

**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.
- C. Tax receipts for the backing donations to the Science Education Fund were issued to the anonymous donors by the Calgary Foundation.
- D. Activities funded by grants from the Science Education Fund to s.17(1) 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.

s. 20(1)(f)  
24(1)(a)  
27(1)(a) & (b)(iii)

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s. 20(1)(f)  
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.

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.

#### **C. Allegation**

Tax receipts for the backing donations to the Science Education Fund were issued to the anonymous donors by the Calgary Foundation.

#### **Audit Conclusions**

The U of C is not responsible for issuing tax receipts to Calgary Foundation donors supporting the Science Education Fund. The Calgary Foundation is a well respected organization in Calgary in good standing with the Canada Revenue Agency therefore there would be no reason to question the grants received from them.

#### **D. Allegation**

Activities funded by grants from the Science Education Fund to s. 17(1) 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, S. (U) ("the Researcher"). The allegations were as follows:

- A. The U of C was a conduit in the funding of the FOS via S. (U)'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 S. (U)'s 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. Tax receipts for the backing donations to the Science Education Fund were issued to the anonymous donors by the Calgary Foundation.
- D. Activities funded by grants from the Science Education Fund to S. (U)'s 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).

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**

Tax receipts for the backing donations to the Science Education Fund were issued to the anonymous donors by the Calgary Foundation.

#### **Audit Observations**

UAS reviewed the funding to the Accounts and as noted previously identified two grants of \$100,000 each from the Calgary Foundation's Science Education Fund. The grants were in support of the Climate Change Documentary Project. The U of C did not issue official donation receipts to the Calgary Foundation as they were not requested. The grants received by the U of C were not received from anonymous donors but from the Calgary Foundation. UAS cannot comment on whether tax receipts were issued to donors by the Calgary Foundation as we have no knowledge of their donors or specific organizational practices.

#### **Audit Conclusions**

The U of C is not responsible for issuing tax receipts to Calgary Foundation donors supporting the Science Education Fund. The Calgary Foundation is a well respected organization in Calgary in good standing with the Canada Revenue Agency therefore there would be no reason to question the grants received from them.

**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 \$170,881.68. 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 \$43,537.43 in fiscal 2007, to Morten Paulsen Consulting \$54,211.06 in fiscal 2006 and Directors Chair of \$30,991.20 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