

***REVIEW OF SPECIFIC FINANCIAL AND HUMAN RESOURCE PRACTICES  
AT RED RIVER COLLEGE  
MANITOBA EDUCATION AND ADVANCED LEARNING***

*January 19, 2015*





**REVIEW OF SPECIFIC FINANCIAL AND HUMAN RESOURCE PRACTICES  
AT RED RIVER COLLEGE  
MANITOBA EDUCATION AND ADVANCED LEARNING  
TABLE OF CONTENTS**

	<i>Page</i>
<b>NATURE OF PROJECT .....</b>	<b>1</b>
<b>OBJECTIVES .....</b>	<b>1</b>
<b>BACKGROUND .....</b>	<b>2</b>
<b>ACKNOWLEDGEMENT .....</b>	<b>2</b>
<b>SUBSEQUENT EVENTS .....</b>	<b>3</b>
<b>GENERAL MANAGEMENT COMMENTS .....</b>	<b>3</b>
<b>RRC .....</b>	<b>3</b>
<b>MB EDUCATION AND ADVANCED LEARNING .....</b>	<b>4</b>
<b>EXECUTIVE SUMMARY .....</b>	<b>5</b>
<b>RECOMMENDATIONS AND RRC RESPONSES .....</b>	<b>9</b>
<b>DETAILED OBSERVATIONS AND FINDINGS .....</b>	<b>21</b>
<b>1.0 SENIOR COLLEGE EXECUTIVES' EXPENSE ACCOUNT CLAIMS.....</b>	<b>21</b>
<b>2.0 SPECIFIC CONTRACT MANAGEMENT PRACTICES.....</b>	<b>35</b>
<b>3.0 \$2 MILLION DEFICIT PROJECTION .....</b>	<b>46</b>
<b>4.0 HUMAN RESOURCES MANAGEMENT PRACTICES .....</b>	<b>56</b>
<b>APPENDIX A .....</b>	<b>67</b>
<b>APPENDIX B .....</b>	<b>68</b>
<b>APPENDIX C .....</b>	<b>70</b>
<b>APPENDIX D .....</b>	<b>71</b>
<b>APPENDIX E .....</b>	<b>74</b>



## **NATURE OF PROJECT**

As requested by the Minister of Education and Advanced Learning, Internal Audit and Consulting Services (IACS) and the Civil Service Commission (CSC) performed a special review of specific financial and human resource practices at Red River College (RRC). The IACS portion of the review focused on compliance with expense claim requirements, contract management practices and circumstances surrounding the identification of a potential \$2 million deficit for the year ended June 30, 2014. The CSC also performed a review of the human resource practices at RRC.

References in this report pertain to the RRC administration at the time of our review and prior to the departure of the former President in September 2014, who had officially commenced employment with RRC on September 27, 2010.

Our review occurred between June 2014 and August 2014 and generally covered the period September 2010 to May 2014.

## **OBJECTIVES**

The objectives of the review are as follows:

*Performed by Internal Audit and Consulting Services:*

### **1.0 SENIOR COLLEGE EXECUTIVES' EXPENSE ACCOUNT CLAIMS**

Determine compliance of financial management processes with RRC policies related to Senior College Executives' expense claims and use of purchasing/charge cards or any other billing practice related to similar expenses.

### **2.0 SPECIFIC CONTRACT MANAGEMENT PRACTICES**

Determine compliance of specific contract/purchasing issues with RRC contract management and purchasing policies.

### **3.0 \$2 MILLION DEFICIT PROJECTION**

Determine the circumstances surrounding the identification of a potential projected \$2 million deficit for the year ended June 30, 2014.

*Performed by the Civil Service Commission:*

### **4.0 HUMAN RESOURCE MANAGEMENT PRACTICES**

Determine whether there was compliance with the human resources policies at RRC. The primary focus of the compliance review was senior management separations of employment. The compliance review focused mainly on positions at the Vice-President, Director and Executive Assistant level.

## **BACKGROUND**

RRC is a publicly funded post-secondary institution in Manitoba. It is the largest and most comprehensive college of applied arts, applied sciences, business, community services, developmental education, health and technology in Manitoba. The College was created in 1938 by an act of the Provincial legislature. RRC operates as a non-profit organization with an annual budget of about \$179 million, of which approximately 55% is provided by the provincial government.

Red River College (RRC) serves over 30,000 full and part-time students with its main campus located on a 99 acre site near the Winnipeg International Airport and a second campus in downtown Winnipeg's historic Exchange District. Other RRC facilities include a 20,000 sq. ft. aviation/aerospace training centre in St. James near the airport and regional campuses in Peguis-Fisher River, Portage la Prairie, Selkirk, Steinbach and Winkler.

RRC's 130 post-secondary programs offer preparatory studies, certificates, diplomas, advanced diplomas, joint baccalaureate and baccalaureate degrees. Program areas include applied arts, applied sciences, business, community services, developmental education, health, and technology. Apprenticeship training is provided for 32 designated trades. The College also offers learners a comprehensive list of courses through its Continuing Education and Distance Education program and regional campuses.

In addition to RRC's academic programs, the College actively works with business, industry, special interest groups, all levels of government, and professional organizations to deliver modified college programs and specialty courses. The Language Training Centre offers English language training to newcomers for job preparation and academic purposes. Corporate Training Services offers custom-designed training and curriculum development that delivers cost effective, accredited programming to a variety of organizations and businesses. Partnerships have been created outside of Canada through the International Education office to share RRC's expertise and assist in the development and growth of emerging economies. The College also continues to build on its commitment to respond to the needs of Aboriginal communities for post-secondary education and training.

The College employs 1,350 full-time and 410 part-time staff. An additional 1,000 contract workers are employed at various times throughout the year that teach Continuing Education and Distance Education courses, deliver contract training and provide administrative support services.

## **ACKNOWLEDGEMENT**

We would like to thank the management and staff of Red River College and the Department for their co-operation and assistance extended during this review.

## **SUBSEQUENT EVENTS**

Subsequent to our review, changes have occurred in RRC's senior management including the President and the VP of Finance and Administration, as well as the Chair of the Board of Governors (BOG). We were informed that under the leadership of a new Executive Team and BOG Chair, RRC is committed to moving forward in a positive manner to enhance processes including consideration of the recommendations that were identified through this review.

## **GENERAL MANAGEMENT COMMENTS**

### **RRC:**

In the 20 years since *The Colleges Act* was enacted and Red River College became a separate entity from government, the role of the President has changed dramatically - from that of a senior government administrator to someone who is expected to bring several million dollars of private sector money to the College, as well as new projects and hundreds of international students. RRC recognizes that the explosive growth and changes experienced by the College during this time have not been accompanied by updated policies and procedures for each and every College activity. Accordingly, over the past few years the College has updated many of its policies to reflect current standards for public sector organizations, and recognizes that work still needs to be done.

Over the next year Red River College will be hiring a new President and several new senior leaders who will bring fresh insights into College activities and practices. The Board looks forward to working with this team to ensure that RRC meets its full potential as Manitoba's leader in applied post-secondary education and research.

Since the fall of 2014 both the Board of Governors and College Executive have undergone significant personnel changes. With this transition almost complete, the Board and College have begun looking at areas where due diligence can be enhanced to ensure strong accountability processes at RRC.

The College leadership has reviewed the recommendations of this Review and takes each one seriously. Since September 2014 RRC has been reviewing its control framework and this will continue to be a priority. Some processes and procedures identified in the Review were already in place or have been implemented. Several others are presently under review regarding how the recommended improvements will be incorporated.

The Board of Governors wishes to thank Manitoba Education and Advanced Learning for the opportunity to formally respond to the Review's recommendations, and looks forward to updating the College community and its stakeholders on the progress of enhancing our accountability processes.

## **MB EDUCATION AND ADVANCED LEARNING:**

Government expects that individuals entrusted with public funds are responsible stewards of those resources. Any misuse of those funds constitutes a betrayal of the public trust.

When certain allegations regarding the former President of Red River College (RRC) were brought to the Department's attention, we took action by requesting a full review of financial and human resource practices at the College. The Department is satisfied that RRC has accepted all of the recommendations in the review, and that it is moving forward to implement improved policies and procedures. RRC has been directed to provide the Department with a progress report at the end of the College's fiscal year in June 2015.

Government will also be introducing legislation in the spring to strengthen financial management and accountability, Board governance and oversight, as well as capital project management at RRC.

RRC has informed the Department that it has already adopted new policies related to expense claims and budget processes, and introduced a new level of oversight by the Chief Financial Officer. Further policy reviews related to expenses and capital project management are in progress and additional changes are expected by June 2015. Since the review began, RRC has also undergone significant personnel changes. In addition to a new Board Chair with experience in Board governance and oversight, government has appointed a new Board member who brings significant financial experience to the position. The Chair has advised the Department that financial management and accountability will be a key part of all Board members' training in 2015.

The new Board Chair and acting President are committed to implementing the changes outlined in this review, and we expect that work to continue once the new President is selected. RRC is a dynamic institution that plays an increasingly important role in the economic well-being of our province. The Department will support RRC to ensure the College can continue to be part of a strong post-secondary education system.

## **EXECUTIVE SUMMARY**

The IACS portion of the review focused on compliance with expense claim requirements, contract management practices and the circumstances surrounding the initial identification of a potential \$2 million deficit for the year ended June 30, 2014. The CSC performed a compliance review of human resource practices at RRC.

It should be noted that the review focused on specific matters of compliance and not on materiality. Smaller items although not materially significant are sometimes referenced as examples of opportunities to enhance the control environment. Findings of the review should not be considered exhaustive or reflective of the broader processes of the organization as a whole.

Although the financial management processes were generally compliant with existing RRC policies, our review evidenced some exceptions and opportunities for improvement. In some instances financial processes were found to be compromised by a weakening of the policies previously applied. It is difficult to determine the precise reasons this has occurred, but we emphasize that the President and all staff are expected to adhere to policy requirements promulgated by the BOG.

### **Policy Considerations**

Our review found that some financial accountability practices contained within previous travel and expense policies were removed in recently updated policies, although the changes were characterized as best practices. We find that the changes in these policies actually had the impact of removing accountability, which is a primary requirement when considering the spending of public funds. We advocate that the previous accountabilities and controls contained in the earlier policies and practices should be restored. Policies should be strengthened by making them more descriptive and instructive, enabling all College staff to understand and apply the policies in the performance of their duties, and for those College staff charged with enforcing policies, enabling them to readily confirm compliance or non-compliance with policies.

### **Board Considerations**

We found that it would be desirable for the Board to receive enhanced financial information in order to provide effective oversight. This includes the budget submissions provided to the BOG in arriving at an approved balanced budget, and also the monthly/quarterly financial reports when monitoring current year performance. It is noted that the current financial reports received by the BOG do not appear to provide sufficient detailed information for the BOG to accurately determine the College's current financial position vis-à-vis the approved balanced budget, as our review found that most monthly/quarterly financial reports identified significant surpluses which by the end of the fiscal year dwindled to small surpluses (and in 2013/14 resulted in a yearend deficit). RRC should ensure that the budget and internal financial reports provided to the BOG are

prepared using the same accounting principles and policies used to prepare the yearend financial statements provided to government to ensure comparability and enable the BOG to accurately identify potential financial risks being faced by the College as the fiscal year progresses.

While it is acknowledged that BOG members are appointed by government, we advocate that increased financial expertise should be a consideration for future BOG membership.

### **President's Expense Claims**

Our review of the President's expense claims evidenced some weaknesses in compliance and integrity in a public sector environment.

For example, we found some instances where they were not approved by the BOG Chair, some were not signed by the President, and some were missing complete information or supporting documentation. We also found instances where expenses paid and claimed by other RRC employees included expenses of the President for items such as meals, conferences, and transportation. This not only circumvented both the BOG Chair approval process, and the previous travel and expense policy stipulation that the most senior College staff member present should pay for the expense, but also resulted in the President reviewing and approving some of her own expenses which were paid and claimed by other staff. These expenses should have been paid and claimed by the President, and submitted to the BOG Chair for approval.

The President's quarterly expenses have been publicly disclosed online beginning April 1, 2013. Our review noted that expenses paid and claimed by other RRC employees, pertaining to the President after April 1, 2013, were not included in the online disclosure. Additionally, our review identified other expenses incurred by the President that were paid directly by the College which were also not disclosed online. The online disclosure of the President's expenses also contained a few administrative errors. Reference to travel related costs that are paid or reimbursed by third parties should also be instituted as best practice for online disclosure of expenses.

We also noted instances of potentially questionable fiscal prudence or general propriety such as the choice of restaurant, entertainment at home, and various miscellaneous discretionary expenses claimed by the President while also receiving an additional allowance of 4% of base salary for the purpose of discretionary expenses. The President's contract did not identify what specific expenses the discretionary allowance was meant to cover.

### **Other Expense Claim Observations**

With regard to expense claims other than those of the President (as per Appendix A), these were generally compliant with existing RRC policies with some exceptions. While the exceptions were not materially significant, they present opportunities for improved internal controls. As previously noted, policies could be enhanced for improved clarity.

Enhanced due diligence with attention to ensuring completeness of supporting documentation including original receipts and information on business purpose or attendees for meals and entertainment, should foster improved compliance of future expense claim reimbursements.

### **Specific Contract Management Practices**

Based on our review of a sample of contracts relating to the Union Bank Tower Project and other contracts, there are opportunities for improvement. Key observations include:

- The construction/renovation of the Union Bank Tower was a significant financial investment. There was evidence that the project was not managed effectively as there were 138 change orders totalling \$11.5 million. Management indicated that change orders are not uncommon in major building renovations, particularly in old historic buildings, and unanticipated costs were encountered, for example foundation issues, mould and hazardous material abatement. As well, four additional floors were added to the Residence building for revenue generating purposes as well as a restaurant rooftop patio.
- The project, originally budgeted at approximately \$22.5 million was to be completed by September 2011 and RRC received initial approval from the Department's Council of Post Secondary Education (COPSE) to spend up to \$27 million. COPSE subsequently approved a revised budget of \$34.6 million. The construction project ended up costing \$37.5 million and the building did not open until 2013. It was noted that \$1 million flood damage contributed to the delay in opening and insurance claim monies are pending.

Although our review of other contracts was very limited, we noted instances where proper justification was lacking for untendered contracts including contracts signed by the President; extensions of contracts to potentially avoid tendering thresholds; and some contracts being signed after the services had already been provided and/or invoiced. Enhanced attention to contract management practices should foster strengthened practices in the future.

### **\$2 Million Deficit Projection**

The identification and communication of a \$2 million deficit projection as information to the BOG in March 2014, based on the first draft review of Managers' detailed projections to yearend, was made at the last opportune time to enable implementation of strategies to avoid incurring a deficit for 2013/14. The strategies employed by RRC, while appropriate for the limited time frame existing prior to yearend, were more reactionary than self-sustaining for the benefit of future years.

An underlying issue is the fact that the budget did not sufficiently include all relevant costs including reasonable cost estimates. We noted a significantly smaller projected general salary increase of 1.231% (\$1.5 million) was budgeted while the actual 2% increase

(\$937,043 higher) should have been reasonably anticipated. We also identified aggressive budgeting strategies and costs in some program areas that were inappropriately excluded from the balanced budget, all of which contributed to the projection of a \$2 million deficit. The actual 2013/14 yearend financial results subsequent to our review indicated a deficit of \$2.2 million. These financial results were also substantially affected by an actuarial evaluation adjustment for severance pay obligations which management subsequently advised came in at \$3.417 million rather than the expected amount of \$1.836 million, thereby impacting the final deficit by \$1.581 million. In the end, RRC required the use of some reserve funds in order to balance the 2013/14 budget. RRC should ensure that future budgets include appropriate projections and considerations for all known obligations. Management indicated that the College has been working on improvements to budget processes.

Our review also brought into question the usefulness of the monthly financial reporting process in relation to yearend projections and yearend actual results. RRC's yearend is June 30<sup>th</sup>. Over the last three fiscal years, actual year to date results reported for the periods ended December 31, February 28, March 31 and April 30 all indicated large surpluses ranging from \$1.8 million to \$10.8 million. Yet the yearend projections prepared as at March 31 and April 30 for these three fiscal years all forecasted substantially lower yearend amounts, ranging from a projected surplus of \$1.5 million to a projected deficit of \$2 million. Emphasizing the existing BOG policy for conservative and realistic budgets and projections of revenues and expenses together with improved financial reporting as previously referenced in Board Considerations, should provide a stronger foundation to producing more accurate/realistic financial projections, minimizing the risk of RRC incurring similar financial deficit pressures in the future and assist in strengthened oversight and decision making by management and the BOG.

#### **Human Resource Management Practices**

In review of current policies, Acts, and guiding principles that govern human resource practices for executive staff, no specific breaches have been identified. There are areas for improvement regarding inconsistent application of practices related to staffing and terminations of employees within the executive level.

## RECOMMENDATIONS AND RRC RESPONSES

The following provides a summary of the key recommendations based on various observations made during the course of our review. The recommendations are not exhaustive nor intended to be reflective of the organization or its processes as a whole and are provided for management's consideration as opportunities to foster strengthened practices as appropriate.

### 1.0 EXPENSE CLAIMS

#### *President's Expenses*

- 1.1 Recommendation: The BOG should clarify the purpose and use of the President's annual discretionary expense allowance, and ensure the President does not submit expense claims related to incidentals which would be expected to be covered by the allowance.

Response: The Board has initiated a search for a new President of Red River College. If an annual discretionary allowance is to be part of the next President's compensation package, the purpose and use of the allowance will be articulated in the RRC Employment Agreement with the President. The provision of an annual discretionary expense allowance has been a *negotiated* benefit set out in past RRC Employment Agreements with Presidents.

- 1.2 Recommendation: The BOG and RRC should develop formal guidelines for expenses incurred but not claimed directly by the President in support of ensuring appropriate accountability and approval. For instance, other staff should not be claiming expenses on the President's behalf. Expenses incurred by the President on the travel credit card should be reviewed and approved by the BOG Chair and included in online disclosure.

Response: The Board and College are in the process of implementing policies and procedures for incurring and processing expenditures that appropriately distinguishes between the "President's expenses" and "Corporate/College expenses". Effective October 2014 all expenses identified as being for or attributed to the President require Board Chair approval and will be included in the quarterly online disclosure of the President's expenses.

- 1.3 Recommendation: Online disclosure details should be reviewed for accuracy and completeness, and increased detail for out of province travel is desirable. Consideration should be given to including reference to amounts reimbursed by third parties for improved accountability.

Response: Effective October 2014 the College CFO (i.e. the VP of Finance and Administration) is responsible for the information contained in the President's online disclosure of expenses. Also, effective October 2014 the Finance

Department adopted new procedures that include information regarding third-party reimbursements in the President's online disclosure of expenses.

- 1.4 **Recommendation:** The BOG Chair should ensure due diligence in the approval of the President's expenses for compliance with policy directives.

**Response:** The Board has revisited the approval of the President's expenses by the Board Chair and will continue to exercise due diligence in said approval(s). The CFO has been tasked with reviewing the President's expense claims prior to submission to the Board Chair. The responsibility of Finance Division employees to identify errors and questions regarding expense claims also has been reinforced by the CFO.

***Enhanced Policy and Procedural Direction***

Consideration should be given to reinstating aspects of former policy direction in support of strengthened practices, notably that expenses should be claimed by the senior most individual in attendance. This would ensure that expenses are not being claimed by an individual on behalf of the approver. Generally employees should not be claiming expenses on behalf of others. In some instances, there could be more emphasis on enforcing policy requirements including attention to completeness of documentation including listing of attendees and purpose at business meals, and ensuring detailed receipts are being submitted i.e. not only a credit card receipt.

- 1.5 **Recommendation:** Expenses should be claimed by the senior most individual in attendance.

**Response:** A review of the applicable policy to support this recommendation is in process and the results will be presented to the College Executive and President's Council for approval once all stakeholders have agreed upon the changes. The approval process is anticipated to be completed by the end of the fiscal year (June 30/15).

- 1.6 **Recommendation:** Employees should be submitting expense claims for their own expenses and not for expenses on behalf of others; unique circumstances should be noted and explained.

**Response:** A review of the applicable policy to support this recommendation is in process and the results will be presented to the College Executive and President's Council for approval once all stakeholders have agreed upon the changes. The approval process is anticipated to be completed by the end of the fiscal year (June 30/15).

- 1.7 **Recommendation:** Expense should be supported by detailed receipts i.e. not only a credit card receipt.

Response: Policy states that when requesting reimbursement of expenditures, employees must provide appropriate documentation supporting the expenditure. The CFO has reaffirmed this requirement with College Managers during the past year.

Our review also identified opportunities where refinement, clarification or reaffirmation of existing policies would be beneficial:

***Business Meals and Entertainment:***

- 1.8 Recommendation: Specify the conditions under which a business meal can be claimed, and reaffirm policies regarding non-eligibility of meals attended only by College staff, with clarification for special occasions such as Christmas meals.

Response: A review of the applicable policy to support this recommendation is in process and the results will be presented to the College Executive and President's Council for approval once all stakeholders have agreed upon the changes. The approval process is anticipated to be completed by the end of the fiscal year (June 30/15).

- 1.9 Recommendation: Require detailed receipts for all business meals

Response: A review of the applicable policy to support this recommendation is in process and will be presented to the College Executive and President's Council for approval once all stakeholders have agreed upon the changes. The approval process is anticipated to be completed by the end of the fiscal year.

- 1.10 Recommendation: Reaffirm that required information to be provided for all hospitality meals and entertainment expense claims includes the business purpose and the meeting attendees.

Response: Policy states that when requesting reimbursement of such expenditures, employees must state the business discussion topic and meeting attendees. The CFO has reaffirmed this requirement with College Managers during the past year.

- 1.11 Recommendation: Reaffirm or refine the receipted daily maximum for meals while in travel status.

Response: Policy states the daily maximum for meals while in travel status without receipts is \$38.75 and alcoholic beverages are not reimbursable. The daily meal maximum with receipts is \$57.85. This is enforced unless there are special circumstances which require additional approval as per the policy. The CFO has reaffirmed these requirements with College Managers during the past year.

- 1.12 Recommendation: Include formal directives on use of the Chef's Table for guests including provisions for hospitality, and requirements for supporting documentation evidencing the business purpose and approvals.

Response: The Finance Division, in conjunction with the Policy Coordinator, is examining whether such procedures should be incorporated into a College Policy. Should it be determined that a policy is the best way to promote the guidelines, the Policy Coordinator will prepare an acceptable draft for consideration and approval by the College Executive and President's Council.

- 1.13 Recommendation: Provide more cohesive and consistent direction pertaining to business meals, hospitality and entertainment through combining policy directives 4.2 and 4.12(b) into one comprehensive directive. For instance, as hospitality expenses may include business meals, the Hospitality section 4.14(a) of the Travel and Entertainment Policies and Procedures should include a requirement for the claimant to state the business purpose and the meeting attendees for consistency with the other business meal and entertainment expense policy requirements.

Response: A review of the applicable policy by the Policy Coordinator to support this recommendation is in process and the results will be presented to the College Executive and President's Council for approval once all stakeholders have agreed upon the changes. The approval process is anticipated to be completed by the end of the fiscal year.

**Air Travel:**

- 1.14 Recommendation: Clarify eligibility of business class or premium economy class for travel with multiple travel segments such as overseas trips that may impact the number of consecutive hours.

Response: The Policy Coordinator is conducting a survey of the Manitoba Public Sector (Government, Education, Health Care, and Crown Corporations) to determine the prevailing norm regarding use of business class or premium economy class for travel – for report and recommendation to the Board Executive Committee. Any appropriate changes will be inserted in to the applicable policy during the current review.

**Mileage:**

- 1.15 Recommendation: Require mileage claims to note departure and arrival location information.

Response: The CFO has directed Finance staff to ensure detailed departure and arrival location information is provided on mileage prior to processing.

**Gifts:**

- 1.16 Recommendation: Regarding the \$100 limit per person for senior visiting officials, senior international visitors, guest speakers or elders, require identification of the recipient or other information concerning multiple recipients.

Response: This expenditure is reimbursed as per policy and receipts are required. The Manager of Accounts Payable has reviewed the policy. Revised procedures have been implemented for managing these claims that provide greater clarity regarding the purpose, understanding, application and administration of the policy.

**Other:**

1.17 Recommendation: Update the Conflict of Interest Policy to include:

- Procedures for conflicts of interest of the President being reported to the BOG.
- Reference to the use of RRC's buying power for the use of employees.
- Finalize the guidelines for sponsorships provided to organizations and the formation of a sponsorship approval committee. Also, specify the eligibility of sponsorship or fees for events attended by RRC staff.

Response:

- Procedures for conflict of interest reporting by the President will be reviewed and a report provided at the next Board Executive meeting.
- The College's Conflict of interest policy will be amended in the New Year to implement the recommendations. Upon amendment, they will be presented to the College Executive and President's Council for approval.
- The guidelines have been finalized and a small committee is in place to review sponsorships. The continued use of a committee for sponsorship approvals is being reviewed as one option for managing sponsorships. This review should be completed by the end of the fiscal year.

**Enhanced Due Diligence for Compliance**

As RRC is a large institution with some decentralization of processes across its various divisions, attention to due diligence across the organization is advocated for expense claimants, approvers and processors to ensure compliance with policies. This includes attention to accuracy and completeness of forms, evidencing appropriate signed approvals and sufficient supporting documentation. Exceptions for unusual circumstances should be formally justified, documented and approved at an appropriate level.

Attention to oversight is also fundamental to fostering propriety and appropriate practices. For instance, employees should be submitting expense claims for their own expenses and not for expenses on behalf of others. In some instances, there could be more emphasis on enforcing policy requirements including attention to completeness of documentation including listing of attendees and purpose at business meals, and ensuring detailed receipts are being submitted i.e. not only a credit card receipt.

## 2.0 CONTRACT MANAGEMENT PRACTICES

### *Capital Project Management*

2.1 Recommendation: Roles and responsibilities of all stakeholders should be clearly defined on future capital projects.

Response: See response to 2.2.

2.2 Recommendation: Ensure that as part of standard practices, a Project Manager with relevant experience is retained for large projects.

Response: This practice at RRC is now standard. A Project Manager was hired to manage the RRC Skilled Trades and Technology Centre at the outset of the project in August 2014. RRC recognized the importance of retaining an experienced Project Manager for large building projects mid-way through the Union Bank Tower Project and a qualified Project Manager was hired in March 2012.

2.3 Recommendation: Establish communication expectations between the Project Manager and project stakeholders prior to commencement of the project.

Response: RRC agrees with this recommendation - see 2.2.

2.4 Recommendation: Ensure that costs are sufficiently reflected in future project planning and budgets.

Response: RRC has revisited its practice in this regard and all known costs are now included in budget and planning schedules.

### *Enhanced Policy and Procedural Direction*

2.5 Recommendation: Modify the current purchasing policy to include a clearly defined scoring system for evaluating bids and awarding contracts. Scoring ranges or maximum points should be established for the four standard evaluating criteria that are used in evaluating all contracts.

Response: The purchasing policy is being examined to implement this recommendation. The Policy Coordinator, in consultation with other stakeholders such as the Manager of Materials Management and Corporate Counsel, will undertake to revise the policy for presentation to the College Executive and President's Council with a view to having the amendments adopted sometime this fiscal year.

2.6 Recommendation: Establish a clear set of guidelines on how other evaluating criteria outside the four standard evaluating criteria should be scored to ensure consistency.

Response: The purchasing policy is being examined to implement this recommendation. The Policy Coordinator, in consultation with other stakeholders,

such as the Manager of Materials Management and Corporate Counsel, will undertake to revise the policy for presentation to the College Executive and President's Council with a view to having the amendments adopted sometime this fiscal year.

- 2.7 Recommendation: Strengthen the existing purchasing policy to require more than only one written quote for purchases under \$10,000.

Response: RRC is reviewing the purchasing policy and is considering if mandatory multiple quotes for purchases under \$10,000 is administratively wise in some circumstances. RRC advises that while quotes are not mandatory for purchases under \$10,000, training provided by the Corporate Counsel and Manager of Materials Management strongly urges departments to work with the Manager of Materials Management to get multiple quotes where it is foreseeable that the College will benefit from same.

- 2.8 Recommendation: Strengthen directives pertaining to untendered contracts for improved justification and supporting documentation.

Response: Requirements for untendered contracts have been reaffirmed to staff by the Manager of Materials Management. Additionally, the Legal Department and Materials Management provides Contract Management training for staff who deal with contracts and agreements to ensure policy compliance.

- 2.9 Recommendation: Develop a Capital Project Management Manual based on best practices and lessons learned from the Union Bank Tower Project to be used for future capital projects. Directives should provide guidance on planning, scope control, project risk assessment, time management, approval, budgeting and cost control, project funding, procurement, human resources management, and project progress reporting.

Response: RRC is reviewing how a capital project management manual will be developed.

#### ***Tendering***

- 2.10 Recommendation: Ensure all contracts are tendered in compliance with the directives in the purchasing policy.

Response: The Manager of Materials Management with the Corporate Counsel will provide training to Managers to educate them about the purchasing policy and to identify purchases that require either a waiver of tender or be opened up to a competitive bidding process. Where untendered contracts without a waiver appear to the Corporate Counsel for approval, such contracts are rejected and directed to the Manager of Materials Management for further assessment.

- 2.11 Recommendation: Ensure that justification for untendered contracts includes sufficiently documented explanations and evidences that due diligence has been performed. For example, documentation showing that a vendor company is indeed the sole supplier or is the only one with the expertise required for the contract; or that due to time constraints only that vendor was available.

Response: These procedures are in place and were strengthened in December 2014 to include written confirmation by vendors who are sole suppliers.

- 2.12 Recommendation: Exercise due diligence including risk assessments to avoid situations of untendered contract amendments that may result in tendering thresholds being exceeded.

Response: Where an untendered contract is amended such that its value hits the tender threshold of \$10,000, a waiver of tender must be completed. The Corporate Counsel does not approve the amendment without a waiver of tender from the Manager of Materials Management.

### **3.0 FINANCIAL REPORTING**

#### ***Budgeting***

- 3.1 Recommendation: Ensure that all known obligations and cost estimates are included in annual budget and planning schedules. We encourage RRC to undertake a college wide initiative to develop stronger budgeting techniques and more rigorous dollar estimates to ensure compliance with the BOG policy 2.13 which requires conservative and realistic estimates of expenses.

Response: Provisions for salary, severance, etc. are all taken into consideration when administering the budget. Significant operational impacts are communicated to the Board and the Government. RRC takes everything under consideration to ensure a balanced budget. The CFO has taken steps to ensure the Budget exercise and the Controller's Office work in tandem. The RRC Budget is developed at the Manager level and Managers receive monthly reports on their activities and budget position. In October 2014 Budget Monitoring was added to the monthly President's Council meetings as a standing agenda item. It is expected that this will significantly enhance the Budget Managers' understanding of their variances and improve the estimate process.

- 3.2 Recommendation: Ensure the BOG receives information on management's significant assumptions or changes to assumptions relating to the proposed balanced budget and formally document such changes in BOG materials.

Response: The Board is kept apprised on a regular basis of significant assumptions. RRC management is in the process of evaluating Board reports for the 2015/16 budget process which begins in January.

- 3.3 Recommendation: RRC should ensure continued appropriate allocations of resources to administrative versus instructional areas.

Response: The roll up of administrative expenses includes departments that have College Wide responsibility. This includes all Financial Services, all Information Technology Systems, all Human Resources Services, all Facility Management, as well as amortization, taxes, and accommodation cost-recovery paid to Manitoba Infrastructure and Technology (MIT) for the use of buildings and land. The format of the monthly financial report to the Board has been changed to present this information more clearly.

#### **Financial Reports and Oversight**

- 3.4 Recommendation: Internal reporting provided to the BOG i.e. monthly and quarterly Statements of Operations should be prepared on the same accounting basis as the yearend financial statements provided to government.

Response: The year-end financial statements provided to government (March 31) and the year-end fiscal financial statements (June 30) are prepared on the same basis (accrual accounting) and both are externally audited. The March 31 financial statements are audited based on the government specification. The March 31 audit is based on much higher materiality threshold than the June 30 audit. Therefore, fewer entries are done compared to the June 30 financial statements.

Differences between the March 31 statements provided to the Board and the March 31 statements provided to the Government are because the manager reports and Board statements are prepared in a very short time frame (within ten business days) to meet the Board's requirements. It takes approximately six weeks (from March 31 to mid-May) to prepare the government statements. Reconciliations of differences of the two statements are easily identified and are reviewed by the external auditors.

- 3.5 Recommendation: Increased frequency of BOG financial reporting to every regular BOG meeting would be desirable to foster enhanced oversight. Enhanced financial information to the BOG should also be considered including changing the financial reporting format to include increased detail on expenses in the Statement of Operations and increased detail in the BOG variance explanations with emphasis on revenues that have directly related expenses.

Response:

- Financial reporting to the Board on a monthly basis has been implemented for the next Board meeting.
- The format of the monthly financial report to the Board has been changed to include increased detail on expenses on the Statement of Operations.

- The format of the monthly financial report to the Board has been changed to include increased detail in the variance explanations with emphasis on revenues that have directly related expenses.

3.6 Recommendation: Consideration should be given to nominating a future member of the BOG that specializes in financial expertise which should assist in providing an increased level of scrutiny by the BOG when reviewing financial information.

Response: RRC Board Members are appointed by the Manitoba Lieutenant Governor-in-Council as per *The Colleges Act*. The Board submits recommendations to the Minister of Education and Advanced Learning regarding nominees for board membership. Nominees frequently possess experience identified as important to the Board or are from sectors that have relationships with RRC. A member appointed to the RRC Board effective November 1, 2014 for a three year term is a Certified General Accountant of Manitoba.

**Other**

3.7 Recommendation: To assist with financial monitoring and oversight, consideration should be given to enhanced data analyses in some areas such as the School of Hospitality and Culinary Arts' restaurant operations, including direct charges and enhanced financial information on restaurant and catering operations; and also to purchasing cards with high limits.

Response:

- Records are kept on direct charges pertaining to the School of Culinary Arts and Hospitality restaurant and these costs are mainly related to RRC events such as Convocation, Alumni events, and other special events involving guests, i.e. RRC business hospitality activities.
- A business plan for food operations at the School of Hospitality and Culinary Arts has been developed that includes an analysis of academic food and event operations, considerations and recommendations. The plan will be considered by the College Executive in January 2015.
- Changes to the processes and procedures for tracking and allocating revenues/expenses for food operations at the School of Hospitality and Culinary Arts have been implemented or are underway. It is anticipated the new system will be completed by March 2015.
- Credit limits on purchasing cards are set based on the College Purchasing Policy and the card can only be used for purchases under \$750. The Purchasing Policy also sets approval class for specific types of purchases. The Purchasing Department has a higher limit. This card is only used for items over \$750 when all the other Purchasing Policy requirements have been met.

- A new inventory management system has been acquired for the School of Culinary Arts and Hospitality restaurant operations. Staff training is scheduled for January 2015.

3.8 Recommendation: Enhanced safeguard of inventory items stored at the Union Bank Tower facility pertaining to School of Hospitality and Culinary Arts' restaurant operations is desirable

Response: It is our understanding this recommendation is a result of a walk-through by the auditors of the Union Bank Tower facility in the summer 2014 where a security risk regarding inventory control and storage of some equipment was identified. The auditors advise they were informed that additional inventory and equipment controls had been implemented during the course of the review.

Security Guards are on site 24 hours/day at the Union Bank Tower facility who check all doors regularly after hours. Doors to storage areas are locked when not required to be open.

3.9 Recommendation: Develop improved documented procedures and instructions for staff on government submissions of financial information.

Response: There are procedures and instructions in place at RRC for the quarterly and annual financial government submissions prepared by senior professional accountants in the Controller's Office. These procedures are regularly reviewed and updated.

A binder of instructions for government submissions using the same methodology for the past several years is available and used for training new staff. In the absence of procedures, the professional accountants assigned these tasks have the competencies to complete the tasks to the government expectations.

3.10 Recommendation: Consider opportunities to improve ongoing communication concerning budgets and academic planning.

Response: RRC has begun the process to develop a new Academic Plan. The academic planning process includes a requirement that each academic area develop an annual strategic plan for submission to the Vice-President, Academic and Research and that will inform the budgeting process.

#### **4.0 HUMAN RESOURCE MANAGEMENT PRACTICES**

4.1 Recommendation: A review of the organizational structure, in particular, the reporting relationship between the President and Human Resources should be undertaken.

Response: It is common practice that Human Resources functions, in both the public sector and private sector, report to either a President or Vice-President.

The RRC Board will review specific aspects of the College's HR functions and exceptional circumstances where reporting to or approval from the Board may be appropriate.

- 4.2 Recommendation: The delegation of authority of the President should be reviewed in relation to human resource functions.

Response: See 4.1

- 4.3 Recommendation: A review of external professional services that support human resource management at the College should be undertaken to ensure that it is the most appropriate use of funds.

Response: External HR consultants are a commonly used - important supplement to in-house HR services that do not have the expertise on staff for very specific functions. At RRC these areas of HR specialization include: Executive Search; Investigations; and Collective Bargaining.

Hiring external consultants on an as needed basis is viewed as cost and expertise effective compared to hiring full-time staff. However, this recommendation will be taken under consideration.

- 4.4 Recommendation: Policies or procedures should be established regarding contracting out of human resource functions.

Response: RRC agrees with this recommendation and this is being reviewed. (These are internal HR Department procedures and would not result in a College-wide policy requiring College Executive or President's Council approval.)

- 4.5 Recommendation: Guidelines should be established for file documentation.

Response: All selection for vacancy files and all labour relations files are kept in a central file system in a secure environment in Human Resource Services until they are scheduled to be archived on-site in the College's Archive. Arbitration files are retained in a secure location in Human Resource Services and are not archived. The conclusions behind this recommendation are based on incomplete information.

- 4.6 Recommendation: A process should be developed for a regular and impartial review of human resource activities, and that review should be presented to the BOG.

Response: The Board will determine the information it requires for due diligence regarding the College's HR activities.

## **DETAILED OBSERVATIONS AND FINDINGS**

The following section provides a summary of our review results as well as key observations and findings.

### **1.0 SENIOR COLLEGE EXECUTIVES' EXPENSE ACCOUNT CLAIMS**

#### ***Objective:***

Determine compliance of financial management processes with Red River College policies related to Senior College Executives' expense claims and use of purchasing/charge cards or any other billing practice related to similar expenses.

Our review focused on the positions of the President and the Executive Team/Vice Presidents and included consideration of expense claims filed by their Assistants and a sample of various positions primarily including Deans and Directors, as referenced in Appendix A. The review also included consideration of policy directives and compliance of expense claims with existing policy including adequacy of supporting documentation such as receipts, descriptions of expenses where necessary, and proper authorization and approval. The review also included consideration of expenses pertaining to purchasing cards and the travel and accommodation account.

Our review focused on compliance based on existing policies as provided by RRC. It was subsequently noted that the policies had changed over the period of review (2010 to 2014). We have provided commentary in this report regarding the changes and advocate the policies should be revisited and strengthened.

#### ***Conclusion:***

Although the financial management processes were generally compliant with existing RRC policies, there were some exceptions and opportunities for improvement. Policies should be enhanced in some areas including reinstatement of previous policies that fostered greater control. It is noteworthy that the RRC policy in effect since January 2014 no longer requires the most senior individual present to pay/claim the expense; this requirement existed in previous policy direction and should be reinstated.

Ongoing attention and due diligence is advocated to ensure appropriate and complete supporting documentation is maintained for compliance with travel and expense policy requirements and oversight practices could be strengthened in this regard. Further, although there is no explicit requirement for public disclosure of the President's (or any other senior executive) expenses, the amounts disclosed were incomplete as some expenses paid directly by RRC or by others on behalf of the President were not being communicated to the BOG Chair and were also not included in the online disclosure.

## **1.1 Expense Claims Policies**

RRC policy provides various methods for the payment and reimbursement of expenses incurred by staff in the course of their duties on behalf of the College including travel and hospitality. The review included consideration of three primary methods available: 1) expense claim reimbursement (travel and entertainment expenses personally incurred by individuals will only be reimbursed through an expense claim), 2) a travel and accommodation corporate expense account (travel booked through the travel management vendor is charged to a corporate travel card but must be supported by an approval signed by the employee's supervisor) and 3) purchasing cards for miscellaneous expenses excluding travel and entertainment which are blocked by the cards' built in features.

### **1.1.1 Travel and Entertainment Policies**

RRC Travel and Entertainment Policies and Procedures apply to all employee travel, hospitality and entertainment expenses incurred while engaged in RRC business. Many expenses, including accommodation, air fare and business meals are paid by the individuals and are claimed for reimbursement via expense claims.

Approvals must include the RRC staff person designated as the budget centre manager, and cannot be provided by an employee lower in the reporting structure than the claimant. If the budget centre manager is the claimant, approval must be received from the supervisor to whom the budget manager reports. In regards to the President, approval must be provided by the Chair of the BOG.

While travelling for business purposes, RRC policy allows for meal expenses to be claimed based on approved per diem rates or by submitting actual receipts. Vehicle costs are to be claimed based on mileage allowances using approved rates per kilometer. Business meals with guests or business associates of the College claimed for reimbursement require a list of meeting attendees and the business topic discussed.

### **1.1.2 Travel and Entertainment Policies**

Following previously identified questionable expense reimbursements of the President, the Chair of the BOG publicly stated on April 29, 2013, that the Audit Committee of the BOG reviewed the President's expenses. In addition to the review of the President's expenses, the BOG developed a new policy. The Chair stated *"The Board also went one step further than the audit and reviewed the expense policies of other organizations in Canada to see how they manage their expenses. With this information in hand we have now revised our travel and expenses 'best practice guidelines' to keep pace with the current Strategic Plan for the College and have prepared a new policy. This policy has been reviewed by the College's external auditor and our plan is to bring it into effect in late May"*.

The previous policies dated July 25, 2011 were compared to the subsequent updates of the Travel and Entertainment Policies and Procedures effective September 17, 2013 and January 21, 2014. It is recognized that the new RRC policies include additional sections for hospitality, working sessions, venues, conference activities, spouses, political donations, trip cancellation charges, and make reference to business class air travel and remove non-business travel partners from the previous policies' non-reimbursable list. However, overall, the previous policies contained more detail and stricter requirements. The following provides an overview of observations:

- Expense claims previously required attachments of both the invoice and charge slip, original boarding passes for flights, trip itineraries, explanations for missing receipts, supporting documentation for cash advances, exchange rates, and translating foreign receipts. The new policies do not.
- The previous policies stated that the “most senior College staff member present should pay for the business meal/entertainment expense”. This was a strong policy that was removed. Removal of this policy enabled senior staff members, including the President, to have other employees in attendance pay for the incurred expenses. This is inappropriate and should not be considered a “best practice”. As further discussed in report section 1.2.9, having other employees cover the President’s expenses on her behalf circumvented both the BOG approval control process and the desired transparency for online disclosure.
- The previous policies did not include gifts, sporting equipment rental for a business event and air lounge fees as reimbursable expenses. The new policies allow these as reimbursable.
- The previous policies provided a detailed definition of travel status (greater than 24 kilometres around the employee’s headquarters), while the revised policies do not.
- The previous policies identified the travel management vendor to be used by RRC to book employee travel, and provided direction on how to directly charge RRC. The new policies do not indicate that RRC has a travel corporate card or a preferred travel agent. The corporate card section in the previous policies also specified that employees who incur airline, cash advance, car rental and hotel accommodations expenses should obtain a corporate card. The corporate card section in the current Travel and Entertainment Policies and Procedures no longer specifies airline expenses.
- The previous policies stipulated that interest due to late payment of corporate cards was not reimbursable and that credit card slips were not acceptable supporting documentation for personal meals. The new policies are silent on these two items.

- The new policies on business meals should be revisited. We noted that:
  - The new policies do not provide direction on who should claim a business meal when multiple RRC staff members are present. It is noted that the 2011 RRC policy required that the most senior employee in attendance claim the entire expense, but this requirement was subsequently removed.
  - There is no requirement that detailed receipts must be provided for all business meals that are taken with guests. Direction for detailed receipts is only provided for individual meals while on College business.
- The new policies state that personal meals do not include alcoholic beverages, personal meals require detailed receipts, and that business meals may include alcohol.
- Business meals and entertainment expenses are discussed twice in the new policies, with only one section clearly stating what information is required to be submitted. Sections 4.2 and 4.12(b) should be combined to avoid potential misinterpretation of the policies.
  - Section 4.2 states “Business meals and entertainment must be solely for business purposes. Business meals and entertainment are those undertaken with guests or business associates of the College, during which a specific business discussion takes place. When requesting reimbursement of such expenditures, employees must state the business discussion topic and the meeting attendees.”
  - Section 4.12(b) states “Business meals are meals taken with business associates or guests of the College during which a specific business discussion takes place. This does not include meals with only other College personnel. Business meals, as defined by this Policy, may include alcoholic beverages. ...”
- Policy section 4.14(a) indicates that hospitality expenses incurred for events for participants outside of the College may include business meals. To ensure consistency with the other business meal and entertainment expense sections, the policy should specify that the claimant must state the business discussion topic and the meeting attendees. Our review found claims for meals that only included College personnel. The policy regarding meals with only College personnel should be strengthened and further clarified to clearly disallow the reimbursement of such meals.
- The travel policy and the expense form do not require employees to detail the addresses of locations travelled to and from when claiming mileage. The policy only specifies that mileage between home and office is not reimbursable.

We advocate reconsideration of policies including reinstatement of stronger practices as appropriate and enhanced clarification would be beneficial in some areas.

## **1.2 President's Expense Claims**

Our review of the President's expense claims covered the period of September 2010 to April 2014 and included expenses incurred on the President's assigned credit card. Expenses of the President are to be reviewed and approved by the Chair of the BOG.

Excluding car expenses (insurance, gas and repairs), the President's expenses had increased by 19% from \$27,745 in 2011/12 to \$32,993 in 2012/13. In 2013/14, once online reporting requirements were initiated, the expenses decreased by 26% to \$24,356 from the 2012/13 fiscal year. It is noted that in addition to the above expense claims, the President also received a car allowance of \$1,000 per month (prior to May 2013 it was \$650) and a discretionary expense allowance of 4% of her salary (approximately \$10,000 per year). Expenses incurred within the discretionary expense allowance are not otherwise required to be reported.

Our review found a number of areas requiring improvement in regards to supporting documentation including receipts and other information supporting the expenses claimed. Greater due diligence with attention to details would help ensure compliance and propriety of expenses being reimbursed.

### **1.2.1 Approvals and Supporting Documentation**

Our review found the President's expenses were not always approved by the BOG Chair and supporting documentation could be improved in some instances.

Of the 88 claims reviewed:

- 6 were not approved by the Chair for payment; management advised that for one claim, subsequent Chair approval was obtained.
- 8 were not signed by the President certifying that the expenses claimed were true and correct. Of those, 7 were approved by the Chair.
- 18 were lacking complete supporting documentation.
  - Missing receipts for 18 claims totalled approximately \$2,350 which included items such as parking, taxis, resource books, meals, a flight and an \$850 registration fee for a team of RRC staff to participate in a fundraising event (RRC stated this was a one-time expenditure as staff normally raise registration fees through donations). This did not include one item initially claimed for over \$300 that was subsequently repaid by President.

In some instances, reimbursement may also be provided by other organizations or third parties. Our review indicated that practices including information provided to the BOG Chair could be improved. For instance, we were informed that some accommodation expenses for a trip to France in 2013 were provided by the schools visited by the President and were therefore not claimed by the President for reimbursement by RRC. While we did not validate or note any improprieties, we advocate that completeness of information to the BOG Chair is desirable for awareness including potential impact or

conflict of interest in the event of subsequent contractual arrangements with the third parties. Management advised that they are working on strengthening the processes for reimbursements.

### **1.2.2 Meals and Entertainment**

The President's expense claims for meals and entertainment from September 2010 to April 2014 totalled \$14,047. This was comprised of receipted meals (\$10,433), per diems (\$911), and other costs (\$2,703) associated with galas, charity meals and food and beverages purchased for hosting events. Exceptions to compliance with RRC policies are noted below:

- RRC policies require a list of the attendees and the topics discussed during business meals. Of the 88 claims reviewed, 52 claims included meals. Of those 52 claims, 42 included at least one meal where a complete list of attendees or detailed topic discussed during the meal was not provided.
- RRC policies stipulate that business meals are those taken with business associates or guests of the College and do not include meals with only College personnel. Based on the information provided it was determined that the President claimed for approximately 10 meals totalling \$368 where only College personnel were listed as attendees, which does not adhere to RRC policies and is generally not supported in a public sector environment.
- Expenses totalling \$514 included purchases of food and beverages for 5 events hosted at the President's home, where the specific business purpose was not documented. In one instance there was only a credit card statement to verify the expense since no receipt was supplied to substantiate the expense.

### **1.2.3 Financial Consideration**

Our review of the President's expenses noted that some items claimed were questionable given the public's expectation of fiscal prudence for publicly funded organizations. Examples include:

- \$2,219 for interviews held on three consecutive evenings at an upscale restaurant. We were informed that the dinners were arranged to evaluate candidates for an executive position in a social setting. RRC has used this practice on occasion for senior positions.
- RRC has a memorandum of understanding/agreement with a culinary institute in France. It was noted that the membership is unusual in that the culinary institute's alliance consists of 14 universities with RRC being the only Canadian member and there is also one American member. As well, generally agreements between post secondary schools are mutually beneficial and payment is usually not required as the student's tuition is still required to be paid, although students can receive

sponsorships to participate. The culinary institute is a high quality private culinary school well known in the industry. Our review noted an invoice of \$11,515 (8,000 euro) for membership in the alliance. It was also not clear why three staff including the President were required to visit the facility in France in order to become a member of the alliance when a smaller delegation may have been sufficient.

#### **1.2.4 Gifts and Incidentals**

We noted the President's expenses included three separate occasions of floral arrangements purchased for two RRC staff members and also a floral arrangement purchased for the new president of a previous employer signed from the President and her partner. This was prior to the policies stating that gifts for staff and family are not reimbursable.

Existing RRC policies allow for reimbursement of gifts up to a maximum of \$100 per person for senior visiting officials, senior international visitors, guest speakers or elders and the President's expenses were generally reasonable in this regard. However, in 5 instances there was no explanation of the specific purpose or recipient of the gift; and 2 instances exceeded the \$100 per person maximum amount stipulated in policy. This included a \$1,199 claim in 2010 for purchases made in British Columbia which included \$668 for artwork gifts for which the documentation did not specify the purpose for the purchase or who the gifts were for. Management subsequently advised this included Aboriginal themed gifts for Elders and other representatives pertaining to a traditional welcoming event held in October 2010. It is noted that this occurred at a time when the policy did not include a provision for gifts.

#### **1.2.5 Automobile and Travel Expenses**

As noted in the President's employment contract, from the start of her employment to April 1, 2013 the President was provided an automobile stipend of \$650 per month. In addition, the President was permitted to submit claims for reimbursement of vehicle registration, 50% of personal gas, 100% of gas used on College business and 50% of repairs and maintenance. On May 22, 2013 the BOG approved an amendment to the President's employment contract increasing the stipend to \$1,000 per month. With the increase, the President was no longer to be reimbursed for registration, gas and repairs in the interest of decreasing the administrative burden related to processing automobile related expenses. We note that no automobile expense claims were made after the monthly stipend was increased to \$1,000.

RRC policies stipulate that airline lounge fees are reimbursable only if an employee is scheduled to be on layover for over 3 hours at an airport. However, the President claimed the purchase of priority pass memberships or lounge passes in 2 instances for herself and others where there was no indication of the layover duration or who the other people were.

### 1.2.6 Claims Including Family or Personal Guests

According to existing RRC policies, expenses incurred by spouses are typically non-reimbursable unless approved in advance. However, there were instances totalling just over \$500 where the President's expenses noted her partner on the receipts, with no indication of this being pre-approved. These include:

- Improperly addressed invoices:

In some instances there were invoices addressed/made out to the President personally and/or her partner for expenses submitted.

- Wine purchased for the President's Council Retreat delivered to the President's home. Management subsequently advised that the delivery was to the President's home since she was taking it to the out-of-town retreat.
- Vehicle maintenance claimed prior to the increase of the monthly stipend to \$1,000, where the President's partner's name was on the submitted receipt. Management subsequently advised that RRC confirmed these expenses were for the President's vehicle and there are no rules precluding a spouse from having car maintenance done on an employee's car on behalf of the employee.

- Personal expenses improperly claimed:

Improper claims were made for personal expenses and greater attention to details on receipts should be instituted.

- One instance of gas claimed prior to the increase of the monthly stipend to \$1,000, which had been purchased by her partner while the President was on a business trip.
- Purchase of a floral arrangement signed from the President and her partner.

Additionally we noted one instance in 2011 where the President had travelled to BC by air and there was a car rental receipt dated a day prior to the arrival flight as well as BC Ferry receipts that specified two passengers on the receipt. As the names were not stated, it is not possible to determine whether the charges potentially pertained to family or personal guests.

The President's expenses included the purchase of 2 Winnipeg Blue Bomber tickets for a contract employee from outside Manitoba to attend a game while in Winnipeg working for RRC. The documentation did not evidence a reason as to why the tickets were purchased or who attended the July 2011 game. We were subsequently informed by management that although the contract employee offered to pay for the ticket after learning of RRC policy, the item was approved as a one-time hospitality item.

Clear documentation including rationale and business purpose is important to demonstrate propriety.

### **1.2.7 Discretionary Expenses**

As specified in her employment contract, the President received an additional 4% of her annual base salary (equaled approximately \$10,000 per year ) for discretionary expenses incurred in the discharge of her duties. It is unclear as to what discretionary expenses this 4% was meant to cover.

Our review noted several miscellaneous discretionary types of expenses were included in the President's expense claims over and above the 4% allowance provided totalling just over \$1,100 for items such as books, electronic chargers/phone accessories, a car GPS, and other miscellaneous items; and \$205 for golf shoes (subsequently repaid by the President). Management subsequently advised that with the exception of the GPS (which could fall under the automobile expenses category payable at 50%), the remaining items were considered office/employment expenses which are reimbursable.

It would be appropriate for the BOG to clarify the purpose and use of the President's annual discretionary expense allowance, and ensure the President does not submit expense claims related to discretionary or incidental items which would be expected to be covered by the allowance.

### **1.2.8 Expenses Incurred on the Corporate Travel Card**

Our review of the President's expenses that were incurred on the corporate travel credit card that were billed directly to RRC for employee travel indicated these were appropriately preapproved by the BOG Chair.

Surcharges incurred by the President due to flight changes were approximately \$3,000. Although the policies are silent on flight changes, changes due to business requirements would normally be considered an appropriate expense. However, the supporting documentation for the President should be improved as most of the flight changes did not provide information on the business need for the changes.

### **1.2.9 Online Disclosure of the President's Expenses**

The Chair of the BOG publicly stated on April 29, 2013, that the Audit Committee of the BOG re-examined every receipt of the President's expenses for the period September 2010 to March 2013. According to the Chair, the Audit Committee found no items of concern. While we have identified various concerns with expenses claimed by the President, we have also found that other employees have claimed expenses that involved the President. These expenses relating to the President did not undergo BOG review or approval. Consequently, the Chair was not receiving all of the President's expenses and was not in the position to comment on the appropriateness of all the President's expenses, indicating an opportunity for improvement regarding the President's accountability to the BOG.

The President had offered to post her expenses online and her quarterly expenses were publicly disclosed online commencing April 1, 2013. Our review evidenced that since

September 2010, expenses paid and claimed by other employees totalling \$5,144.97 included expenses incurred by the President for items such as meals, conferences, airfare and taxis. We noted that \$1,359.46 of the above amount had been incurred since April 1, 2013, but the portion of these expenses which relate to the President was not identified and included in the President's online disclosure. When employees incur expenses that involve the President or are made on her behalf, it circumvents both the BOG approval control process and the desired transparency for online disclosure. Discussions with the Chair revealed that it was his expectation that any expenses related to the President's travel and entertainment would be subject to his review regardless of the method of payment. Best practices would expect that the President, regardless of the attendance of other RRC employees, would pay for and therefore disclose her own expenses. When multiple RRC employees are present, it would be expected that the President should pay for the entire expense as the most senior employee in attendance (at a business meal, for example), or have each employee independently pay for their portion of the expenditure using separate receipts.

The following are details of expenses paid by 5 other individuals which include expenses related to the President:

- \$1,057 for taxis and meals when the President was present with the individual.
- \$953 for meals of which \$573 pertained to meals where the President was present with the individual, and \$380 pertained to the individual using their purchasing card to pay for a dinner event that only the President attended.
- \$300 registration fee paid through the individual's purchasing card for a luncheon which included the President, and \$450 for 2 tickets and a donation to the Winnipeg Symphony Orchestra for the President and her partner. The donation receipt was addressed to RRC as required by policy.
- \$1,261 for a conference the President attended and airfare. The President provided approval for this individual's expense claim and essentially approved her own expenditures.
- \$1,122 for meals, taxis and flights associated with a trip to China, which included the President and the individual.

Additionally, the President incurred expenses where RRC directly paid the vendors. For example, \$2,995 was directly paid for the President's membership in a culinary society and participation with other RRC employees in the society's events. Information on the expense had not been specifically communicated to the BOG or included in the online disclosure. RRC also paid a wine vendor \$573 for invoices addressed to the College and the President's attention. The issue is that President's expenses paid by others or directly by RRC should be communicated to the BOG Chair for approval or information as appropriate and as per the Chair's expectations, and also disclosed online.

The VP Finance and Administration is responsible for the accurate posting of online expenses. Our review found the online disclosure of the President's expenses contained a few administrative errors and missing expenses.

- For the period of April 1 to June 30, 2013, expense claim totals differed from the online disclosure. The online disclosure stated that accommodations for a trip to BC were \$391.00 but the President's expense was \$977.50 for the accommodations.
- For the period of October 1 to December 31, 2013, the online disclosure incorrectly summed two columns attributable to a spreadsheet error but the total reported was correct with the exception of \$184.66 for a hotel stay and meal in December 2013 missing from the online disclosure.
- For the period of January 1 to March 21, 2014, the online disclosure for the February 12 to 14, 2014 trip to Toronto did not total correctly.

While the President was proactive in disclosing her expenses online, consideration of accuracy and completeness, the format for disclosures, and processes used by other public sector organizations would be desirable including increased detail on out of province travel including costs reimbursed by other organizations.

### **1.3 Other Staff Expense Claims**

Our review included 555 claims (449 expense claims and 106 purchasing card claims) pertaining to the Executive Team (VPs) and various other staff members.

Although the majority of items reviewed evidenced compliance with existing policies, and the exceptions noted were not materially large, our review identified a need for ongoing attention and improvement. We encourage greater due diligence and responsibility by individuals submitting claims, approvers and those processing these transactions for payment to ensure compliance, propriety and completeness of supporting documentation.

#### **1.3.1 Approvals and Supporting Documentation**

##### **Approvals**

RRC's Travel and Entertainment Policies and Procedures require that approvals be provided by the budget centre manager or supervisor, as approval cannot be provided by an employee lower in the reporting structure than the claimant.

The purchasing card is also used as a method of purchasing and paying for small dollar transactions. The cards have a \$750 transactional limit and a \$5,000 monthly limit unless otherwise increased by the appropriate manager. The issuance of a purchasing card requires "one-over signature" and the appropriate budget area manager must sign the monthly cardholder statement.

The majority of the 555 expense and purchasing card claims were appropriately approved. Generally the approvals were provided by the immediate supervisor or by a staff member in acting status for the specific supervisory position.

11% (61) of the expense and purchasing card claims we reviewed evidenced a lack of appropriate approvals:

- 28 instances lacking approvals:
  - 24 purchasing card statements lacked appropriate supervisory approvals with the claimant signing as the approver in most instances, and 2 did not evidence any signatures of either the claimant or approver.
  - 3 expense claims did not contain an approval signature.
  - 1 expense claim reimbursement was for a former employee and there was no claim form submitted.
- 9 instances of inappropriate approval by a subordinate; 6 VP expense claims were approved by an Assistant and 3 Dean/Directors' expense claims were approved by Managers.
- 24 instances of claims approved by others who were at a similar organizational level, but did not have the appropriate acting status.

#### **Supporting documentation**

8% (45) of the claims that we reviewed evidenced a lack of completeness in the supporting documentation. Employees were inconsistent in submitting detailed original receipts as required by RRC policy for meal claims that were not per diems. We found examples where only the credit card slips or hotel invoice charges were provided as supporting documentation for meals. According to RRC policies, original documentation is required and employees are expected to provide the original receipts to validate the expenses claimed. Detailed receipts are not specified as a requirement for business meals. We also noted one instance of a lengthy delay by an individual submitting their expense claim in July 2013 for expenses incurred in October 2012.

#### **1.3.2 Meals and Entertainment**

According to RRC policies, a list of the attendees and the topics discussed during business meals are required. In practice, topics or attendees were inconsistently listed in the expense claim documentation. The policies also state that business meals are those taken with business associates or guests of the College and do not include meals with only College personnel. The Travel and Entertainment Policies and Procedures stipulate that staff may incur a meal expense as part of a working session when a College meeting must occur over a period of the day when meals are typically served. Otherwise, food and beverages are not normally supplied for on-campus working sessions that occur through the course of a normal business day.

Of the 449 expense claims reviewed, the following exceptions were noted that did not comply with policy requirements:

- 148 expense claims had at least one meal where a complete list of attendees or business topic was not documented.

- We identified 4 expense claims totalling just under \$400 which had business meals with only College employees listed that were obvious. We also identified several instances for staff only events such as retirement functions, Christmas lunches or various dinner events totalling just over \$1,800.

In addition to meals reimbursed through expense claims, meals at School of Culinary Arts' restaurant operations were directly charged to the College. We reviewed a small sample of the restaurant invoices for general propriety and noted that direct charges for meals pertaining to 2 budget areas totalled over \$17,000 for approximately a 10 month period (July 1, 2013 to April 25, 2014) or almost \$1,800 per month. Although not all invoices were reviewed, and we were advised that most are internal catering for various College events and meetings with external stakeholders such as advisory boards and BOG meetings held at the facility we noted limited information on the billings as to business purpose of the meals and attendees. Better documentation with sufficient details such as the business purpose of meetings would foster improved compliance with policies.

Our review included consideration of internal invoices for meals at the facility to determine if the expense was in compliance with RRC policy based on the purpose of the function and the individuals in attendance. We noted the following pertaining to 2 Chef's Table invoices:

- A meal attended by the President and 3 other senior management members with an external vendor and donor of the College was paid by the budget area of the VP in attendance. While not contrary to existing RRC policies or practices, it would be more appropriate for the expense to be communicated or claimed by the senior most person in attendance i.e. the President, to ensure appropriate approval i.e. by the BOG Chair.
- Another meal attended by a VP and 7 other RRC staff costing \$451 including alcohol did not have a business reason noted and therefore was not in compliance with policy requirements. As well, meals with only College personnel in attendance would typically not be eligible for claim as business meals. Management subsequently advised the purpose of this Chef's Table meal was for the Development Team to assess this new potential offering as a showcase for donors and prospects.

Consideration should be given to specific policy direction pertaining to the use of the Chef's Table including provisions for hospitality and events with guests. Formal approval procedures should also be instituted including documentation evidencing the event's purpose which should be attached to the invoice.

### **1.3.3 Gifts and Incidentals**

Gifts were typically associated with guests of the College and international travel and these were generally in compliance with the existing policy's maximum limits.

We had noted a few instances of other/incidental items on expense claims or procurement cards such as computer or electronic items or furniture. According to the purchasing guidelines, the purchasing card may not be used to purchase furniture or computer hardware and software. We were also advised that only the Information Solutions (IS) department is authorized to purchase IT equipment and only Materials Management (MM) is authorized to purchase furniture although in some instances permission may be granted to other staff to purchase inexpensive items using the purchasing card if that is the cheapest choice. Staff can purchase computer accessories under \$750 on their Purchasing Card. Our review noted one instance of an \$814 expense claim item for an iPad including accessories; a \$1082 iPad including accessories purchased by another individual having a higher level of Purchasing Card authorization, and 3 instances of furniture purchased totalling just over \$1500 for items under \$750. There was no information included with the purchasing card expense claim documentation to evidence specific approval from IS or MM.

We also noted that the Ancillary Services Director's purchasing card is open to all expenses and the limit had been increased to \$50,000 for a single transaction and \$75,000 per month compared to the respective \$750 and \$5,000 limits originally set. Our review only included a few items pertaining to purchasing card transactions and management indicated that RRC has processes, procedures and oversight in place. In view of the significant limit change on this particular card, we advocate ensuring regular analytical review is being performed in conjunction with oversight for control assurance.

#### **1.3.4 Automobile and Travel Expenses**

RRC policy states that employees in travel status can provide detailed receipts for meal reimbursement or alternatively can claim the per diem meal allowance. The per diem meal and mileage rate allowances are set forth by the collective agreements or by the VP of Finance and Administration through policy updates where the collective agreement is silent. The rates are updated effective July 1 of each year. If receipts are submitted for meal reimbursement, the daily receipts must be within the specified daily maximum.

Of the 449 expense claims reviewed we noted only a few minor exceptions regarding rates claimed:

- 30 instances of incorrect or outdated rates being used, of these, 27 were lower than the allowable rate and 3 had negligible dollar impact.
- A few instances where the receipted daily maximum meal allowance was exceeded without documented approval although management subsequently advised these were approved as reasonable.

We also noted that a purchasing card was used for hotels overseas by a former staff (approximately \$1900) contrary to RRC purchasing card guidelines that indicate the purchasing card may not be used for travel and entertainment including restaurant, airfare and hotels. Information subsequently received indicated that the restriction built

into the card was inappropriately lifted in this instance and the restriction was subsequently reinstated. The individual also claimed multiple meals exceeding the daily receipted maximum with no indication of other attendees.

There were 7 instances of duplicate claims totalling under \$500 of which 1 item pertained to a hotel deposit and the others were meal claims pertaining to 3 individuals, generally where the meal items had also been billed on hotel invoices.

### **1.3.5 Claims Including Family or Guests**

The existing policies state that expenses incurred by spouses are not reimbursable unless approved in advance. Although not material, we did note 3 instances totalling just over \$200 claimed under the previous policies which did not include provision for claims including family or guests.

### **1.3.6 Expenses Incurred on the Corporate Travel Card**

Our review included consideration of expenses incurred on the travel credit card that were billed directly to RRC for employee travel for the period September 2010 to May 2014.

RRC policy allows business class air travel where a flight lasts longer than 8 consecutive hours but the policy does not recognize back to back flights with a very short connection time. Our review suggests the policy could be revisited by RRC in this regard. We noted 3 instances of employees using business class travel with some flight segments, generally for overseas trips, being less than the 8 hour policy provision.

We also noted that 2 employees claimed travel expenses on behalf of other RRC staff and it was not apparent why the travel for those individuals would not have been booked and paid either through the employee travel card or directly by them with reimbursement through their own expense claim. One individual claimed \$3,190 for flights for themselves and another staff. Another individual claimed \$873 for a flight for themselves together with a flight for the President and \$7,126 for flights booked for four other RRC employees. Increased scrutiny should ensure appropriate practices are followed including ensuring individuals are filing claims for their own expenses.

## **2.0 SPECIFIC CONTRACT MANAGEMENT PRACTICES**

### *Criteria:*

Determine compliance of specific contract/purchasing issues with Red River College contract management and purchasing policies.

### *Conclusion:*

Policies and procedures around purchasing, which include contract tendering/bidding procedures, are established and communicated through documented policies that are available to all staff; however, consideration could be given to enhancing the RRC

purchasing policy to include a more clearly defined scoring system for evaluating bids and awarding contracts.

There are no written policies or procedures for capital project development. RRC should develop guidelines outlining how to effectively plan, manage, monitor and execute capital projects such as building developments, reconstructions or renovations.

Based on a review of a sample of contracts relating to the Union Bank Tower Project there are opportunities for improvement as there were some instances of non-compliance within the tendering process.

The construction/renovation of the Union Bank Tower was a significant financial investment and there was evidence that the project was not planned and managed effectively as there were 138 change orders totalling \$11.5 million and it lacked adequate project management oversight throughout a significant portion of the project. The project was originally budgeted at approximately \$22.5 million and was to be completed by September 2011. RRC received initial approval from COPSE to spend up to \$27 million on the acquisition and renovation of the Union Bank Tower. COPSE subsequently approved a revised budget of \$34.6 million. The construction project ended up costing \$37.5 million and the building did not open until 2013. Management indicated that change orders are not uncommon in major building renovations, particularly in old historic buildings, and unanticipated costs were encountered, for example foundation issues, mould and hazardous material abatement. As well, four additional floors were added to the Residence building for revenue generating purposes as well as a restaurant rooftop patio. It was also noted that \$1 million flood damage contributed to the delay in opening and insurance claim monies are pending.

As our review of other (non Union Bank Tower Project) contracts was very limited, the results are not representative of processes for RRC as a whole. However, some opportunities for improvement were identified for management's consideration as we noted instances where proper justification was lacking for untendered contracts, potential contract splitting or extensions to avoid tendering thresholds, and some contracts being signed after the services had already been provided and/or invoiced.

Our procedures consisted of:

- Requesting and obtaining all procurement files, contracts and related vendor payments used for the Union Bank Tower Project;
- Reviewing RRC's policies with emphasis on areas relating to procurement and appropriate approvals;
- Reviewing RRC's website for further applicable policies and consulting with staff to confirm the existence of further policies related to purchasing/contracts if any;
- Reviewing the strategy for contract management used for the project; and

- Interviewing main RRC contacts that were involved in contract management for the project and documenting results to determine:
  - The appropriateness of the criteria for capitalizing expenditures related to the project;
  - The overall history of the project from approval to walk-through and grand opening stages;
  - Where capitalized items for the project were recorded in the G/L and comparison to supporting documentation; and
  - Whether there were expenditures that were not capitalized and related to promotional activities and comparison to supporting documentation.

## **2.1 Contract Management**

We reviewed the strategy for contract management used for the Union Bank Tower Project and considered whether RRC policies and procedures relating to purchasing, including contract tendering procedures, approvals and delegation of authority, were clearly established and communicated to all staff.

We noted that the purchasing policy does not contain a clearly defined scoring or points system for evaluating bids and awarding contracts, especially for standard evaluating criteria such as price, quality, sustainability and compliance with RRC specifications that are used in evaluating all contracts. There is also a need to establish a clear set of guidelines on how other evaluating criteria that are contract specific will be awarded points and what the maximum of those points should be for greater consistency in the tendering process.

We reviewed RRC policies relating to contract management including: Purchasing, Delegation of Authority, Ethical Behaviour, Conflict of Interest and Development Activity. In addition, we also reviewed the BOG Manual.

In total, 48 contracts relating to the facility were reviewed, in which we identified numerous instances of non-compliance. The following sections of the report provide the detailed observations of our review.

### **2.1.1 Purchasing Policy**

The purchasing policy does not fully capture all the current practices that are being employed by various individuals and departments involved in procuring goods and services.

Price, quality, sustainability and compliance with RRC specifications are the four standard evaluating criteria that are applied to all bids and other criteria can be included case by case. However, the current practice of scoring bids or guidelines on how many points to award to each criterion is not documented within the policy and consistency can vary. Written guidelines and scoring ranges should be established for the four standard

evaluating criteria in support of enhanced consistency while allowing some flexibility in allocating points for those above and beyond the four standard ones.

## 2.1.2 Untendered Union Bank Tower Project Contracts

RRC had two different purchasing policies in effect during construction pertaining to the Union Bank Tower Project. The first policy was in effect since December 17, 2002 until January 15, 2013 after which it was replaced by a revised policy. The tendering requirement of the previous and current procurement policy is detailed in the table below.

Tendering Requirement	Previous Policy	Current Policy
1 verbal quote	\$750 - \$2,500	N/A
3 verbal quotes	\$2,501 - \$5,000	N/A
1 written quote	N/A	\$750 - \$10,000
3 or more competitive bids	\$5,001 - \$99,999	\$10,001 - \$99,999
Posting on MERX	\$100,000 or more	\$100,000 or more

Source: RRC purchasing policies

While we did not evaluate the policy itself, it is noted that the tendering requirement for only one quote for contracts under \$10,000 is weak and should be reconsidered.

According to the purchasing policy, emergency orders are the only purchases that can be made without tendering. An emergency order is defined as a critical situation which is an unanticipated and sudden occurrence and is life threatening, catastrophic, or involves processing for immediate repairs, reconstruction or maintenance in order to permit the safe continuation of a necessary use or function, or to protect the property or the life, health or safety of any person.

Of the 48 Union Bank Tower Project contracts identified and included in our review:

- 30 (62%) were in compliance with RRC policy requirements and included both tendered and untendered contracts. Four of these contracts were tendered and managed by the prime consultant on the project; therefore no review was possible on these contracts as all the tendering documents were kept by the prime consultant.
- 18 (38%) were untendered contracts for which the supporting documentation lacked sufficient justification. Although there were reasons for not tendering, none of them fell under the 'emergency order' definition and justification should have been better:
  - 7 instances indicated the vendor was the sole supplier or the only company with the required expertise. However, there was insufficient information to evidence consideration of other potential vendors or to substantiate that the vendor was the only company with the expertise.
  - 4 instances had some indication of urgency or not enough time to tender. However, there was no documentation to evidence that other vendors had been sought and were not otherwise available due to time constraints. All 4 instances

pertained to the hiring of an experienced project manager which commenced midway through the project.

- 4 instances of contracts awarded based on justification that the vendors had done other work for RRC in the past. Not tendering a contract and awarding it to a company solely because they have done previous work for RRC is not a valid reason.
- 2 instances pertained to a contract that was followed by a second contract. The initial contract was not tendered because the amount was under \$10,000, which is the threshold that would require tendering and at least 3 competitive bids. However, a few months later a second contract was issued as an amendment, increasing the original amount of \$9,500 by \$20,000. Although we could not verify the validity of the amendment, potential perceptions of contract splitting, which is prohibited according to the purchasing policy, should be avoided. A more appropriate practice would have been to tender the contract from the beginning in anticipation of possible amendments or at minimum the amendment should have been considered for tender as the value of \$20,000 requires written competitive bids.
- 1 contract relating to a feasibility study was put on hold until a particular management position was filled. The new incumbent had knowledge of a similar study performed from a previous job and proceeded with contracting the same individual, while being unfamiliar with RRC requirements. This is not a valid reason for not tendering, and to avoid similar situations in the future RRC should ensure improved communication of policies as part of new employee orientation.

Our review evidenced a need for greater attention to tendering practices and compliance with purchasing policies.

### **2.1.3 Other Contracts**

Our review included a sample of 35 various contracts unrelated to the Union Bank Tower Project with a value of \$1.3 million pertaining to services provided over the review period. The sample of contracts was reviewed to consider if appropriate approvals and tendering practices were followed consistent with RRC policies. However, it should be recognized that our review was only a small sample and therefore is not intended to represent a complete portrayal of RRC's procurement and contracting practices. Nevertheless, the findings provide some feedback for consideration by RRC and opportunities for ongoing attention.

For our sample review of 35 contracts, we found:

- All 35 contracts contained proper approvals from appropriate signing authorities but approvals were sometimes obtained after services were rendered.

- 8 of the contracts that were untendered did not contain justification that would be expected when considering best practices or public perception:
  - 3 untendered contracts (\$202,200) contained justification that stated previous experience with the contractor which is not adequate justification and would not meet the test of public scrutiny.
  - 2 untendered contracts for a consultant from BC with the first contract (\$14,525) subsequently increased by \$40,000 using a second contract for a total of \$54,525. The contracts were signed by the President and a VP. The justification noted “the right fit” and “perfect mix of qualifications”. Assessing qualifications in a fair and equitable manner would require tendering. The President travelled to BC to meet with the consultant prior to them coming to Winnipeg and work was commenced before the initial contract was signed.
  - 2 untendered contracts with one of the contracts covering a shortfall of \$14,129 in funding from the original \$20,000 contract for public relations involved former employees/alumni. Expertise in public relations is not exclusive and the contract should have been tendered.
  - 1 additional untendered contract with the same vendor as above for \$45,000 cited an immediate need for communications expertise due to the departure of a communication manager. The contract was signed after the services were delivered and invoiced. Based on the value of the contract and prevalence of public relation services available the contract should have been tendered.

We also noted the following issues:

- Related contracts (3 contracts totalling \$23,000) that were approved within similar timeframes and individually were under the RRC policy threshold of \$10,000 requiring three competitive bids. The 3 contracts (with the same communications vendor referenced above) pertained to a press conference, strategic plan development, and video production. The contracts were also signed after the vendor invoice dates which were identical. RRC management should ensure that multiple contracts that are related are consolidated with consideration of total project cost to ensure tendering policy is not circumvented using multiple transactions, and appropriate practices are used that would meet public scrutiny.
- An item procured was not being used (\$3,200 annual contract cost) for a carbonated water system for restaurant operations. Although small in total value the item should either be installed or the contract should be discontinued.
- A few situations of potential conflict of interest were noted:
  - Potential conflict of interest by the approver of a service contract (\$8,310) was not disclosed. Disclosure would have been appropriate for compliance with RRC’s Conflict of Interest Policy and another person with appropriate authority should

have approved the contract. The contract deliverables were not met although we were informed that recovery efforts were being made to the initial payment (less than \$5,000).

- The justification of a curriculum contract (\$25,000) stated “sole supplier” although in view of other potential suppliers, tendering should likely have been considered. Other factors include a close donor relationship and informal sole supplier relationship for other goods purchased from the vendor that could result in a potential or perceived conflict of interest. Other issues noted include:
  - Services were rendered before the contract was signed and the vendor invoice was also dated before the contract was signed.
  - The vendor invoice references services for a time period substantially before the effective period of the contract. The vendor invoice date is 6 months prior to the RRC received date stamp.
  - The contract rate of \$375/hour is very high compared to the rates normally paid to instructors (approximately \$40/hour). Although the invoiced hourly charge out rate was reduced to \$100/hour the reason could not be conclusively determined but the contract had a maximum value of \$25,000 regardless of the hourly rate.
  - RRC had existing curriculum that met industry standards and needs and staff questioned whether desired changes could potentially have been made internally. We were also informed that the course taught by the vendor did not complete all of the course material and that students would not be in a position to challenge a further level of testing, and although it was subsequently corrected by the vendor, the initial curricula design did not completely address industry standard requirements.
  - Advertising vendor sponsorship: One of the contract files that we had intended to review was not available despite repeated requests for information. The contract was with a magazine advertising vendor who had received a sponsorship reduction of \$750 approved by RRC’s President pertaining to a room rental costing \$6,929.51 at RRC’s School of Hospitality and Culinary Arts facility. On the basis of available information, sponsorship reductions were not being provided to other organizations. This sponsorship also appears to be a conflict of interest as the President’s partner was the Chair of the client of the event. It was noted that RRC were subsequently instituting improved practices through new guidelines for College sponsorships that were in process of being developed, including consideration of a 6 member committee to approve future sponsorship amounts over \$1,500. RRC should also ensure that in the future, all potential conflicts of interest of the President are disclosed to the BOG.

## **2.2 Union Bank Tower Project Management**

We interviewed RRC contacts involved with the project, as well as the Project Manager contracted from outside of the College, to gain understanding of how the project was approved, planned, funded, managed and executed. We were provided with all change orders and contracts relating to the project. In addition to the interviews, these documents were used to corroborate information received and to analyze cost overruns.

### **2.2.1 Risk Management, Scheduling and Monitoring**

Renovation of an existing building carries many inherent risks, such as unknown or unexpected site conditions that could result in design changes, additional resources and project delays. Risk management is key in effective capital project control and governance. We noted that there was no formal risk management plan for the project and there were some unforeseen costs and situations encountered that caused both delays and additional expenses during the project, approximately \$1.3 million in total:

- foundation issues \$260,000;
- mould and hazardous material abatement \$300,000;
- reconstruction as a result of water damage from a pipe that burst costing approximately \$578,000 (Some costs may be recovered through an insurance claim filed); and
- elevator shaft alignment \$146,000.

Future projects should include greater attention to risk.

Based on the significant financial resources required, improved project management together with appropriate planning and detailed project schedules could also potentially have mitigated many of the risks and cost overruns. Senior management subsequently acknowledged that while the change orders were substantial in number and cost, the efforts of the Project Manager and other RRC staff were also considerable in reducing their impact over the life of this project.

The time from the integrated design process to the release of tender documents was approximately two months and was insufficient for a project of this magnitude. The contract between RRC and the construction company had an end date of March 2011 for the first 3 floors and a September 2011 end date for the remainder of the building. These time deadlines were unrealistic given the amount of architectural detail, electrical and mechanical work to be performed on the building. As a result, the construction company was able to charge general conditions fees for all the time worked beyond September 2011. Subsequently, RRC elected to retain the Project Manager they had originally contracted on a part-time basis to a full-time basis for improved on-site monitoring and reporting. The change orders we reviewed noted approximately \$699,000 was spent to cover scheduling delay costs. The subsequent Project Manager that was eventually hired

indicated that the total costs of delays was closer to \$1.1 million as some of the delay costs may have been consolidated within other costs and not separately identified.

Adequate project monitoring was lacking during the earlier phases of construction and contributed to scheduling delays and costly errors and omissions. Based on the documents we reviewed and the fact that RRC did not have a representative to monitor onsite progress from the outset, regular updates of scheduled progress against the baseline schedule were not being reported or monitored. Therefore, RRC was unable to foresee potential delays and evaluate the financial and timing impacts on the project.

Best practices for the successful delivery of complex capital projects require a clear definition of the roles and responsibilities of key stakeholders and adequate resources. For the Union Bank Tower Project, roles were not clearly defined. Ideally, the Project Manager should be the facilitator between end user representatives and consultants and contractors. Project management originally assigned to the project was internal to the College and may have lacked experience in managing building construction projects, particularly ones with the magnitude of the Union Bank Tower. Communication breakdowns occurred between RRC, the contractor and various sub-contractors that contributed to scheduling delays as different work projects were not being coordinated or managed effectively. The amount of time for coordination between the Project Consultant and other contractors such as the Mechanical Engineer and the Food Services Equipment Consultant, was insufficient. This lack of scheduling management/coordination at the beginning of the project continued throughout the rest of the project and contributed to costly errors and omissions. For example, approximately \$900,000 was incurred for mechanical errors and omissions and likely could have been avoided or mitigated through more experienced on-site project management from the beginning to monitor workmanship and facilitate communication between all parties.

### **2.2.2 Cost Overrun**

The Union Bank Tower Project actual construction costs of approximately \$37.5 million significantly exceeded the original budget of \$22.5 million (refer to Appendix C).

The following provides an overview of the key items contributing to the \$15 million variance based on our review:

- \$8.4 million is attributable to the original budget. Approximately \$5 million in costs that were known and not included in the original budget were subsequently added in a revised budget. Another \$3.4 million was not included for items viewed to be essential to the completion of the project (see Budget Deficiencies below).
- \$1.3 million for unforeseen factors pertaining to foundation issues, mould and hazardous material abatement, water pipes damage, and elevator shaft alignment (see report section 2.2.1).

- \$699,000 in scheduling delay costs (see report section 2.2.1).
- \$900,000 for mechanical errors and omissions (see report section 2.2.1).
- The remaining \$3.7 million is comprised of various smaller amounts relating to electrical revisions, mechanical revisions, millwork and other smaller changes that were all documented in the 138 change orders that were reviewed.

### **Budget Deficiencies**

Cost reduction and strategy decisions that were made by RRC management prior to construction contributed to the project going over budget. RRC did not include some items in their original tender and budget which were critical to the completion of the project. RRC later completed these items through the use of change orders.

Examples of items (approximately \$5 million) that were not included in the original budget and later completed include the following:

- the restoration of the bank hall for restaurant \$774,000;
- 11<sup>th</sup> floor redevelopment \$231,000 (still underway);
- residential floor redevelopment for floors 7-10 \$1.48 million;
- refurbishing heritage windows \$214,000; and
- the purchase of 5 kitchen hoods \$2.2 million.

In addition to the items that were not in the original budget, other items totalling approximately \$3.4 million were tendered separately later when construction had already begun. These items should have been part of the original estimate as they too were vital to the completion of the project. The items included the following:

- exterior restoration work \$1.7 million;
- restoration of the second floor balcony \$892,000;
- renovation of the outdoor Bijou Park eating area \$580,000; and
- completion of a coffee area, 4th floor washrooms and 4th floor patio \$279,000.

It appears that RRC had opportunities for improved planning that could have included the above items. As there is potential risk associated with development projects of such magnitude, good budgeting and ongoing oversight are critical to ensure the project stays on track.

### **2.3 COPSE Approval**

In September 2009 RRC received approval from COPSE to spend up to \$27 million on the Union Bank Tower Project.

In March 2011, RRC informed COPSE that the project was expected to incur cost overruns of approximately \$7.6 million (in addition to the \$27 million previously

approved), and in April 2011 COPSE approved spending on the renovation up to \$34.6 million. Management advised that RRC did not request further COPSE approvals as project funding was also provided by the Federal Knowledge Infrastructure Program and private donations/sponsorships. The final construction cost for the Union Bank Tower Project was \$37.5 million. This was significantly higher than the original budget of \$22.5 million, the initial COPSE approved budget of \$27 million in September 2009, and also \$2.9 million higher than the COPSE approved revised budget of \$34.6 million in 2011. We also note that the final total capital project costs of \$43 million, including construction costs and other capitalized expenditures for the Union Bank Tower Project, were audited by a public accounting firm for funding eligibility in compliance with the criteria established within the Knowledge Infrastructure Program funding agreement.

## **2.4 Financial Records**

We obtained and reviewed detailed general ledger (GL) information for the accounts where all of the Union Bank Tower Project expenditures were recorded, including furniture and kitchen equipment. All expenses that were incurred prior to the grand opening of the facility in February of 2013 were capitalized. These included amounts ranging from as little as a few dollars to millions. Although we did not perform a detailed review of all capitalized items, we scanned the listed costs that were capitalized to ensure that they were consistent with Canadian Public Sector Accounting Standards and did not note any costs capitalized that were unrelated to the project.

We also obtained cost summaries along with supporting documentation and invoices for 3 events associated with the facility opening. Our review did not evidence any anomalies.

## **2.5 Inventory and Materials Controls**

Our tour of the facilities included observing storage space in the basement as well as on the 11th floor. We noted that improved physical safeguard provisions should be instituted and management had advised improved controls were being implemented. An inventory list of all items stored at the facility should also be maintained to ensure that items can be tracked and accounted for. Regarding storage on the 11th floor, although this area was accessible to all during construction, the items stored were the responsibility of the contractor and not RRC at that time. Since completion of the construction project, access to the 11th floor is limited to security personnel and a few College executives.

It is our understanding that RRC was reviewing allegations regarding the President potentially using marble from the Union Bank Tower facility in her home.

### **3.0 \$2 MILLION DEFICIT PROJECTION**

#### *Objective:*

Determine the circumstances surrounding the identification of a potential projected \$2 million deficit for the year ended June 30, 2014.

#### *Conclusion:*

The identification and communication of the projected \$2 million deficit to the BOG was made at the last opportune time in March 2014 to enable implementation of strategies to avoid incurring a deficit by yearend. The strategies employed by RRC, while appropriate for the limited time frame existing prior to yearend, were more reactionary rather than self-sustaining for the benefit of future years and were not adequate to minimize the risk of incurring a future deficit. Our review found that inappropriate adjustments to budget accruals and estimates, aggressive budgeting strategies, and costs that were inappropriately excluded from the balanced budget had contributed to the \$2 million deficit projection. The actual 2013/14 yearend results subsequent to our review indicated that a deficit of \$2.2 million was incurred. These results were also substantially affected by an actuarial evaluation adjustment for severance pay obligations which management subsequently advised came in at \$3.417 million rather than the expected amount of \$1.836 million, thereby impacting the final deficit by \$1.581 million. RRC should ensure that future budgets include appropriate projections and considerations for all known obligations.

Our review also identified opportunities for enhanced financial reporting including ensuring that budget and internal financial reports provided to the BOG are prepared using the same accounting principles and policies used to prepare the yearend financial statements to government. This would provide a foundation to minimize the risk of similar occurrences in the future and assist RRC in providing increased controllership and the ability to make more informed decisions.

#### **3.1 Circumstances Surrounding the Identification of the \$2 Million Deficit Projection**

The yearend projection exercise occurs from early January to February and includes interviews between the Controller's Office and selected budget areas with in depth analysis of financial information. Appendix B provides an overview of the process.

According to discussions with the VP of Finance and Administration and management members of the Controller's Office, a \$2 million projected deficit was identified at the end of February 2014. It is recognized that the projection exercise is dynamic and fluid with continual change and refinements of information provided by the budget areas. Based on this, the extent of the \$2 million projected deficit may not have been readily apparent given that the approved budget was prepared in a similar manner as prior years. The VP of Finance and Administration confirmed with certainty that the \$2 million projected deficit

was confirmed prior to March 11, 2014. Subsequently, the BOG was informed about the \$2 million projected deficit at the March 19, 2014 regularly scheduled meeting, including comparatives to the approved balanced budget for the period ending June 30, 2014.

In order to compare the circumstances in 2014, we reviewed the BOG financial reporting results from comparable prior year periods. We reviewed year-to-date reporting for December or the second quarter, the month before the projections are finalized (February), the month the projections are finalized and reported (March), and the month after the projections are reported (April) to determine if there were early warnings or indications of an impending negative projection. The year-to-date surpluses are noted in the table below along with February, March, April, June results.

### RRC PROJECTED AND ACTUAL SURPLUS (DEFICIT)

Reporting Period	2011/12	2012/13	2013/14
December 31, Year-to-Date Actual Results	\$3,324,901	\$4,205,088	\$3,723,670
February 28, Year-to-Date Actual Results	\$4,880,665	\$4,280,473	\$3,107,182
March 31, Year-to-Date Actual Results	\$4,455,896	\$10,824,271	\$2,904,948
March 31, Projections to Yearend	\$ 156,074	\$107,587	(\$2,001,689)
April 30, Year-to-Date Actual Results	\$3,980,440	\$10,250,561	\$1,865,905
April 30, Projections to Yearend	\$1,500,000	\$107,587	(\$943,940)
June 30, Yearend Preliminary Results			(\$1,131,115)*
Actual Results	\$1,463,614	\$1,143,862	(\$2,204,000)**

*\*Preliminary Results provided by RRC management at the time of review, subject to change*

*(Source: RRC Statement of Operations)*

*\*\*Actual Results, obtained subsequent to the review*

*(Source: 2013/14 Audited Financial Statements)*

The 2011/12 year had a smaller December 31 year-to-date surplus compared to 2013/14, yet had a March 2012 projected yearend surplus of \$156,074, compared to the \$2 million projected yearend deficit shown in March 2014. The year-to-date results from the February reporting period do indicate that the 2013/14 year would not have as much margin for error compared to the same reporting periods in the previous two years. Discussions with RRC management revealed that although it is not unprecedented that RRC have projected deficits identified in March, they could not identify another circumstance in recent memory. Management also did not note anything unusual in the current year that would have led to the \$2 million projected deficit other than the new Manitoba Government and General Employees' Union (MGEU) contract (see report section 3.2.1), and the continued cost pressures in the Nursing program (see report section 3.2.2) for clinical instructor costs.

The information provided in the table above supports the information communicated to the BOG. The 2013/14 projected deficit of \$2 million was not likely predictable based on the December 31, 2013 six month ending year-to-date actual results that were in fact better than in December 31, 2011. Once the February 2014 year-to-date actual results were known to be approximately \$1 million lower than in the prior two years, only at this point was there a realistic cause for concern which coincides with the identification of a \$2 million deficit projection shortly before the March 19, 2014 BOG meeting. The potential \$2 million deficit was submitted to the BOG for information on March 19 2014 as the first draft review of Managers' detailed projections to yearend. The April 23, 2014 report noted that the College had reviewed revenues and expenses to June 30 and improved the annual projection by \$1,057,749 from the March deficit projection of \$2,001,689 to a revised deficit projection of \$943,940. These were still projections at that time and subsequent to our review, the actual results indicated a deficit of \$2.2 million for 2013/14.

### **3.2 Budget Estimates and Factors Contributing to the \$2 Million Deficit Projection**

There were multiple factors that contributed to negative variances and led to the formation of the \$2 million deficit projection. These include inadequate budget methodology used to arrive at the 2013/14 balanced budget, which included an inappropriate reduction in the MGEU contract accrual, omission of some nursing clinical instructor costs, and other unbudgeted costs or inaccurate estimates as discussed below. It is our understanding that the use of some reserve funds (approximately \$1.2 million associated with contract training projects) was also required in efforts to balance the 2013/14 budget. The actual yearend results subsequent to our review indicated a deficit of \$2.2 million and were substantially affected by an adjustment for severance pay obligations. RRC should ensure such obligations are identified and communicated as initial budgets are established in the future, as discussed in report section 3.3.

#### **3.2.1 MGEU Provision**

The budget had insufficient provision/accrual for the MGEU increase impacting salaries and benefits. RRC's largest expenditures are salaries and benefits, comprising approximately 68% of total expenditures. Available information indicated that a provision of at least 2% would have been realistic and communication to the VP of Finance and Administration in August 2012 suggests that 2.9% was anticipated at that time. However, RRC's initial budget provision for the MGEU increase of \$3.8 million (3.2%) was subsequently inappropriately reduced to \$1.5 million (1.231%) as the final balanced budget was being developed under the overall direction of the President and the VP Finance and Administration. The initial provision should not have been reduced lower than 2% and the strategy of attempting to manage the increase in salaries using other budget balancing techniques (Voluntary Reduced Workweek program, delayed hiring, etc.) was insufficient and contributed approximately \$1 million of the \$2 million deficit

projection noted in the March 19 BOG meeting. It is unclear as to whether the BOG was informed of this strategy for the actual presentation of the balanced budget in June 2013 as the budget request does not formally note the amount of the GSI specifically, but does have a note stating “contractual commitments” that traditionally includes GSI and other salary increases.

The actual rate increase agreed upon between MGEU and RRC in February 2014 was 2%, and represented a \$937,043 difference in the provision at the time of budget approval in June 2013 (\$2,437,043 with a 2% rate less \$1,500,000 at a 1.231% rate). Subsequent management variance explanations for the third quarter of fiscal 2013/14 indicated the actual projected year-to-date effect at that time was \$1,119,892.

### **3.2.2 Nursing Program Clinical Instruction Costs**

The clinical instruction costs for the new Bachelor of Nursing (BN) program were insufficiently stated or removed from the budget. It is our understanding that RRC has had ongoing funding conversations with government.

RRC received \$200,000 in additional ongoing funding to support the conversion/transfer of the prior 24 month Diploma Nursing Accelerated (DNA) and the Joint Baccalaureate Nursing (JBN) programs into a new 32 month BN program that would also have an additional 15 students.

The impact of 100,842 additional clinical hours and resultant need for more clinical instructors, based on requirements set by the Canadian Registered Nurses of Manitoba (CRNM) were known prior to the initiation of the BN program at RRC. A change in the clinical ratio of instructors to students from an average of 1:8 to 1:6 together with CRNM clinical experience placement requirements that are outside the control of RRC would also lead to an immediate increase of approximately 33% in clinical instructor costs.

In addition, lost tuition revenues due to first year RRC BN students completing electives at other institutions within Manitoba were underestimated by RRC as \$104,000 per an internally generated Nursing report but our review suggests this should be approximately \$231,000.

Despite awareness of requirements as early as June 2011, a request for \$1.254 million in additional funds for the Nursing program was removed from the balanced 2013/14 budget presented to the BOG and approved on June 13, 2013. Similarly, a shortfall of \$1.174 million was removed from the 2014/15 BOG approved budget presented on June 13, 2014. The reason provided for both the 2013/14 and 2014/15 budgets was that the Academic areas would be required to “manage this variance through scheduling classes and clinical placements”. 2013/14 third quarter variance reports confirmed that the year-to-date variance for clinical instruction in the Nursing program was \$1,779,169 over budget.

### 3.2.3 Other Budget Estimates and Resource Allocations

We also reviewed available variance explanations at the time of our review from Finance Managers and interviewed some Senior Management and two Deans to determine if there were examples of weaknesses in the estimates used in the budgeting process that contributed to the \$2 million deficit projection. Our review evidenced that the accuracy of budget estimates could be improved in some areas. The following are some illustrative examples noted but these are not intended to be a complete representation:

- Hospitality and Culinary Arts underestimated costs and overestimated revenues:

Our review of variance explanations for the third quarter 2013/14 year-to-date actual results compared to current year projections noted that Hospitality and Culinary Arts variance explanations were weak and some budget estimates could be improved, also suggesting a need for greater attention including restaurant operations. For instance:

- Salary savings for a new instructor in one area were unrealistic based on current salary scales and would imply RRC would be paying the new instructor over 50% less than the previous instructor.
- The Cost of Goods Sold (COGS) for food sales in the 2014/15 budget for Hospitality and Culinary Arts is too aggressive and unrealistic based on historical results. The COGS rate for food sales used in both the 2013/14 and 2014/15 budgets was about one-third lower than historical actual COGS rates. Similarly, the budgeted provisions for materials costs as a percentage of food sales were over 20% lower than historical actual costs.
- Tuition revenues for the 2014/15 budget for Hospitality and Culinary Arts are also aggressive. The actual tuition revenues as of July 11, 2014 were \$1,108,204, only \$30,450 below the projection. However, the 2014/15 budget is set at \$1,336,097 or a \$227,893 increase from the prior year actual. Based on the fact that the prior year was slightly below expectations and overall tuition trends were noted in the BOG variance explanations as negative, there was inadequate justification for the anticipated increase.
- It is acknowledged that the new facility just completed its first full year of operation. Management advised that the need for improved operational and financial processes is recognized and in process of being addressed including revisiting the 2014/15 budget in an effort to make more realistic budget assumptions. We also recognize the inherent nature of the facility as an educational institution, but this must be balanced with the fact that the restaurants attached are also operating as businesses. However, we observed that the financial system in place cannot properly identify or provide segregated information on revenues and costs for specific restaurant operations (e.g. patio and espresso bar) and catering (internal and external). While there is no Point of Sale (POS) system for the patio area

despite the large capacity, management indicated that this will be considered from a cost-benefit perspective. We noted that RRC had purchased new software that could potentially assist in monitoring restaurant and catering operations.

- Enhanced monitoring of restaurant operations is advocated to also reduce potential risk exposure associated with staff that may potentially be operating sideline businesses. In the past requests have been made by certain employees to separately order supplies from RRC vendors for personal use by RRC employees. The request was denied and we were informed that prior instances of personal purchases made were reimbursed by the employees. Although the amounts were reimbursed, the employees were taking advantage of the buying power of the College which could be perceived as a potential abuse of power or conflict of interest. RRC employees should be reminded of the Conflict of Interest Policy stating that RRC resources cannot be used for personal use without reimbursement. In addition, the Conflict of Interest Policy could be strengthened to include specific reference to the issue of personal gain such as use of RRC's buying power that could be considered a conflict of interest.
- Our review also noted that some gaps in academic planning and communication pertaining to international students occurred at the time that the Hospitality and Culinary Arts Chair position was vacant and resulted in some resourcing issues including instructors forgoing their vacations to teach summer term classes which otherwise did not have assigned instructors. Although challenges were eventually overcome, this demonstrates the importance of attention to ongoing communication between International Education and other programs to establish accurate estimates, to the extent possible, for international student intakes.
- Some revenues pertaining to the Language Training Centre (LTC) were overestimated i.e. revenues for the Intensive English for International Students program were budgeted at a level consistent with 150 seats, when the class capacity was a maximum of 138 seats. Management subsequently advised this was a communication issue and was addressed.
- The President's area experienced a 74% increase (\$392,000) in total budgeted expenses from June 2010 to the June 2014 yearend (per the annual balanced budgets) and of that increase, the operating budget had more than doubled over that period of time, increasing by 116% (\$165,260). Over this same time period, the actual amount of spending for the President's area comparatively only increased 26% (\$172,000). This indicates an opportunity to improve the allocation of resources as there are other areas in the College that have experienced budget restrictions in the budget balancing process. Comparatively the whole College had a projected increase in salaries and benefits of 15% (\$14,883,065) and a projected decrease for operating expenses of 1% (\$1,873,526).

### 3.3 Financial Obligations

It is recognized that RRC is a large operation (budget approximately \$179 million for 2014/15) and small unexpected or unforeseen changes to projected results can still occur. However, it is important to ensure that budgets are more accurately portrayed and also include known or foreseeable obligations such as severance pay obligations that can substantially impact financial results.

- *Severance pay obligations:* Every 3 years, coinciding with the March 31 government yearend, an actuarial evaluation is performed on RRC's severance pay obligations which could result in a potential actuarial loss. For the June 2011 year, a \$3,082,000 actuarial loss was determined and amortized at that time over 9 years. However, due to a required accounting change to Public Sector Accounting Board (PSAB) standards, the entire amount of the loss was restated as of July 1, 2011 in the June 30, 2012 financial statements. During our review we were informed that an actuarial evaluation was also performed for March 31, 2014, which would lead to a substantial adjustment of an additional estimated \$1.14 million in recognized severance obligations for the June 30, 2014 yearend. We also noted through discussions with management that RRC would likely choose to recognize the actuarial loss in its entirety for the June 30, 2014 fiscal year, electing not to amortize the loss over nine years. It was our understanding that the decision would be made with input from their external auditor and provided to the BOG for approval at their meeting subsequent to our review. Overall, the actuarial adjustment had a substantial impact on the June 30, 2014 financial results contributing to the actual deficit of \$2.2 million. Based on the significant adjustments required in both the 2011 and 2014 fiscal years as a result of the actuarial changes for severance pay obligations, RRC should increase efforts to identify potential actuarial impacts for inclusion in future year budgets.
- *Property taxes:* We were informed that the HETC building is owned by RRC but is located on land that is leased from Manitoba Infrastructure and Transportation. Although discussions are underway regarding property tax responsibilities, it would be prudent to retain the tax provision accrual originally included and subsequently removed during the deficit reduction exercise until a determination is made.

Increased scrutiny of severance pay obligations and provisions for other potential liabilities should foster improved accuracy of future budget projections.

### 3.4 Strategy to Avoid Deficit

Our review also included consideration of the strategy used by RRC to avoid the deficit. Once the \$2 million projected deficit was reported to the BOG, the President issued a memo to the management group dated March 26, 2014 identifying the \$2 million projected deficit and the need to accomplish a balanced budget for the June 30, 2014 yearend. Finance Managers were asked to voluntarily limit expenses in their areas with

the emphasis on discretionary spending including hiring delays, reducing materials/supplies and minimizing travel. Subsequent to the President's memo, the Budget Coordinator sent out an email on April 7, 2014 asking Managers to revisit their June 2014 projection numbers and to provide updated numbers. Following the email to the Finance Managers there was a management group gathering on April 9, 2014 to discuss the need to balance the projected deficit. The Controller's Office also tried to mitigate the risk of deficit by reminding Finance Managers via email about the nature of actual expenditure savings compared to timing differences for the expenditures to ensure accuracy of projections.

After the Finance Managers were asked to revisit their projections, savings of \$1,057,749 were identified to reduce the total projected deficit to \$943,940 for the April 23, 2014 BOG meeting. The majority (70%) of the savings came from operating expenses with the remainder from salaries and benefits (28%) associated with staffing vacancies and revenue adjustments (2%).

Subsequent to the BOG meeting in April 2014, discussions with the VP of Finance and Administration and email documentation revealed that in order to prevent what was referred to as "unnecessary" spending, the VP of Finance and Administration sent out a cut-off memo through the purchasing area for RRC stating that all requisitions after May 2, 2014 must be approved by the VP of Finance and Administration. Comparatively, a similar cut-off e-mail was sent out the previous year noting that the cut-off date was May 24, 2013.

The May 31, 2014 actual year to date results showed a \$1,407,588 surplus, compared to a projected \$173,285 surplus for the same period. The actual surplus includes some timing issues in reporting with certain expenditures being recognized later than expected or accruals not included as noted in report section 3.5 where we note that internal statements should be prepared on the same accounting basis as yearend statements.

Internal reporting also showed increasing differences between actual surplus and manager projections as the year progressed as noted in the table below.

Reporting Period	Actual Surplus	Manager Projections	Difference
March 31, 2014	\$2,904,948	\$2,530,653	\$ 374,295
April 30, 2014	\$1,865,905	\$ 784,886	\$1,081,019
May 31, 2014	\$1,407,588	\$ 173,285	\$1,234,303

Source: RRC Statement of Operations

The decentralized structure of the RRC budgeting process allowed the College to hold the Finance Managers accountable. However, even when considering the increasing trend in positive variances for Manager projections from the above table, the projected deficit remained at \$943,940 for June 30, 2014 at the time of our review. The actions taken were seemingly not enough to balance the budget for the year, as evidenced by the subsequent actual yearend results of a \$2.2 million deficit.

### 3.5 Reporting to COPSE on the Deficit

Our review evidenced that future reporting to COPSE/government could be improved to foster clearer and more timely understanding of RRC’s financial position.

We reviewed the COPSE submissions by RRC to ensure that the amounts reported to COPSE were in agreement with the amounts generated internally and to establish a timeline for the identification of the \$2 million projected deficit.

COPSE did note the small surplus of \$637,000 as reported by RRC in January 2014 (COPSE third quarter and RRC second quarter) but COPSE was scheduled to receive a detailed reporting submission for COPSE’s fourth quarter, after March 31, 2014. Discussions with COPSE management noted that the \$2 million projected deficit was not known by them until the March 19, 2014 BOG meeting that led to public disclosure of the projected \$2 million deficit, which is consistent with the timelines of the RRC submissions.

Our review of the RRC submissions to COPSE noted timing differences between the internal quarterly Statement of Operations reports generated by RRC staff and the reports submitted to COPSE. The table below provides a historic and corroborating overview with comparative figures for the 2 fiscal years prior in this regard.

#### Comparison of COPSE to RRC Internal Reporting

Reporting*	April 1, 2013 to June 30 2013	July 1, 2012 to March 31, 2013	July 1, 2012 to June 30, 2013	April 1, 2012 to June 30, 2012	July 1, 2011 to March 31, 2012	July 1,2011 to June 30, 2012
COPSE	\$ (17,270,415)	\$ 18,414,278	\$ 1,143,863	\$ (14,523,342)	\$ 15,986,953	\$ 1,463,611
RRC/Internal	\$ ( 9,680,409)	\$ 10,824,271	\$ 1,143,862	\$ (2,992,282)	\$ 4,455,896	\$ 1,463,614
Difference	\$ 7,590,006	\$(7,590,007)	\$ (1)	\$ 11,531,060	\$(11,531,057)	\$ 3

Source: RRC COPSE Submissions

\*COPSE and RRC have different fiscal years (March 31 and June 30 respectively). This will result in overlapping amounts in the timeframes above.

Although both COPSE and RRC recognize the same total amount of excess revenues over expenses over the 12 month period, the reporting for the individual quarters is not aligned. Discussions with management and staff in RRCs Controller’s Office revealed that the differences are due to the timing and level of details of certain journal entries and accruals. Management advised that yearend adjustments for reporting to government are done after internal reports are complete and due to the time and level of detail required, the March report is not available until the June BOG meeting just as the June reports are not available until October.

We requested a reconciliation from RRC between the amounts reported to COPSE and the amounts reported internally and one could not be provided as the person responsible for this task was not available and documentation and instructions regarding the methodology of the process was not sufficient. We recognize that RRC personnel are

being trained to take over this responsibility and RRC should continue its efforts to complete the training; however, a full reconciliation should be made readily available in the future together with improved documented instructions to assist in the understanding of the process for current and future staff.

The ultimate goal however should be to prepare the internal statements on the same accounting basis as the yearend statements.

### **3.6 Financial Reporting to the Board of Governors**

Our review evidenced that enhanced financial reporting to the BOG, including variance explanation details together with more oversight by the BOG is desirable.

To determine the circumstances surrounding the \$2 million projected deficit by RRC in the March 19, 2014 BOG meeting, we reviewed the BOG minutes, attachments and meeting notes from September 2010 to June 2014.

Based on our review of the financial attachments to the BOG minutes, we noted that the previous VP of Finance and Administration had typically provided more detail to the variance explanations and often included the figures and net amounts in the explanations and/or a breakdown of the variance into smaller segments. However, management subsequently indicated that the College could return to providing more detailed explanations, if requested by the BOG, as information exists and can be summarized.

We were also subsequently advised that RRC was working on a revised budget process that should also foster greater accountability and enhanced variance analyses with improved explanations. This is advocated as our review noted that some of the revenue explanations in the variance reporting provided to the BOG used terms such as “offsetting amounts”, “an offsetting expense” or “partially offsetting” in the description. These terms can lead an individual to assume that there is a dollar for dollar matching expense to the increase/decrease in revenue.

Some illustrative examples pertaining to the \$2 million deficit where information provided to the BOG lacked sufficient details are:

- *“Day program tuition revenues were higher”* than budgeted and had a positive variance.

However, we found that 25% of the positive variance was attributable to software fees which was not noted in the document.

- *“Continuing Education tuition revenue is lower than expected due to fewer enrolments in part time, full time funded and full cost recovery programs at all Campuses. Reduced revenues in most cases result in reduced operating and salary expenditures.”*

The explanation could have provided more information for the BOG to determine the net impact of reduced revenues by noting the amount or reduction in operating and salary expense, as well as the impacts of departmental amalgamations that had occurred.

Our review of the minutes evidenced that the previous VP of Finance and Administration was also more active in providing other financial details to the BOG apart from the variance explanations. For example, prior to the previous VP of Finance and Administration's departure, the BOG was provided with more financial reports including: balance sheet, capital grant funding report, and more summarized reporting on small business units (SBUs). We also noted that subsequently the format for the Statement of Operations was changed under the guidance of management, to a simplified format with fewer line items that focused more on increased revenue detail compared to more expense detail in the previous format. Discussions with management and the BOG noted that the format changes were justified as the BOG wanted a simplified reporting format. Senior financial management suggested a format similar to their financial statements that the BOG was pleased with and advised that more detailed information could be made available upon request. We recognize that the BOG is provided with a significant amount of information from the President and various VPs; however, this volume of information should not minimize the importance of receiving sufficient and appropriate financial information to ensure effective financial oversight.

It is acknowledged that BOG members are appointed by government with the exception of the employee and student members who are elected. Our review of the BOG membership biographies identified that while members have experience in various aspects of education, social services and the business community there is not a member that specializes in the areas of accounting and finance.

Increased financial expertise should be a consideration for future BOG membership. In addition, as part of the BOG's next annual training exercise, emphasis on financial monitoring could be included in the agenda.

#### **4.0 HUMAN RESOURCES MANAGEMENT PRACTICES**

##### ***Objective:***

Determine whether there was compliance with the human resources policies at Red River College (RRC). The primary focus of the compliance review was senior management separations of employment. The compliance review focused mainly on positions at the Vice-President, Director and Executive Assistant level.

The time frame for the compliance review focused on the period since the appointment of the President and Chief Executive Officer in 2010.

##### **4.1 Initiation of Review**

In accordance with and under the authority of Section 4 of *The Colleges Act*, the Deputy Minister of Education and Advanced Learning initiated a review of alleged reported Human Resources (HR) irregularities in a letter to the President and Chief Executive Officer (CEO) of RRC dated May 7, 2014. Sections of *The Colleges Act* quoted:

Section 4 (1) (g): *This minister may appoint a person to examine and inspect the financial condition, administrative condition or any other matter related to the management and operation of a college or colleges.*

Subsection 4 (2) *“For the purpose of clauses (1) (e), (f) and (g), a person or committee appointed by the minister may (a) examine and inspect any records, documents and things in the possession or under the control of the college; and (b) make any inquiries the person or committee appointed by the minister thinks fit and may require and take evidence on oath or affirmation.”*

Subsection 4 (3) *“The person having custody of records, documents or things referred to in subsection (2) shall make them available to the person or committee appointed by the minister at the time they are requested.”*

#### **4.1.1 Legislative Authority**

The Legislative Authority for RRC, including information on Board policies, powers and governance is located in Appendix D.

#### **4.1.2 Corporate Officers**

Officers of a corporation are the persons authorized to contract and act on behalf of the corporation. RRC’s Corporate Officers designated by Board By-Law No. 1 are:

- the Board Chair
- the Board Vice-Chair
- the Chief Executive Officer (President)
- the Secretary of the Board (Executive Assistant to the Board)
- the Treasurer of the Board (Vice-President, Finance and Administration, CFO)

Other Officers appointed by Board Resolution are:

- the Vice-President, Community Development
- the Vice-President, Student Services and Planning
- the Vice-President, Human Resource Services and Sustainability
- the Vice President, Academic and Research
- the Chief Advancement Officer

#### **4.1.3 College Organization**

The President of RRC is appointed by the Board of Governors and is the College’s Chief Executive Officer. Reporting to the President are five Vice-Presidents, each responsible for various academic and administrative functions within the College, and the Chief Advancement Officer.

#### **4.1.4 Role of the President**

As Chief Executive Officer, the President reports directly to the Board of Governors and provides the institutional leadership for implementing the Board's vision, mission and strategic direction for RRC. The President works closely with RRC's Vice-President, Finance and Administration, Vice-President, Student Services and Planning, Vice-President, Community Development, Vice-President, Academic and Research, and the Chief Advancement Officer. The President is an ex officio non-voting member of the Board and its standing committees.

The President is responsible for the day-to-day operations of the College and oversees all academic and administrative functions within the Board's prescribed policies and standards.

#### **4.1.5 President's Council**

President's Council provides strategic leadership in implementing the vision and mission of RRC. It serves as a vehicle for dialogue and consultation on College-wide matters including budget, strategic planning, facilities, policy, systems processes, community relations and fundraising. The Council makes recommendations to the Executive on issues that affect the entire College and are not governed by other bodies.

President's Council members are representative of the divisions they serve and as such are charged with responsibility of ensuring that there is broad stakeholder feedback across all College departments, and the effective communication of Council decisions and actions.

#### **4.1.6 President's Council Membership\***

- President and CEO
- Vice-President, Human Resource Services and Sustainability
- Vice-President, Academic and Research
- Vice-President, Student Services and Planning
- Vice-President, Finance and Administration
- Vice-President, Community Development
- Chief Advancement Officer
- Chief Information Officer
- Executive Assistant to the President
- Director, Research and Planning
- Dean, Health Sciences and Community Services
- Dean, School of Transportation, Aviation and Manufacturing
- Dean, School of Business and Applied Arts

- Dean, Student Services
  - Dean, Continuing Education
- \*as at August 2014

#### **4.1.7 Executive Committee**

The role of the Executive Committee is to support the Office of the President and help manage the business of President’s Council, and RRC’s senior management committee.

The Executive Committee is chaired by the President and its role is to evaluate preliminary issues, provide triage and prioritization of strategic issues, finalize President’s Council agendas, expedite executive decisions as required, and provide first response to sensitive issues.

#### **4.1.8 Executive Committee Membership**

- President and CEO
- Vice-President, Human Resource Services and Sustainability
- Vice-President, Academic and Research
- Vice-President, Community Development
- Vice-President, Finance and Administration
- Vice-President, Student Services and Planning
- Chief Advancement Officer

### **4.2 Human Resource Governance**

#### **4.2.1 Organizational Structure**

The Human Resource organizational structure is contained within Appendix E.

#### **4.2.2 College Policies – Human Resources**

According to G1 “Policy Development”, RRC is to have policies that govern “Human Resource Development”. RRC is in the process of updating Human Resource policies, and is continuing to update these policies as time permits.

### **4.3 Executive Excluded Organization Structures**

At initiation of the Human Resources review, the Executive Committee membership consisted of 1 President, 5 Vice Presidents, and 1 Chief Advancement Officer.

The following table outlines the changes in the executive committee organizational structure since the appointment of the current President. The dates indicated in the table correspond to the formal organizational charts provided for that period of time.

November 2009 (under previous President)	December 2012	May 2014	Note of Changes
<b>4 Vice President positions, including:</b> <ul style="list-style-type: none"> <li>- VP, Academic and Research</li> <li>- VP, Business Development</li> <li>- VP, Finance and Administration</li> <li>- VP, Student Services and Planning</li> </ul>	<b>5 Vice President positions, including:</b> <ul style="list-style-type: none"> <li>- VP, Academic and Research</li> <li>- VP, Community Development</li> <li>- VP, Finance and Administration</li> <li>- VP, Student Services and Planning</li> <li>- VP, Human Resources and Sustainability</li> </ul>	<b>5 Vice President positions, including:</b> <ul style="list-style-type: none"> <li>- VP, Academic and Research</li> <li>- VP, Community Development</li> <li>- VP, Finance and Administration</li> <li>- VP, Student Services and Planning</li> <li>- VP, Human Resources and Sustainability</li> </ul>	<b>1 Vice President position added</b>
	<b>Chief Development Officer</b>	<b>Chief Advancement Officer</b>	<b>1 Chief Advancement Officer position added</b>
<b>1 Associate VP, Facilities and Campus Services</b>			<b>1 Associate Vice President position deleted</b>
	<b>Executive Project Lead, Aboriginal Achievement (Contract Position)</b>		<b>Contract employee active from August 2012-August 2013.</b>
<b>2 Executive Assistant positions, including:</b> <ul style="list-style-type: none"> <li>- Executive Assistant to the Board</li> <li>- Executive Assistant to the President</li> </ul>	<b>2 Executive Assistant positions, including:</b> <ul style="list-style-type: none"> <li>- Executive Assistant to the Board</li> <li>- Executive Assistant to the President</li> </ul>	<b>2 Executive Assistant positions, including:</b> <ul style="list-style-type: none"> <li>- Executive Assistant to the Board</li> <li>- Executive Assistant to the President</li> </ul>	<b>No change</b>
<b>4 Assistant positions, including:</b> <ul style="list-style-type: none"> <li>- Assistant to the VP, Academic and Research</li> <li>- Assistant to the VP, Business Development</li> <li>- Assistant to the VP, Finance and Administration</li> <li>- Assistant to the VP, Student Services and Planning</li> </ul>	<b>5 Assistant positions, including:</b> <ul style="list-style-type: none"> <li>- Assistant to the VP, Academic and Research</li> <li>- Assistant to the VP, Business Development</li> <li>- Assistant to the VP, Finance and Administration</li> <li>- Assistant to the VP, Student Services and Planning</li> <li>- Assistant to the VP, Human Resources and Sustainability</li> </ul>	<b>6 Assistant positions, including:</b> <ul style="list-style-type: none"> <li>- Assistant to the VP, Academic and Research</li> <li>- Assistant to the VP, Business Development</li> <li>- Assistant to the VP, Finance and Administration</li> <li>- Assistant to the VP, Student Services and Planning</li> <li>- Assistant to the Chief Advancement Officer</li> </ul>	<b>1 Assistant position added</b>

#### 4.4 Separations of Employment

The President and Chief Executive Officer of RRC was appointed effective September 27, 2010.

Between 2010 and 2014, sixteen (16) executive/excluded staff members separated their employment from RRC. This includes Vice-Presidents, Senior Management, and Administrative Assistants to Vice-Presidents or Senior Managers:

- Eight (8) Mutual Separations of Employment (defined as terminations with Severance Packages negotiated.) Of these eight Separations, three (3) of these were staff members who had been recruited after September 27, 2010.
- Six (6) Retirements

- One (1) Resignation
- One (1) End of Contract

Each of the employees who were terminated with a Separation of Employment agreement received a severance payment. The total amount of these 8 payments is \$639,142.46.

The employee whose contract ended also received 'Pay in Lieu of Notice'. The contracted position was terminated approximately two years earlier than the expected end date. The employee was offered another position at a lower salary, which the employee ultimately declined.

Employees who were terminated with a Mutual Separation Agreement also received \$6,000 in outplacement costs for finding alternate employment (in some cases, this was included in the total severance amount and other times added separately.)

Legal Counsel was consulted for all Mutual Separations of Employment.

In the five years prior to the appointment of the President, there was one Mutual Separation of Employment (including a severance) for a staff member in an executive/excluded position. This occurred in 2005.

Since September 27, 2010, there have been seventeen (17) new appointments to executive/excluded positions including Vice Presidents, Senior Management, and Executive Assistants to Vice-Presidents or Senior Managers.

The Board Chair and Vice-Chair confirmed that the President provided general information to the Board regarding the reasons for terminations. The Board Chair and Vice-Chair recalled the President explaining the terminations on the basis of: staff's management style, various personality conflicts with the President or with other Vice-Presidents, or staff members having challenges with their respective workloads.

In the case of one termination of a Director-level staff member, neither the employee's personnel file nor incident file contained information as to the reasons for the termination. The RRC Board Chair and Human Resources could not offer a general rationale for the termination.

#### **4.5 Recruitment and Appointment**

RRC retained an external consulting firm for the recruitment of the President and Chief Executive Officer in 2010. A recruitment firm with headquarters in British Columbia was selected, based upon an 'Invitation to Submit a Proposal' posted by the College in December 2009. This recruiting firm had previously done searches for executive-level staff for universities and colleges in Manitoba and Saskatchewan, and the references obtained were positive.

In 2012, there were three (3) vacant Vice-President positions. RRC contracted with the same BC-based recruitment firm to recruit two of the three Vice-President positions. The third Vice-President position was recruited by RRC Human Resources. It was not clearly documented why the three Vice-President positions were not recruited using the same method.

The successful candidate in the third Vice-President position had already been appointed by the College on a contract basis nine months prior to the competition. Prior to the contract being offered, this candidate had been previously employed at the same institution as the President. The file contained no information indicating how this person was selected or what search was taken prior to offering the initial contract. The contract was signed 12 days after the termination of the previous incumbent.

Human Resources advised that the decisions with regards to the recruitment methodology for the Vice-President positions were made by the President.

#### **4.6 General Human Resource Administration**

RRC contracts out a number of Human Resources services with regards to administering the terms and conditions of employment for staff excluded from the bargaining unit, staffing, labour and employee relations, and conflicts of interest. The total cost of contracting out these activities in the last 4 fiscal years is \$379,931.92. This total does not include any costs incurred in the current fiscal year period (2014-15).

Breakdown by fiscal year:

2010/11	\$16,232.00
2011/12	\$234,418.91
2012/13	\$84,674.01
2013/14	\$44,607.00

Rationale provided by Human Resources regarding the contracting out of services included workload, level of expertise required, and complexity. There are no written guidelines or policies outlining the rationale for contracting out of Human Resource activities.

Files and documentation related to human resource activity are not housed in one central location. This includes personnel files, competition files, incident files, conflicts of interest declarations, investigation documentation, and competition files completed in-house and contracted out.

- Incident files are defined as files containing documentation regarding investigations, performance management and/or labour/employee relations issues. These files were located with the executive manager responsible for the work area directly involved and /or with Human Resources.

- Personnel files are located in the offices of Human Resources.
- Conflict of interest documentation is the property of the legal department and it would require a direct request to obtain them.
- Competition files are located at Human Resources. For contracted out competitions, RRC Human Resources retains basic recruitment information. The remaining competition documents remain with the contracted company.

Personnel files contained documentation where the author and/or originating date could not be identified.

The review also examined incident files for the terminated employees. The files frequently contained draft copies of documents rather than final versions, and performance management documents that did not consistently identify the author and/or the date the document was created.

#### **4.7 Other Human Resources Issues**

Terminations, new appointments, and organizational changes at the executive level during this review period (2010-2014) were at the President's discretion. The Director of Human Resources and Vice-President of Human Resources & Sustainability confirmed this. The role of the Director of Human Resources and Vice President was to provide advice, communicate with legal counsel, file documentation, and attend meetings where required.

There does not appear to be a consistent practice of performance management at the Executive management level. None of the incident or personnel files demonstrated that the terminations were for just cause. Some of the terminated employees were met with to discuss issues, style, expectations, and then terminated 1-2 months later. It was unclear from the documentation in the files what (if any) opportunity the employees were given to improve their performance.

An investigation was contracted out to a law firm regarding an alleged breach of the Respectful Workplace Policy by a Vice-President. The law firm confirmed the breach of the policy in the investigation report. Human Resources noted that the President spoke with this Vice-President privately and advised Human Resources to consider the matter settled. No further corrective action appeared to be taken. Based on documentation, it is unclear whether a consistent approach was applied to management at the Executive level.

In the course of the review, the review team was provided with a number of Human Resources contacts to assist us in gathering information or to answer questions. When rationales for certain actions were unclear in the files, our contacts ultimately deferred responsibility to articulate the rationale for decisions to the President.

Effective August 31, 2014 the President's employment with RRC was ended. As a result, the review team was unable to meet with the President to discuss matters arising from the review.

## **4.8 Key Findings**

### **4.8.1 Turnover**

Within the last four years, there have been eight (8) Separations of Employment at the Executive level which include eight (8) negotiated severance payments. This appears to be a high number given the size of the executive level of the organization (5 Vice President Positions). It also appears high when compared to the number of similar terminations administered within the five years prior to the appointment of the President of Red River College. Between 2005 and 2010 there was one Separation of Employment with a negotiated severance payment at the executive/excluded level. Each of the employees who were terminated with a Separation of Employment agreement received a severance payment. The total amount of these 8 payments is \$639,142.46.

### **4.8.2 File Documentation**

The incident files provided by Human Resources do not contain clear rationale or documentation as to why these employees were terminated. While some files contained some issues or concerns regarding performance or behaviour, there was not a clear justification for why terminations were warranted and payments made.

### **4.8.3 Recruitment Strategies**

The review team identified an inconsistent practice with respect to the recruitment strategies used to fill positions at the Vice-President level. In review of the three Vice-President positions recruited in 2012, recruitment for two of the positions was undertaken by an external recruiting firm, while the third was conducted by RRC Human Resources. The competition conducted by RRC selected a candidate already employed with the College on a contract basis. This contract employee had been originally appointed without a tendering process, and had formerly been employed at the same institution as the President. This particular Vice-President competition file was reviewed, and it was determined that there were no irregularities in the competitive process. The inconsistent administration of the recruitment strategies at the Vice-President level could lead to the perception of unfair and inequitable recruitment practices.

### **4.8.4 Delegation of Authority**

The President has the authority to approve terminations and payments. The President provided the Board with a general summary of the human resource actions taken. Additionally, the President has the authority to determine specific recruitment and staffing strategies, so long as they conform with RRC's policies. As well, the President can approve the utilization of external consulting resources for human resource functions.

#### **4.8.5 Expenditure of College Funds**

RRC is an organization that functions under Government oversight, and receives public funds. Since 2010, RRC paid \$639,142.46 to executive employees who were terminated with a Mutual Separation of Employment (defined as terminations with Severance Packages negotiated.) The President provided the Board with a general summary of the actions taken, and was not obligated to provide a specific dollar amount.

Additionally, in this time period, RRC has paid \$379,931.92 in contracting for human resource functions. Currently, there are no policies or guidelines outlining the use of external organizations for Human Resource activities.

#### **4.8.6 Documentation of Human Resource Advice**

Staff of RRC Human Resources were forthright and helpful in providing the information requested by the review team. However, in many cases, Human Resources representatives stated that the President would be the person that could articulate the rationale for the decisions taken. It was often unclear from the documentation provided what involvement Human Resources had or what recommendations they had provided in these situations where the decision was made by the President.

#### **4.9 Conclusion and Findings**

##### *Conclusion:*

In review of current policies, Acts, and guiding principles that govern human resource practices for executive staff, no specific breaches have been identified. There are areas for improvement regarding application of practices related to staffing and terminations of employees within the executive level.

##### *Findings:*

- a) The current reporting structure in RRC has Human Resources reporting directly to the President, which may impact their ability to offer impartial human resource guidance.
- b) The President of RRC provides the Board with a general overview on issues relating to the operations of the College.
- c) RRC utilizes outside resources (consultants) to perform some of their human resource functions, including some staffing and investigation activities.
- d) There do not appear to be policies or procedures on when to utilize external resources for human resource functions.
- e) Some of the personnel and incident files reviewed contain incomplete or unclear information. There are a number of documents contained in these files that are

undated and/or do not clearly identify the author of the document. In addition, human resource files are not centrally located.

- f) The RRC human resources audit process involves the Human Resource Supervisor performing periodic reviews of competition files.

**EXPENSE CLAIMS REVIEW**

Our review focused on the following expense claims:

- For the period of September 1, 2010 to April 2014:
  - President.
- For the period of July 1, 2012 to May 2014:
  - Executive Assistant to the BOG;
  - Executive Assistant to the President, current and former;
  - Vice President of Community Development;
  - Assistant to the Vice President of Community Development;
  - Previous Vice President of Academic and Research;
  - Assistant to the Vice President of Academic and Research;
  - Vice President of Finance and Administration;
  - Assistant to the Vice President of Finance and Administration;
  - Vice President of Human Resources Services and Sustainability;
  - Vice President of Student Services and Planning;
  - Assistant to the Vice President of Student Services and Planning;
  - Chief Advancement Officer;
  - Assistant to the Chief Advancement Officer, current and former;
  - Former Dean of Hospitality and Culinary Arts; and
  - Campaign Coordinator.
- For the period of September 1, 2010 to May 2014:
  - Former Director of Marketing and External Relations;
  - Dean of School of Health Sciences and Community Services;
  - Director of Ancillary Services;
  - Former Vice President of Business Development;
  - Director of International Education, current and former;
  - Former Associate Vice President of Facilities and Campus Services;
  - Former Assistant to the President; and
  - Former Instructor.
- Travel and Accommodation Account for the period of September 1, 2010 to May 2014.
- Purchasing cards for the period of July 1, 2012 to April 2014.

## RRC BUDGET PROCESS BACKGROUND

The budgeting process at RRC is primarily a decentralized, year long, continuous process. RRC is divided into budget areas with assigned Finance Managers that are responsible for their area's budget. The budget areas are diverse in nature as some areas are academic while others are related to administrative, physical maintenance or ancillary services. In total, there are approximately 85 Finance Managers at RRC. Finance Managers use a combination of the Financial Services Application (FSApp, now Renovo) database and Excel to enter financial data and communicate with the Budget Coordinator who is located centrally in the Controller's Office. Finance Managers are responsible for inputting their area's financial data into the FSApp database or Excel spreadsheets as required. The budgetary data is monitored on a monthly basis and is analyzed using variance analysis that compares actual results to the balanced budget until the end of January or the projection (updated version of the budget) from February to June.

Meetings are held with each area's Finance Manager, Dean or Director, the Budget Coordinator and the Controller where variances of actual results to budget/projections are explained and analyzed in detail.

Budget areas are held responsible for all line items on their budgets as no budget transfers between accounts are allowed at RRC. Finance Managers can look for savings as a whole but the dollar amount is never transferred. Finance Managers are also to charge items where the activity actually occurs and not where the money may (or may not) have been budgeted.

The budget timetable is a year-long process with multiple deadlines. For illustrative purposes we used 2014/15 as an example in the table on the following page to highlight (not inclusive) some of the important dates and activities.

### ***Projections for the current yearend***

During the projection process each Finance Manager is provided with the actual results from the first 6 months (July 1 - Dec 31) plus the budget for the remaining 6 months. Each Finance Manager recalculates their salaries from the beginning of the year and using a RRC budgeting tool estimate the salaries for the remainder of the year, staff position by staff position to get a 12 months "projection". Operating expenses and revenues are also analyzed on a line by line basis. We were informed that it is RRC policy that no budget transfers are permitted; meaning salary savings from medical leave for example, cannot be used to fund operating expenses. Finance Managers are to consider all business activity and risk factors when making their projections for the remainder of the year before entering their final numbers into FSApp. Meetings with the Finance Manager, the related Dean or Director and the Controller then take place to finalize the projection process, generally beginning in mid February and ending the first or second week of March before being presented to the BOG later in March.

***Budgets for the next fiscal year***

Overall, the budget is divided into two main areas, base and non-base funded (includes new requests). Base funding is considered funding required in order for the area to continue to deliver existing programs or services. After the base budget figures are entered into FSApp and similar to the projection process, meetings with the Finance Manager, the related Dean or Director and the Controller are held to discuss their budgets for the following fiscal year. Staff year changes are examined in particular detail for base budgets as this is the largest expense, and revenue effects and operating expenses are also reviewed. Each finance area adjusts its base budgets as required and non-base budgets are then considered. This part of budget process takes about one month, usually from mid February to mid-March. After the base is entered and non-base/new requests are finalized, the budget is adjusted to ensure it is balanced prior to being presented to the BOG in May.

**2014/15 Budget Cycle**

<b>Date</b>	<b>RRC Activity</b>
September 2013 (in September 2014 the 2015/16 budget will be due)	Preliminary 2014/15 budget due to COPSE
November 2013 - January 2014	New budget requests developed
January 7, 2014	Finance Managers receive December 2013 YTD financial reports
January 8 - Feb 7, 2014	Finance Managers prepare 2013/14 projections with variances and 2014/15 base budget
February 6 - 14, 2014	January financial reports Final projection numbers entered
February 18 - March 4, 2014	Controller's Office meets with Finance Managers to review/adjust 2013/14 projections and 2014/15 base budget
March 5 - 13, 2014	BOG explanations for the 2013/14 projections
March 15, 2014	New budget request due
March 19, 2014	BOG review of 2013/14 projections and explanations
April - May, 2014	New funding requests reviewed
May 15, 2014	Preparation of 2014/15 budget to BOG
May 28, 2014	BOG review and approval of 2014/15 budget
June 9 - 20, 2014	Prepare and submit 2014/15 budget to COPSE
July 2014	COPSE review and approval of 2014/15 budget

*Source: RRC 2013/14 Projections and 2014/15 Budget Timetables*

## UNION BANK TOWER PROJECT COST ANALYSIS

The table below outlines the costs associated with the construction and renovation of the facility obtained from supporting documentation provided by RRC management and staff.

Original Budget			\$22.5M
Items Not Included:			
Restoration of bank hall for restaurant	\$774K		
11 <sup>th</sup> Floor Redevelopment	\$231K		
Floors 7-10 Development	\$1.48M		
Refurbish Heritage Windows	\$214K		
Kitchen Hoods	\$2.2M		
<i>Sub-Total (approx)/ Amended Budget</i>		\$5M	\$27.5M
Required Items Not Accounted For In Original Budget			
Building Exterior	\$1.7M		
2 <sup>nd</sup> Floor Balcony	\$892K		
Bijou Park	\$580K		
4 <sup>th</sup> Floor Washroom, Coffee Area, Patio	\$279K		
<i>Sub-Total (approx)</i>		\$3.4M	
Unforeseen Costs	\$1.3M		
Scheduling Delay Costs	\$699K		
Mechanical Errors & Omissions	\$900K		
Other Costs included in 138 Change Orders	\$3.7M		
<i>Sub-Total (approx)</i>		\$6.6M	
Total Construction Cost			\$37.5M*

Budget Approved by COPSE – 2009			\$27.0
Revised Budget Approved by COPSE – 2011			\$34.6M

*Source: Supporting documentation provided by RRC staff and management. All amounts are approximate and may contain rounding differences.*

\*\$37.5M represents construction costs only

## LEGISLATIVE AUTHORITY

In an effort to ensure that Manitoba's community colleges were more receptive to students, the private sector, and the communities they serve, Bill 49 - *The Colleges and Consequential Amendments Act* (known as *The Colleges Act*) was passed by the Manitoba Legislature on July 26, 1991. The Act empowered the government to establish a board of governors effective April 1, 1993 for each of the three Manitoba community colleges (Assiniboine Community College, Keewatin Community College and Red River Community College – now Red River College).

The college boards are corporations and are the governing bodies of each college, with representatives from a wide range of educational and community interests. These boards play a vital role in assisting the province to meet the diverse educational and training needs at the post-secondary level.

As stated in *The Colleges Act*, the colleges' mandate is to enhance the economic and social well-being of Manitoba through the provision of a broad range of educational opportunities.

### ***The Colleges Act***

*The Colleges Act* is the statute which regulates how colleges in Manitoba and their boards operate.

### **The Minister of Education and Advanced Learning**

The Minister of Education and Advanced Learning is responsible for post-secondary education in Manitoba. The Minister is a member of the Executive Council of the Manitoba Legislature and is charged with the administration of *The Colleges Act*. The general powers of the Minister that are exercised with discretion are to:

- Determine the region of the province in which a college will deliver programs and services;
- Determine individual college and province-wide mandates for selected or specialized areas of program development or delivery for the efficient and effective management of public resources;
- Designate where campuses, including regional campuses, of a college will be located and the range of college programs and services to be offered at a campus of the college;
- Establish guidelines for post-secondary education and training, including program evaluation guidelines;
- Appoint a person or a committee to review and evaluate any college program or service or any other matter related to the development, content or delivery of a college program or service;
- Appoint a person or a committee to review and report on the mandate of a college or any other matter bearing on a college or the Act;

- Appoint a person to examine and inspect the financial condition, administrative condition or any other matter related to the management and operation of a college or colleges; and
- Recommend the appointment of an administrator of a college under section 45 of *The Colleges Act*.

### **The Board of Governors**

The 12-member Board of Governors oversees Red River College on behalf of the Manitoba government and is responsible to the Minister of Education and Advanced Learning. Board membership includes one employee member elected by the College staff, the President of the Red River College Students' Association, and ten community members appointed by the Lieutenant-Governor-in-Council upon recommendation of the Minister of Education and Advanced Learning. The College President is an ex-officio, non-voting member of the Board. The ten community Board members may be appointed for up to two 3-year terms, the employee member may serve two 2-year terms, and the Students' Association President may serve for up to one year.

### **Role of the Board**

As the governing body of Red River College, the Board of Governors has several roles.

The Board defines the College's vision and mission and develops the long range strategic plan for the College and monitors its implementation.

The Board sets the overall policy direction and standards for the effective management and operation of the College, and monitors compliance with its policies and standards.

The Board is responsible for assuring the financial integrity of the College. It does this through regular monitoring of the College's finances, contracting for an annual independent financial audit, and approval of the College's annual budget.

The Board has the authority to approve the selection, compensation, and dismissal of the College President. The Board regularly assesses the President's progress in achieving the goals and objectives identified in the College's strategic plan.

As an advocate for the College, the Board and individual Board members promote the College within the public and private sectors, in the community and internationally.

Board members support the College's fundraising and development activities by contributing personally, participating in campaign activities, and identifying, cultivating and soliciting potential College supporters.

### **Powers of the Board**

As stated in *The Colleges Act* Section 17, the Board has the following general powers:

- Provide services and programs of study consistent with the mandate of the college;
- Recommend to the Minister the establishment, cancellation or the transfer to another college or educational institute of a college service or program of study;
- Establish the admission requirements for students;

## APPENDIX D (Continued)

- Set tuition fees and the rates of other fees and service charges to be paid by students;
- Provide the granting of certificates and diplomas for programs of study;
- Provide for the discipline of students with the power to expel, suspend, fine or levy assessment for damage done to property;
- Provide and facilitate the providing of scholarships or bursaries to students;
- Act as a trustee of any money or property given in any manner for the support of the college or its students;
- Authorize the establishment of a charitable foundation, as that term is defined in *The Income Tax Act* (Canada), to benefit, directly or indirectly, the college and its students;
- Enter into agreements for the purpose of performing its duties or exercising its powers under this Act; and
- Do any other thing that the Board considers necessary or advisable to carry out the mandate of the college.

### Board Policies

In 1998 the Board of Governors adopted a policy governance method of overseeing Red River College. This method allows the Board to focus on establishing the largest values, policies and standards for the College instead of dealing with administrative and academic matters that are more appropriately managed by professional staff.

The current Board Policy Manual was adopted on April 26, 2006 following an extensive review and redevelopment of the 1998 policies.

One of the core principles of the Board's method of governing is that the sole official connection to the organization's operations, conduct and achievements is through the President. The Board instructs the President through its policies which prescribe organizational results to be achieved, and describe organizational situations and actions to be avoided.

The Board Policies have been developed in four categories:

- "Ends" define why the College exists and what results are to be achieved for whom.
- "Executive Limitations" establish boundaries of acceptability within which the President can operate the College.
- "Governance Process" policies specify the Board's philosophy, job description, accountability and operations.
- "Board-President Linkage" policies clarify the manner in which the Board delegates its authority to the President and how it evaluates the President's performance.

**HUMAN RESOURCE GOVERNANCE – ORGANIZATIONAL STRUCTURE**

- Vice-President (VP), Human Resources and Sustainability

The Vice-President, Human Resources and Sustainability is accountable for the overall leadership, strategic direction, vision and operational management of the Human Resource Services and Sustainability division. In addition, as a member of the Executive Committee and President's Council, the Vice-President provides strategic advice and makes recommendations to the President and the Board concerning College activities and plans.

This position reports to the President of Red River College.

- Director, Human Resource Services

The Director, Human Resource Services, is accountable for the planning, delivery, consultative services and management of the recruitment and selection, job evaluation, labour relations, employee and organizational development services delivered to all areas of the College. The position is responsible for the development of programs, policies and services that meet a full range of human resource needs and are reflective of the spirit and intent of the College's human resource strategy, The People Plan. As well, the position is responsible for the interpretation and administration of the collective agreement, performance management, employment equity and diversity.

The position manages a number of professional, paraprofessional and administrative staff and must plan their activities to meet not only corporate expectations but also to satisfy the human resource needs of the departments to whom they provide service.

This position reports to the Vice-President, Human Resource Services and Sustainability.

- Supervisor, Human Resources

The Supervisor, Human Resources manages the recruitment and selection, job evaluation (classification), labour relations, employee and organizational development services delivered to all areas of the College. As well, the position is responsible for the administration, interpretation and implementation of policies and procedures and translating them into operational terms. The incumbent is responsible for preparation and financial management of the Human Resource Services budget. The position supports other aspects of human resource management that advance the College's human resource strategy, The People Plan.

This position reports to the Director, Human Resource Services.

- Human Resource Consultant

The Human Resource Consultant is responsible for providing guidance, consultation and a comprehensive range of human resource services in the areas of recruitment and selection, job design and classification, labour relations, supportive counseling,

advising on staff development, pay administration, policy and collective agreement interpretation.

There are four (4) Human Resource Consultant positions, and these positions report to the Supervisor, Human Resources.

- Human Resource Assistant

The Human Resource Assistant assists in providing guidance, consultation and a comprehensive range of human resource services in the areas of recruitment and selection, job design and classification, labour relations, supportive counseling, advising on staff development, pay administration, policy and collective agreement interpretation. This position assists the Human Resource Consultants, the Manager and Director of Human Resource Services with a broad range of human resource activities.

This position reports to the Supervisor, Human Resources.

- Workplace Equity and Diversity Coordinator

The Workplace Equity and Diversity Coordinator is responsible for leading and coordinating corporate wide Equity and Diversity activities. Responsibilities include developing and implementing a college wide strategy, improving systems, establishing partnership with College shareholders and evaluating progress. The position goal is to assist the organization to build and maintain a more diverse workforce.

This position reports to the Director, Human Resource Services.

- Manager, Human Resource Systems

The Manager, Human Resource Systems manages all Payroll and Human Resource System related matters to ensure that payroll and benefits are administered in a professional manner and to ensure that all related reports, system requirements and interfaces with Information Technology, Datatel, and College systems are managed and administered in an appropriate manner.

This position reports to the Vice-President, Human Resource Services and Sustainability.

- Human Resource Systems Administrator (HRSA)

Under the direction of the Manager, Human Resource Systems, the Human Resource Systems Administrator provides accurate and timely processing and reporting of human resources data. This includes, but is not limited to functions in; payroll processing, calendar and fiscal year end auditing and processing, wide range reporting and systems maintenance and testing. The tasks required by the HRSA are highly time sensitive and are mission critical, particularly in keeping with Business Continuity planning. The HRSA does not serve in a specific full time supervisory capacity, however, the incumbent is called upon to troubleshoot and

## APPENDIX E (Continued)

offer technical assistance in support of the payroll staff, in addition to the lead role with the Human Resources Clerk.

This position reports to the Manager, Human Resources Systems.

- Pay and Benefits Supervisor

This position supervises the day to day operations of the Colleges Pay and Benefits section and administers pay and benefits for one large College division. The position is responsible for assigning work, establishing work schedules and monitoring performance for four (4) Pay & Benefits Clerks; and assists the Manager, Human Resource Systems in implementing ever changing work procedures.

This position reports to the Manager, Human Resource Systems.

- Pay and Benefits Administrator

The Pay & Benefit Administrators ensure that employees are paid accurately, coordinating all benefits including flex, pension, LTD, GWL, etc. maintaining accurate employee records and audit trails, and providing exceptional customer service to internal staff and various external agencies. The Pay and Benefits Administrators determine eligibility for various benefits based on the collective agreement, College policies and procedures. They are regularly involved in extremely intensive projects throughout the year. They perform attendance management on a bi-weekly basis for all employees. They ensure that all pay responsibilities are performed in accordance with applicable legislation and following CRA guidelines.

There are five (5) Pay and Benefit Administrator positions, and these report to the Pay and Benefits Supervisor.

- Human Resources / Payroll Clerk

This position ensures accurate and timely reporting of information to internal and external parties. The position is responsible for the coordination and tracking of Position & Employee Authorization Requests (PEAR), third party remittances, earnings reports and merit increments. The Human Resources Clerk will assist the Manager, Human Resource Systems and Human Resource System Administrator in maintenance and processing of Payroll/Human Resource System; and assist and support Pay & Benefits Administrators when required. The position provides backup to Human Resources Administrative staff and provides general clerical support to Human Resource functions.

This position has reporting relationships with the Human Resources Systems Administrator and the Pay and Benefits Supervisor.