kyoto radio campaign during the last federal election, targeting key ridings in southern Ontario. These radio ads were paid for by the Calgary Foundation's Science Education Fund either directly or indirectly through 17(1)+(4)(b)+(d) University of Calgary trust account. FOS conducted third party electoral advertising, in the form of an anti-Kyoto radio ad campaign in the last federal election, but failed to register with the Chief Electoral Officer, as required by law.
- C. Severed under Section 24(1)(a) of the FOIP Act 3
- D. Activities funded by grants from the Science Education Fund to 17(1), (4)(b)+(d) trust account were not legitimate scientific research and education and were funded by anonymous donors to promote special interests.

UAS was asked to review the funding and expenditures on R & T accounts RT73-2028 and RT73-2153 ("the Accounts"), which were the two accounts administered by the Researcher that related to the allegations. In the course of our review UAS identified evidence relating to the allegations and provided Linda Barry-Hollowell with a list of matters to consider for follow-up.

In December of 2007, UAS was asked to complete the review of the Accounts by conducting the follow-up work previously identified. This work was initiated after the Accounts were closed out, in January of 2008.

**Audit Work Performed**

The following audit work was performed by UAS:

- Detailed review of all funding to the Accounts including donor terms of reference where available.
- Detailed review of expenditures on the Accounts including any available contracts and assessment of compliance with U of C policies and procedures.
- Review of Research files and the Account set up process and assessment of compliance with U of C policies and procedures.
- Interview of Researcher.
- Review of all evidence obtained to assess the nature of the relationship with FOS.
- Review of processes at the Development Office ("DO") with respect to gift acceptance and the issuance of tax-deductible charitable donation receipts.
- Review of policies on Intellectual Property to determine compliance.
- Review of the Income Tax Act ("ITA") to assess potential non-compliance.
- Assessment of the content and timing of radio ads paid from the Accounts to determine whether the U of C contravened the Canada Elections Act ("Elections Act").
- Review of processes relating to completion of the U of C's Registered Charity Information Return (Form T3010).

## A. Allegation

The U of C was a conduit in the funding of the FOS via 17(1), (4)(b) + (d); U of C trust account.

## Audit Observations

The Researcher indicated that he was approached by an individual who introduced him to representatives of FOS, who were interested in producing and distributing a video documentary dealing with the issue of climate change and wanted to collaborate with the Researcher on a research project.

The Researcher applied to have a trust account (RT73-2028) set up at the U of C in the fall of 2004 for a research project entitled "Research on the Climate-Change Debate" ("the Project"). The purpose of the research was to address the issue of climate change by documenting the many dimensions to the debate, from the highest political and scientific authorities to editorials in specialized magazines and newspapers. The Project description noted that the notion of "global warming" had led to Canada's adherence to the Kyoto protocol and that the media had presented the climate change issue in a very one-sided way. The production of a video documentary ("Video") was part of the Project.

An application for a second trust account (RT73-2153) was completed to handle a donation for \$75,000 since the donor was supporting only the production side of the project and the specific terms of reference needed to be tracked to ensure compliance. This account was entitled "Climate Change- Video Project" ("the Project").

The funding to the Accounts consisted of donations totaling \$507,975. Of this amount, \$325,100 was from Foundations and a donor who was known to the U of C but wished to maintain anonymity for reporting purposes ("Anonymous donor"). No tax-deductible donation receipts were issued to these donors. The remaining donations of \$182,875 were from individuals and corporations who received tax-deductible donation receipts.

The expenditures on the Accounts totaled \$507,975 after a repayment by the Researcher of \$7,551.84, which was required since one of the Accounts was overspent. The Accounts are now closed.

In order to conclude whether the Accounts were used as conduits to fund FOS activities it is necessary to examine the evidence and determine whether it supports that the Project was a legitimate project undertaken in collaboration with FOS ("Form") or whether the actual substance of the Project was to fund FOS activities and enable donors supporting FOS to receive tax-deductible donation receipts ("Substance"). Note that FOS is not a charity and therefore cannot issue tax-deductible donation receipts for donations received.

### Form

Evidence supporting the form of the Project as a legitimate project is as follows:

- The Researcher complied with U of C policies and procedures with respect to the application process for establishing the Accounts.
- The Researcher complied with Integrity in Scholarly Activity policies by assessing the scholarly significance of the project.
- The Researcher indicated he was actively involved in the Project and that it was time intensive on his part.
- There was a letter dated September 17, 2004 to 17(1) (FOS director) from the Researcher stating: "This letter confirms to you that I would like to direct a project at the University of Calgary on "Research on the Climate-Change Debate". I and my associates are prepared to assist you in this project and will offer you what financial assistance we can. To that end, I have begun the process to open a Trust Account at the U of C." The wording in the letter implies collaboration with FOS. This evidence is somewhat contradictory as it also implies that it was an FOS project.

- The project description included in the account application included a budget of \$100,000 and indicated that: "several individuals have approached me to manage and direct this project. They have indicated a willingness to assist in the research and in obtaining financial support."
- There was correspondence dated September 22, 2004 in the research file between the Researcher, the Anonymous donor's representative, 17(1), confirming that the U of C would be the owner of the Video, that the Researcher would co-ordinate the Project on the side of the U of C and that the final educational product would be made available to anyone with an interest at cost or at a nominal rental charge. Although the correspondence is not specifically addressed to FOS, 17(1) 17(1) have been identified as FOS board members.
- The Researcher's profile on the Department of Political Science website indicates that he is affiliated with FOS and states that: "They have produced a video called "Climate Catastrophe Cancelled: What You're Not Being Told About the Science of Climate Change."
- The backup for a donation of \$50,000 from the Kahanoff Foundation included a letter addressed to 17(1) Friends of Science that states: "Congratulations on the progress Friends of Science has made in the past few months." and "The Kahanoff Foundation is pleased to support your Research on the Climate Change Debate." A letter from Friends of Science to the Kahanoff Foundation was also included thanking them for the support to the U of C towards the completion of the Video project they were co-venturing with the University and stating: "The strategic alliance between F of S and the Political Science Department of the U of C will provide additional managerial assistance under the auspices of 17(1), (4) (b) & (d), and provide funding through the University's Charities account."
- FOS received payments totaling \$123,427.52 from the Accounts. All of these payments were reimbursements of expenses incurred by FOS and included items such as video production, advertising, educational conferences, administrative assistant, website costs and radio ads. The Researcher indicated that this arrangement was understood with FOS.
- The first edition of the video produced by the project entitled "Climate Catastrophe Cancelled" starts with the following statement: "A UNIVERSITY OF CALGARY VIDEO In cooperation with the Friends of Science Society" and includes the U of C logo. This supports that this was a joint project.
- FOS made further reference to the U of C's involvement in other activities to promote the Video such as a conference in Ottawa on the science of global climate change. It should be noted that the U of C objected to the use of its name and it was changed to the Researcher's.

### Substance

Evidence supporting the substance of the Project as a conduit is as follows:

Severed under Section <sup>20(1)(f)</sup> of the FOIP Act  
24(1)(a)

- One donation for \$100 included an attachment from FOS' website stating: "You can now make a tax-deductible donation to Friends of Science by using the newly established Trust account with the University of Calgary."
- Although the Researcher indicated that he was collaborating with FOS on the Project there was no agreement with FOS outlining the nature of the collaboration, specifying expenses eligible for reimbursement or the ownership of the Video.
- Some invoices for services provided were addressed directly to FOS.
- The Researcher indicated that his agreement with FOS gave him absolute discretion over expenditures of 10% of the funds received. This might imply that he was not in charge of the expenditures on the Project.
- The backup for a donation for \$5,000 included a cheque copy made out to FOS Society rather than the U of C, which may indicate that the funding was to be directed to FOS.

- Although FOS gave the U of C credit for the Video, there is no evidence that the U of C was aware of the nature of the relationship or that it was brought to the U of C's attention before or after the release of the Video. This became apparent when the Video was launched in the spring of 2005 and the U of C sent a letter dated May 10, 2005 to FOS requiring that they not use the U of C's name or logo in promoting FOS or the Video. The U of C indicated that it did not support the position set out in the Video, that it had not entered into any affiliation agreement with FOS and that the Board of Governor's had not approved the use of the U of C's coat of arms or crest.
- A posting on FOS' website stated: "Large projects- such as our video and radio ads- are funded through grants out of a University of Calgary Trust Fund, directed towards debate of climate science and which is also fed by the charitable Calgary Foundation." The U of C requested that this posting be removed. This statement implies that the U of C accounts were conduits.
- In February, 2007, Roman Cooney issued the following statement in an e-mail: "The University of Calgary has long-standing and publicly-stated concerns about Friends of Science using the University of Calgary's name to infer that it has the University's endorsement. Our response has included cease-and-desist directives to the Friends of Science from the University's legal counsel." Since any reference to the U of C had been removed from the Video at the University's request and cease-and-desist directives had been issued with respect to any further references to an affiliation with the U of C, FOS took ownership of the Video and the dissemination of information surrounding the video. This may have given the appearance that the activities of the Project were FOS' and not the U of C Project's.
- On January 23, 2007 <sup>S. 17(1)</sup> sent a letter to Roman Cooney at his request stating: "I wish to confirm that Friends of Science is not and has never been affiliated with the University of Calgary, nor does it receive, or has it ever received, funding or support from the University of Calgary." This statement does not support the conduit argument however in a May 2007 email exchange between Sourcewatch and <sup>S. 17(1)</sup> (FOS board member) he stated: "We pay our running expenses mostly out of the membership fees and donations of the several hundred members we have and in the few cases, when we are initiating larger projects (such as our video, our website and the like), we try to raise money from wealthy individuals and private foundations in this city and elsewhere. Such funds are often channeled through charitable organizations for education purposes, which is what they are indeed used for. We are not political lobbyists. In the case of the video, the funds were obtained through the University of Calgary through a Trust Fund established at U of C to encourage debate on basic Climate Science (something Environment Canada never got around to)." This statement is evidence that irrespective of letters from FOS and cease-and-desist directives that there was some form of arrangement between FOS and the Researcher and that it appears that the Accounts were conduits.

### Audit Conclusions

Although there is evidence that the Project was legitimate and there was collaboration between the Researcher and FOS, the evidence is not conclusive.

Severed under Section <sup>20(1)(f)</sup>  
24(1)(a) of the FOIP Act

Charities must comply with the ITA in order to maintain their registered status. RC 4108 (E)- Registered Charities and the Income Tax Act provides some guidance with respect to compliance with the ITA and specifically addresses gifts and the issuance of official donation receipts ("donation receipts") by a registered charity. In order for a charity to issue donation receipts for gifts received, the donation must first qualify as a gift.

All three of the following conditions must be met for a donation to qualify as a gift:

1. Property in the form of cash or a gift-in-kind is transferred by a donor to a registered charity.
2. The property is given voluntarily.



3. The donor is transferring the property to the charity with no expectation of a benefit to them or anyone designated by them.

An example of a payment that does not qualify as a gift is:

1. A gift subject to a direction by the donor that the charity give the funds to a non-qualified donee. Registered charities cannot make gifts to organizations that are non-qualified donees, which are generally organizations that are not registered charities.

A charity must issue donation receipts in accordance with the ITA.

20(1)(f)  
Severed under Section \_\_\_\_\_ of the FOIP Act  
24(1)(a)  
27(1)(a) & (b)(iii)

The difficulty in conclusively determining whether the Accounts were legitimate can mainly be attributed to the lack of an agreement between the U of C and FOS outlining the terms of the relationship. An agreement might also have addressed the use of the U of C logo and name and how the joint project would be communicated.

During the application process for the Accounts a SPAR (Special Project Account Request) form was completed. Note that this form has been replaced by a "Project Request for Research and Trust Projects ("Project Request") form. Neither form specifically asks whether there will be any form of collaboration on the research project with a third party. The Researcher indicated that the video production and distribution was to be a joint project with FOS however there was no agreement with FOS. UAS found no evidence of a process at the Faculty/Department or in R & T to identify this type of collaborative relationship and to ensure that the appropriate agreements were in place.

## **Audit Recommendation**

### **A.1**

Implement a process to identify collaborative relationships on research projects and ensure that the appropriate agreements outlining the terms of the relationship are in place. Agreements should also address IP ownership and the use of the U of C logo and name. Consider adding specific questions to the Project Request form as a means of identifying collaborative relationships.

## **Management Response**

### **Agreed.**

**The Legal Unit in Research Services relies on the researcher to disclose in their Workplan the nature of the project and any intended collaboration. A standard checklist currently provided to researchers requests that all expected subcontracting be identified in advance. Current approval forms (signed by researcher and Department Head) clearly identify the need to work with the Purchasing Department if there may be subcontracts involved.**

**In addition, there will be a new question added to the current checklist, which will request identification of collaborative relationships. If there is an affirmative response, legal will work with the researcher to ensure the workplan and budget reflect this relationship and that the appropriate agreements are in place.**

**Research Services will continue to monitor the appropriate completion of workplans, budgets and checklists.**

**Timing: June, 2008.**

### **Audit Conclusions**

As noted above RC 4108 provides guidance regarding the acceptance of gifts and the issuance of donation receipts. The U of C has Gift Acceptance Guidelines (“Guidelines”) that assign responsibility for the management of charitable receipting to the DO and provides that DO staff is required to request all the necessary paperwork before issuing a donation receipt. In order to fulfill their responsibilities with respect to charitable receipting the DO would need to assess donations to ensure that they qualified as gifts.

During our review UAS found that although the DO follows the Guidelines to evaluate donations, the process may not identify instances where donations on projects are ineligible for donation receipts. For the most part, donors to the Project included very little documentation with respect to their intentions or wishes and often only the research account number was provided. There is no Section on either the SPAR or Project Request forms asking specific questions to determine whether the donations qualify as gifts. Further, neither the Faculties/Departments or R & T are evaluating whether donations qualify as gifts. There is therefore a risk that donations received on research projects may not qualify as gifts and donation receipts may be issued in error.

### **Audit Recommendations**

#### **A.2**

Implement a process to identify research projects receiving funding through donations. Where donations are identified, additional information should be required to assist in the determination of whether the donation qualifies as a gift and whether a donation receipt can be issued. For example, researchers would be required to answer “yes” or “no” to the following:

1. Does any benefit accrue to the donor?
2. Will the donor share ownership in any intellectual property (“IP”)?
3. Will any of the donations be forwarded to a non-qualified donee?
4. Will the project involve collaboration with a third-party?
5. If so, is there an Agreement outlining the terms of the collaboration?

If the researcher has answered “yes” to any of the questions there should be a review and sign-off required by the DO since they are responsible for managing the donation receipt process and would have the knowledge required to assess whether a donation qualifies as a gift and a donation receipt can be issued.

### **Management Response**

**Agreed.**

**Research Accounting will determine at project setup phase (via the Project Request Form) whether a project is expected to receive funding through donations. A specific section with respect to donations will be added to the current Project Request Form.**

**DO best practice is to leverage existing PeopleSoft revenue recognition controls by providing a dedicated group of accounts (formerly called minors) for sole recognition of tax receipted donations.**

**If there is funding to be received through donations, then disclosure with respect to the questions given in the recommendation column must be provided by the Researcher/Accountable Authority. If the project is not expected to receive donations or is not approved to receive donations based on**

disclosure by the Researcher/Accountable Authority, the account within PeopleSoft will be flagged accordingly to prohibit the recognition of donation revenue within the project.

If at any point the Researcher/Accountable Authority wishes to receive donations to the project a discussion with the Development Office to determine the viability of gifts will be required in order to have the prohibitive flag removed. The DO will develop a communication to Research Services which outlines their expectation that there will be no donation revenue recognized within a particular project.

Financial Services and Research Accounting will develop a business plan and associated processes and communications in collaboration with the DO and the Legal Department to identify those situations where, during the application stage, it is determined that a research project is receiving donations and the appropriate treatment of those donations.

**Timing: July, 2008.**

### **Audit Conclusions**

The U of C has an Intellectual Property policy that deals with ownership of IP. Under the policy the originator of IP ("creator") generally retains ownership to the IP. One of the exceptions is as follows: "The University is the owner of intellectual property which results from the performance of a contract for service, agreement, or commission in which the University and the creator have agreed that the intellectual property will be University owned."

The Project involved the production of a Video on Climate Change ("Video"), which would be considered intellectual property. There were letters in the research file dated September 22 and 27, 2004 to the Anonymous Donor's representative and to FOS board members from the Researcher stating that the U of C would own the Video. There was also an unsigned agreement with the company that produced, promoted and distributed the Video ("Apco") stating the U of C would retain ownership of the IP. Although there was no signed agreement with either Apco or FOS the intent was that the U of C would own the Video.

UAS found that the rights to the intellectual property ("IP") of the Project had not been adequately protected since no formal agreement was signed with either Apco or FOS. Since the U of C was not aware of the joint project between FOS and The Researcher, any reference to the U of C was removed from the Video and FOS took ownership of the Video.

### **Audit Recommendations**

#### **A.3**

Strengthen internal controls to ensure compliance with the Intellectual Property policy.

This could be accomplished by identifying research projects that involve IP during the application process. Once identified, the owner of the IP would be determined so that appropriate agreements could be put into place thereby protecting the ownership rights.

### **Management Response**

#### **Agreed.**

**The Legal Unit in Research Services has satisfactory systems in place for managing intellectual property. However, we rely on the researcher to fully disclose their intentions in the Statement of Work and Budget, and rely on Department Heads to have sufficient awareness of faculty activity to approve these projects. IP and commercialization options, if applicable, are discussed with the researcher during the course of the contract negotiation.**

**Current communication includes a review of contractual obligations, including IP with researchers on an ongoing basis, and a link to the IP policy on the checklist that must be completed by the researcher. There is also a clear statement on the checklist which states that “many grants and contracts have provisions dealing with IP and Confidentiality”. All IP discussions are held between the researcher and legal.**

**Research Accounting and Legal Services will develop a communication plan to share with Department Heads their accountabilities in connection with the identification of product or IP relating to specific research projects during the application phase.**

**Timing: July 2008.**

### **B. Allegation**

FOS ran a politically motivated anti-Kyoto radio campaign during the last federal election, targeting key ridings in southern Ontario. These radio ads were paid for by the Calgary Foundation’s Science Education Fund either directly or indirectly through (1), (4)(b) University of Calgary trust account. FOS conducted third party electoral advertising, in the form of an anti-Kyoto radio ad campaign in the last federal election, but failed to register with the Chief Electoral Officer, as required by law.

### **Audit Observations**

#### Third Party Electoral Advertising

The Elections Act governs activities during an election and includes legislation relating to third-party advertising during an election period, which is the period beginning with the issue of the election writ and ending on polling day. Specifically, third parties incurring election advertising expenses of at least \$500 must register with the Chief Electoral Officer, must appoint a financial agent and must appoint an auditor where election advertising expenses exceed \$5,000. Further, third party election advertising expenses cannot exceed \$150,000 and spending in a given electoral district cannot exceed \$3,000. Non-compliance with the Elections Act can result in fines and/or imprisonment.

Election advertising means the transmission to the public by any means during an election period of an advertising message that promotes or opposes a registered party or the election of a candidate, including one that takes a position on an issue with which a registered party or candidate is associated or promotes or opposes a registered party or the election of a candidate.

UAS reviewed the expenditures from the Accounts and noted that they included payments to Morten Paulsen Consulting for radio ads. The invoices dated in November and December of 2005 were addressed to FOS Society and a U of C research account administrator and were for consulting services provided in September and October of 2005 that included the development of radio ads, radio ad promotion and purchase radio air time in five Ontario markets (Peterborough, Ottawa, Tri-Cities, London and Thunder Bay). An election was called on November 29, 2005 with voters going to the polls on January 23, 2006. Based on the dates the services were provided it appears that the advertising was planned and scheduled prior to the election however, the ads did air during the election since FOS indicated in their January 2006 Quarterly Newsletter that, before and during the election, they bought radio advertising in 5 major Ontario markets. Given the invoice was addressed to FOS it is reasonable to conclude that the radio ads referred to on the invoice are the same ones discussed on the FOS website.

UAS cannot conclusively determine that the ads meet the definition of election advertising. The radio ad transcripts were reviewed and no specific mention of a registered party or candidate was noted. The ads do refer to the “One Tonne Challenge”, which was a Government of Canada advertising campaign aimed at

building awareness and understanding of the Challenge, encouraging Canadians to take action to reduce their green house gas emissions, and increasing awareness of government programs and services. The campaign ran from December 2004 to March 2005 when the Liberals were in power. As such, the ads could be perceived to be taking a position on an issue that the Liberal party is associated with and may be considered election advertising.

The Researcher indicated that the ads were intended to promote the Video and not to promote an issue during an election but happened to coincide with the election. He further indicated that he has served as an expert witness in third party advertising actions and would likely not have aired the ads during an election period had they been assessed from that perspective.

Roman Cooney specifically asked the Researcher whether any of the funds received by the Friends of Science, the Science Education Fund or any related organizations or funds for which a tax deduction for receipt of a donation was issued by the University of Calgary, were used in any election-related advertising or communication or activities not related to education or research. The Researcher said no. This response supports the claim that the intent of the ads was not for use in election related advertising.

#### Calgary Foundation Support

There were two grants to the Accounts of \$100,000 each from the Calgary Foundation's Science Education Fund. The grants were in support of the Climate Change Documentary Project.

#### **Audit Conclusions**

UAS cannot comment on FOS' motivation regarding the ads however we did find that the radio ads ran during the federal election in five Ontario markets. The radio ads referenced in the allegations were paid from the Accounts, which received funding from the Calgary Foundation's Science Education Fund.

Severed under Section 20(1)(f)  
\_\_\_\_\_ of the FOIP Act  
24(1)(a)  
27(1)(a) & (b)(iii)

#### **Audit Recommendations**

##### **B.1**

The U of C should implement a process to identify projects with budgeted advertising costs and ensure that the researchers on those projects are aware of the requirements of the Elections Act with respect to third party advertising during an election period. The U of C should also investigate whether there is any Provincial legislation with respect to Alberta Elections. It is expected that this would not be a common occurrence.

#### **Management Response**

**Agreed.**

**Please note that the DO is preparing a memo to circulate to Senior Staff that identifies the significant aspects of CRA and Elections Canada legislation that impact gift acceptance and implementation. This will be an important tool for educating researchers and leaders on these matters.**

**Timing: By April 15, 2008.**

Political Activities

Severed under Section 20(1)(f) of the FOIP Act

Under the ITA, charities

can engage in political activities however 10% or less of their activities can be political in nature.

The Canada Revenue Agency states in CPS-022 Policy Statement- Political Activities ("CPS-022") that: "The courts have determined political purposes to be those that seek to:

- Further the interests of a particular political party; or support a political party or candidate for public office; or
- Retain, oppose, or change the law, policy, or decision of any level of government in Canada or a foreign country."

The Researcher has indicated that the Video's objective was educational and not political. The purpose of the Video was to challenge the notion that global warming was caused by carbon emissions and challenge the Canadian and foreign governments' positions on the Kyoto Protocol. The Researcher was quoted in the Video's Press Release dated April 13, 2005 saying: "Universities are in the education business. In a democracy like Canada, education and informed discussion of public policy are tightly linked. The public, media and government would benefit by hearing from all sides on this important issue in order to make as informed a decision as is possible." Although intended as an educational Video, it is possible that the Video could be interpreted as a political activity since it sought to change governments' positions on global warming and the Kyoto Protocol. Since the Canadian government ratified the Kyoto Protocol in 2002, the Video could be interpreted as opposing government policy.

The ads may be considered to be political activities by virtue of the fact that they ran during an election and may be third-party advertising. Further, as noted above, the ads reference the "One Tonne Challenge" and may be interpreted as seeking to change the government's policy on global warming and the Kyoto Protocol and therefore a political activity.

UAS also noted that payments from the Accounts included payments to consultants that are known lobbyists and were registered lobbyists for FOS. These payments should be further assessed to determine whether the activities of the consultants were political. CPS-022 states that: "A charity can hire others to conduct on its behalf any political activities that it is allowed to undertake itself. This includes hiring professional lobbying firms." Payments to consultants do not contravene the ITA but if they are political in nature they need to be included on the T1130 under total expenditures on political activities.

Severed under Section 20(1)(f) of the FOIP Act

Partisan Political Activities

Severed under Section 20(1)(f) of the FOIP Act

A Charity is

prohibited from engaging in partisan political activities under the ITA and could have their charitable status revoked for non-compliance.

CPS-022 states: "A partisan political activity is one that involves direct or indirect support of, or opposition to, any political party or candidate for public office." It goes on to state that: "When a political party or candidate for public office supports a policy that is also supported by a charity, the charity is not prevented from promoting this policy. However, a charity in this situation must not directly or indirectly support the political party or candidate for public office. This means a charity may make the public aware of its position on an issue provided:

- a. it does not explicitly connect its views to any political party or candidate for public office;
- b. the issue is connected to its purposes;
- c. its views are based on a well-reasoned position;
- d. public awareness campaigns do not become the charity's primary activity."

UAS cannot conclude whether the Video or the ads are partisan political activities. A review of the original Video identified excerpts from speeches made by several members of parliament ("MPs"). The MPs are from a variety of political parties including the Liberals, Conservatives, Bloc Quebecois and NDP. The Video is not supporting the views of the MPs identified but opposing them. It could therefore be argued that the Video does not support a policy directly or indirectly supported by a political party and is not a partisan political activity.

As noted previously, **Severed under Section 20(1)(f) of the FOIP Act** Based on a  
 review of the radio ads there is no explicit reference to any political party or candidate for public office. Although the ads reference the "One Tonne Challenge" and urge listeners to contact their MP, the views expressed in the ads are not explicitly connected to a political party. Further, the ads direct listeners to watch the Video, which opposes the views of the members of the political parties identified as noted above.

**Severed under Section 20(1)(f) of the FOIP Act**  
 27(1)(a) + (b) (iii)

Form T3010

Participation in political activities must be identified on Form T3010- Registered Charity Information Return ("T3010") along with total expenditures on political activities since these do not qualify in the calculation of the disbursement quota. Charities are required to spend a certain minimum amount of receipted donations each year (disbursement quota) directly on their charitable activities or on gifts to certain other organizations (qualified donees) that are usually other registered charities.

**Severed under Section 20(1)(f) of the FOIP Act**  
 24(1)(a)

UAS reviewed processes in Financial Services relating to the completion of the T3010 and noted that there is currently no process in place to identify political activities at the U of C and to track expenditures on those activities for reporting purposes. Further, neither the DO nor Research Services have a specific process to identify political activity on a project. UAS found that the DO does not review the nature of a research project since it is assumed that once a project is created by R & T and approved by the Department Head or Faculty Dean that the purpose of the fund has been confirmed to be consistent with the objectives and charitable purpose of the U of C. Further, UAS found that neither R & T nor the Political Science Department review the nature of a project and assess whether it is consistent with the objectives and charitable purposes of the University.

**Audit Recommendations**

**B.2**

The U of C should implement a process to specifically identify potential political activities on research projects. Where political activities are identified they should be reviewed and monitored to track expenditures for T3010 reporting purposes. The process should include an assessment of whether political activities are partisan. Projects that identify partisan political activities should not be accepted.

A checklist could be added to the Research Project Form and require sign-off by the researcher, his/her dean or department head and R & T. Guidance with respect to completing the checklist should be provided and

could include CRA publications such as CPS-022. Where political activities are identified, R & T should track these expenditures and provide financial information regarding political activity to Financial Services in order to assist in the accurate completion of the T3010.

**Management Response**

**Agreed.**

**The Project Request Form will be modified to include a subsection on projects with political activities. This will include identification of advertising costs and a link to the Canada Elections Act regulations, as well as CPS-022.**

**If political activities are identified, the faculty financial officer will be responsible to track the expenditures and provide this information to Financial Services for accurate completion of the T3010. This new process will be subject to approval from Deans' Council. Partisan political activities will not be accepted as part of a research project.**

**Financial Services and Research Accounting will develop a training module for presentation to faculty budget officers which addresses the accountabilities, communication processes and reporting requirements connected with political activities associated with research projects.**

**Timing: Addition of new section to project request form prior to July 30, 2008.**

**B.3**

The U of C should monitor the status of the Voluntary Disclosure noted above and where political activity is definitively identified, the T3010s should be amended as required.

**Management Response**

**Agreed.**

**Financial Services will develop a communication plan for presentation to Deans Council which addresses the reporting requirements associated with political activities connected with research projects. Should any prior year political activities be identified as a result of this communication, Financial Services will put the processes in place to amend T3010 previously filed.**

**Timing: July, 2008.**

**C. Allegation**

Severed under Section 24(1)(a) of the FOIP Act  
16(1)



#### **D. Allegation**

Activities funded by grants from the Science Education Fund to (b)(1) & (b)(6) trust account were not legitimate scientific research and education and were funded by anonymous donors to promote special interests.

#### **Audit Observations**

Academic staff is bound by a Code of Professional Ethics whose purpose is to provide guidance in exercising ethical responsibilities inherent in an academic staff position at the U of C. The Code of Professional Ethics states that it: "does not in any way diminish the principle of academic freedom, which includes a duty of scholarly integrity to use such freedom in a manner consistent with the responsibility to base both research and teaching on an intellectually honest search for knowledge".

The U of C also has a policy on "Integrity in Scholarly Activity". The focus of the policy is on procedures that respond in a balanced way to concerns that are raised and assigns the practical development and implementation of University-wide policies reflecting minimum standards to the Faculty level.

The Faculty of Social Sciences has established "Guidelines Pertaining to Scholarly Integrity". These guidelines indicate that the Faculty upholds the principles of scholarly integrity, namely that research and teaching will be conducted in a rigorous, transparent, honest and responsible manner. The guidelines also state that scholarly integrity is a basic guiding obligation for all academic activity in the Faculty and is the cornerstone of academic freedom.

The Researcher would have the academic freedom with respect to determining and carrying out his research and teaching and would be subject to the U of C and Faculty guidelines on Integrity in Scholarly Activity. The Researcher indicated that he reviewed and assessed the Project for scholarly significance prior to undertaking the Project. Further, the Video was intended to be educational.

UAS reviewed all donations to the Accounts and noted that there were no donations from donors that were anonymous to the U of C. There was one donation received where the Pledge Agreement contained an Anonymity clause as follows:

"1.1 Anonymity: The Donee shall describe the Donor (an entity funded via an individual now deceased) *only* as an Anonymous Donor (deceased) and provide no disclosure of the identity, location, address, telephone or fax numbers of the Donor or any party associated or affiliated with or providing consulting or other services to the Donor, except as may be required by law or as approved otherwise by or for the Donor in writing."

Although this donor was referred to as an Anonymous Donor their identity was known to the U of C.

#### **Audit Conclusions**

UAS cannot conclude on the legitimacy of the research undertaken in the Accounts however there is no evidence to suggest that the Project objective was not based on an intellectually honest search for knowledge.

None of the grants funding the Accounts were from anonymous donors.

## **E. OTHER MATTERS**

During the course of the special investigation several other matters were identified that did not relate specifically to the allegations but should nevertheless be addressed.

### Funding

#### **Audit Observations**

- The backup for a donation of \$5,000 included a cheque copy made out to “Friends of Science Society” and appeared to have been successfully deposited to a U of C bank account. No copy of the back of the cheque was available therefore UAS could not check for endorsement. It should be noted that FOS is not a U of C project.

The DO has indicated that since the Accounts were noted on the cheque that this was an indication that the funds were to be directed to the Project however, the Gift Acceptance Guidelines specify at 4. “GIFT DESIGNATION that: “All gifts, regardless of value, form or designated use, should be made payable to the University of Calgary.”

Financial Services’ indicated that deposit procedures include the requirement that cheques be made payable to the U of C to be accepted for deposit. There are instances where cheques may be made payable to a specific scholarship or project and would be accepted as being payable to the U of C. According to Financial Services procedures, where cheques are not made payable to the U of C or a specific scholarship or project, the appropriate procedure would have be to return the cheque to the donor and request that a new cheque be issued for the donation made payable to the U of C.

#### **Audit Conclusions**

There was non-compliance with both the Gift Acceptance Policy and Financial Services procedures since a cheque payable to FOS was accepted and deposited.

Currently not all donations are sent directly to the DO but may be received by a researcher, R & T or Financial Services. Although information is to be forwarded to the DO, UAS noted that information on one of the grants to the Accounts from the Calgary Foundation and the grant from the Anonymous donor were not forwarded to the DO and were not recorded in the DO’s database, Raiser’s Edge. The risk is that the DO will not be able to effectively manage donor relationships without complete knowledge of all donations.

#### **Audit Recommendations**

##### **E.1**

Strengthen controls to ensure compliance with the Gift Acceptance Policy and Financial Services procedures.

#### **Management Response**

**Agreed.**

**Upon receipt of a cheque payable to any party other than the University of Calgary, the DO is prepared to return the cheque to the donor and request a replacement cheque payable to the University of Calgary. Please note that other parties receiving cheques, most importantly the cashier’s office must also agree to adhere to this practice.**

**Where the DO receives such a cheque, they will also inquire as to the involvement of a third party in the project and determine whether further evaluation is needed with respect to whether the donation qualifies as a gift.**

**Timing: DO is prepared to implement immediately and will work in collaboration with Financial Services.**

**As per the response to recommendation A.2, having a dedicated group of accounts for sole recognition of tax receipted donations will finally allow the DO to reconcile donations in PS with those recorded in Raiser's Edge. We continue to request this capability as we believe it would make a significant contribution to the effectiveness of internal controls with respect to donations. Where accounts cannot be reconciled, the DO team will follow up with the group that created the donation entry in PS, in order to obtain the required backup and record the donation and its requirements in Raiser's Edge.**

**Financial Services will review current policies and processes in connection with the receipt of cheques on campus. A communication plan will be prepared with a view to ensuring that these policies are followed consistently across all sectors of the University, including the DO.**

**Timing: July, 2008.**

#### **E.1-1**

Implement a process to ensure that all donations and grants from private organizations are made directly to the DO. This will enable the DO to track all donations and grants in Raiser's Edge and more effectively manage donor relationships. Donations and grants received by R & T or project holders should not be sent through inter-office mail to the DO but deposited at the cashier's office with copies forwarded to the DO.

#### **Management Response**

**Agreed.**

**The best practice is for the DO to process and deposit ALL incoming donations. This is the simplest way to ensure compliance with the Gift Acceptance Policy and the ability to issue tax receipts and charity disbursement letters in a timely manner. Donations and grants received by R&T or project holders should be delivered in person to the DO wherever possible. If this is impossible, and the donation is deposited by another party, a copy of the cheque and all backup documentation should be forwarded immediately to the DO.**

**An enhanced business process at the cashier's office could require back-up information for donations to be forwarded to the DO at the time of deposit. This should be considered.**

**DO to work in collaboration with Financial Services and Research Services to develop and communicate appropriate messaging and to develop accountabilities around forwarding donations to the DO.**

**Timing: July, 2008.**

#### Account Expenditures

#### **Audit Observations**

• There were payments from the Accounts to Apco Worldwide totaling \$5,160(1). Two of the invoices from Apco were addressed to FOS and paid from the Accounts. Apco Worldwide was engaged by the U of C to provide strategic communications services relating to the U of C's project "Research on Climate Change Debate". This included advice regarding video production, promotion of the video, distribution of the video, media relations services and other services. An agreement was prepared but no signed copy was provided to UAS. The unsigned agreement identified the Researcher as the signing authority however he is not the

appropriate signing authority since the Associate to V-P (Research) and Provost & V-P Academic are the signing authorities for amounts greater than \$100,000.

Based on a review of U of C Purchasing and Contracting policies there should have been a tender/bid process, a national posting and a formal contract since the costs exceeded \$100,000. Business Operations found no evidence of a contract, tender/bid documents or a national posting for the services provided by Apco Worldwide. Neither Legal Services nor R & T were able to locate a signed agreement.

- Payments were made to Fleishman Hillard of \$ 5,16(1) in fiscal 2007, to Morten Paulsen Consulting of \$ 5,16(1) in fiscal 2006 and Directors Chair of \$ 5,16(1) in fiscal 2005. Some of these invoices were addressed to FOS but were paid from the Accounts. Payments to these vendors exceeded \$25,000 in total and therefore there should have been written quotes. No evidence of written quotes was found in Business Operations' files.

- Invoices made out to FOS were paid out of the Accounts. Business Operations has indicated that their internal process is to review invoices to ensure that they are addressed to the U of C. The only exception would be third party payments where there was a contract stipulating that the U of C would make payments on behalf of the third party. Although these were third party payments and there was an informal agreement with the Researcher there was no formal contract approving the payments and no evidence that any irregularities were identified by Business Operations.

- FOS were issued payments totaling \$123,427.52 from the Accounts. All of these payments were reimbursements of expenses incurred and included items such as video production, advertising, educational conferences, administrative assistant, website costs and radio ads. UAS asked the Researcher about the reimbursements and he indicated that he only reimbursed FOS for costs related to the production and distribution of the video. UAS noted that in many cases there was no back-up documentation for the FOS reimbursements and only the invoice from FOS was provided to Accounts Payable ("AP"). UAS was told by the Researcher's administrative assistant that whatever was provided to AP was what was received. Although there is no specific policy requiring that back-up be provided in this situation it would be difficult for the Researcher to properly assess the reimbursements for appropriateness without it. Further, GST on expenditures made by FOS and reimbursed by the Accounts was not accounted for properly and therefore not recovered by the U of C.

- There were costs for research assistants paid from the trust account that included payments to the Researcher's spouse and daughter. There is an Employment of Family policy at the U of C, which applies to immediate family and would include a spouse or common law partner, a son or a daughter. In order to hire immediate family the following requirements must be met:
  - The conditions of the sponsor must explicitly (in writing) permit the employment of relatives, or
  - The sponsor must have explicitly (in writing) approved the employment of a relative pursuant to a full disclosure of the arrangement, or

When the sponsor explicitly permits such arrangements pursuant to University policy:

- The department head must certify that the relative to be employed possesses the best available or unique qualifications for the position, and
- The Vice-President responsible must approve. Note that for research or research related projects this would be the V-P (Research and International).

There was no explicit permission or approval in any of the sponsors' documentation to employ family. Further, there was no approval from the V-P (Research and International). The Researcher indicated that he

had verbal approval from his department head and has employed his spouse as a research assistant on several occasions however this is not the appropriate approval.

### **Audit Conclusions**

There was non-compliance with the U of C Signing Authority Policy since there was no signed contract between the U of C and Apco.

There was non-compliance with U of C Purchasing and Contracting policies. There was no evidence of compliance with tender/bid and national posting policies for services provided by Apco and no evidence of written quotes for services provided by Morten Paulsen or Fleishman-Hillard exceeding \$25,000.

Business Operations procedures were not complied with since payments were made on invoices addressed to FOS where there was no formal contract approving the third party payments. GST was not properly recorded on the reimbursement of expenses to FOS thus the U of C did not recover the appropriate amount of GST.

There was non-compliance with the Employment of Family policy.

### **Audit Recommendations**

#### **E.2**

UAS conducted an audit of the Procurement, Payments and Contract process and issued a Final Audit Report in September of 2007. Recommendations were made in the Audit Report that addressed non-compliance with Purchasing and Contracting policies and the Signing Authority Policy. Management indicated in their responses that they were planning to address the recommendations in the Report and UAS will be following up in subsequent Procurement, Payments and Contract process audits.

### **Management Response**

Agreed.

#### **E.2-1**

Business Operations should strengthen internal controls to ensure that only invoices addressed to the U of C are processed for payment unless a signed agreement is in place approving payments to a third party. These internal controls would also serve as detective controls and identify possible issues relating to third party relationships with no formal agreement in place.

### **Management Response**

Agreed.

**Where there is no signed agreement approving third party payments in place, invoices not addressed to the University of Calgary (or specific department within the university) are returned to the applicable University spending authority who must coordinate with Business Operations to put the appropriate agreements in place to allow for such payments. Otherwise, the invoice will not be processed and Financial Services will be notified of such instances.**

**Training officers have been in place since late 2007/early 2008.**

#### **E.2-2**

Provide training to researchers and administrative assistants to ensure that adequate back-up is included for third party reimbursement situations so that the expenses can be appropriately evaluated for approval and that GST is properly recorded and recovered.

## **Management Response**

**Agreed.**

**Research Accounting Training officer roles have been implemented who provide help to researchers and their administrators on managing research projects.**

### **E.2-3**

Research Services should strengthen internal controls to ensure compliance with the Employment of Family policy.

## **Management Response**

**Agreed.**

**The Vice-President (Research) will be asked to provide a campus wide communication to ensure all researchers are aware of this policy.**

**Timing: June, 2008.**

## Project Reporting

### **Audit Observations**

• The Pledge Agreement with the Anonymous donor indicated that the funds were to be used towards production costs of a Video on Climate Change and required matching funds of \$100,000. Further, production costs could not exceed 45% of permitted costs. Other costs such as contingencies and airing of the Video were not to be covered from the pledge. The Pledge Agreement with the donor required that a written report, signed by an Authorized Officer, be provided on or before September 30, 2005 and was to include:

- A copy of the Video produced;
- A listing of parties requesting or receiving a copy of the Video;
- An evaluation of the effectiveness of the Climate Change Video Project regarding its reception by, and effect upon, the greater viewing audience;
- A financial report signed by an Authorized Officer providing a summary of income and expenses related to the Climate Change Video Project in the grant period. This summary was to include a specific breakdown of Donor funds and Matching Production Funds and a specific listing of all Permitted Production Costs.

There was no evidence in the Account files that donor reporting requirements were met. The reporting required on the Special Account Request Form ("SPAR") indicated that annual progress reporting and reporting upon Project completion were required. As noted previously the account for this funding was separate due to the specific conditions of the funding.

• The Calgary Foundation grants of \$100,000 each had two requirements:

- Recognition of The Calgary Foundation and the Science Education Fund according to the U of C's donor recognition practices.
- "Confirmation of Use of Funds" form was to be completed, signed by two authorized representatives of the U of C and returned to the Calgary Foundation within one year of receiving the grant.

There was no evidence in the Account files that these reporting requirements were met. The SPAR indicated that progress reporting was to be provided upon completion for the Project.

Per discussion with Research Services they prepare financial reports for researchers when required but other reporting is the responsibility of the researcher. In this case, R & T would not have prepared the reports and would not require that copies be kept in the R & T files. The Researcher could not specifically recall doing the reporting and thought there may be copies in his Archives.

### **Audit Conclusion**

The donors' reporting requirements may not have been met.

### **Audit Recommendation**

#### **E.3**

Strengthen internal controls to ensure that donor reporting requirements are fulfilled and tracked in R & T files. It should be noted that the DO has certain stewardship responsibilities that may include reporting to donors. Where donated funds are identified on research projects stewardship reporting requirements should be monitored by the DO.

### **Management Response**

#### **Agreed.**

**Donor reporting requirements are typically documented in a Gift Agreement or other correspondence that is signed by the donor.**

The DO has recently enhanced its ability to adhere to donor reporting (and other) requirements via investment of incremental resources in our Donor Strategies team. This team has developed and implemented a consistent and comprehensive process to track and respond to donor requirements as indicated in donor correspondence. The process includes a number of elements:

- **Checklists and Templates for the creation of Gift Agreements and Terms of Reference.** Best practice is to negotiate terms and requirements for significant donations as part of the process for securing a gift and to include these terms in approved documentation. Involving the DO at some level in securing significant contributions will ensure adequate guidance with respect to whether a contribution qualifies as a gift under the ITA and as well that reporting requirements are recorded and met.
- **Review of Gift Agreements and/or supporting documentation:** The new process requires review of documentation in order to note and track reporting and other requirements.
- **Information Management in Raiser's Edge:** The process includes scanning documentation and attaching it to the donor record in the RE database. At the same time, action reminders are created in RE to remind the accountable parties of the reporting and other gift implementation requirements. When the requirements are completed, the action is completed in the database. This is supported by a query to follow up on incomplete actions.

It should be noted that unless the DO is notified of the donation and its requirements and receives the appropriate backup documentation, this process cannot be initiated. Therefore, where donations are received by parties other than the DO, the forwarding procedure addressed in the response to recommendation E.1-1 is crucial.

**DO to work in collaboration with Financial Service and Research Services to develop and communicate appropriate messaging and to develop accountabilities around forwarding donations to the DO.**

**Timing: All aspects of process to be in place by fiscal 2008 year end.**

### Proper Recording

#### **Audit Observations**

Many invoices were coded to materials and supplies but related to purchased services or other accounts. This included reimbursements to FOS for consulting services ( ). Payments to research assistants were often coded to Materials and Supplies. The incorrect coding had no overall impact on this Project since the donor terms of reference were quite broad and only capital equipment was a non-eligible expenditure. To the extent that incorrect coding is a pervasive problem there could be an impact where ineligible expenses are incorrectly coded to eligible account codes.

#### **Audit Conclusion**

Several instances of incorrect accounting for Account expenditures were noted.

#### **Audit Recommendation**

##### **E.4**

Ensure researchers and administrative staff receive adequate training on account coding.

#### **Management Response**

**Agreed.**

**PeopleSoft GL training group will be asked to underline the importance of accurate account coding. Research Accounting Training Officers also provide training on accurately coding expenses.**

**Timing: Training in place within PeopleSoft and Research Accounting.**

### Proper Approval

#### **Audit Observations**

Payments were made from the Accounts, initially from the legacy FRS financial system and then the new PeopleSoft ("PS") system. The requests for payment in FRS were made by completing a manual Cheque Requisition form that was signed in all cases by the Researcher and Political Science Department Head, Gretchen MacMillan. All payments were properly approved since the Researcher was the appropriate signing authority on the Accounts and Gretchen MacMillan would have been his one over approver.

Requests for payments in PS are approved in the system. Several payments were approved by the Researcher's administrative assistant. Researchers can delegate signing authority on their accounts however they must complete the "Signing Authority Delegation" form for paper requisitions and the "Security Access Request" form for on-line access. No copies of these forms were found in the Accounts file at R & T delegating authority.

#### **Audit Conclusion**

The delegation of signing authority was not supported by the appropriate documentation.

#### **Audit Recommendation**

##### **E.5**

Strengthen internal controls to ensure that appropriate documentation for delegation of signing authority is included in R & T account files.

#### **Management Response**

**Agreed.**

**Research Accounting has modified signing authority form and provides to researchers as required. At a minimum, researchers are asked to provide an e-mail outlining delegation of signing authority on research accounts which are then kept on file.**



**Timing: In Place.**

Management of the Accounts

**Audit Observations**

As noted throughout this report, several issues regarding the Accounts were identified. The Researcher is ultimately responsible for compliance with U of C policies and procedures with respect to research account funding and expenditures.

**Audit Conclusion**

The Researcher's Accounts management practices need improvement.

**Audit Recommendations**

**E.6**

The Researcher should be made aware of the issues identified during the special investigation.

**Management Response**

**Agreed.**

**Vice-President (Research) and Provost will communicate with researcher to review issues identified.**

**Timing: By June 1, 2008.**