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Audit of Financial Stewardship of Royal Military College of Canada

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Acronyms and Abbreviations

ADM(Fin CS)	Assistant Deputy Minister (Finance and Corporate Services)
CA	Collective Agreement
CDA	Canadian Defence Academy
CDMS	Contract Data Management System
CF	Canadian Forces
CFB	Canadian Forces Base
CMP	Chief of Military Personnel
CRS	Chief Review Services
DAOD	Defence Administrative Orders and Directives
DND	Department of National Defence
EE/ER	Employee-Employer
FAA	<i>Financial Administration Act</i>
FY	Fiscal Year
IO	Internal Order
NSERC	Natural Sciences and Engineering Research Council
PWGSC	Public Works and Government Services Canada
PY	Person Years
RMCC	Royal Military College of Canada
SCA	Supply Customer Account
SLA	Service-Level Agreement
SOW	Statement of Work
SSHRC	Social Sciences and Humanities Research Council
TB	Treasury Board
UT	University Teaching
VP	Vice President

Synopsis

Chief Review Services (CRS) conducted an audit of the Royal Military College of Canada's (RMCC) financial stewardship focused on budget management, contracting for services, accounting for research projects and asset safeguarding.

RMCC was established in the 1870s to train and educate officers in military tactics, but is now a provincially accredited university that offers a multi-facet of undergraduate and graduate-level courses and engages in research studies for a range of clients both internal and external to the Canadian Forces (CF)/Department of National Defence (DND).

The audit noted that the overall control framework for managing the RMCC-allocated budget was sound. It also found that, as the value of research funding has continuously grown to approximately \$20 million a year, the fiscal and contracting oversight functions within the research area have not matured and evolved in parallel with this growth, resulting in the deficiencies noted in this audit.

RMCC has developed an aggressive action plan, and has begun to address the audit recommendations. CRS is satisfied that the management action plan is sound and will undertake an audit follow-up if warranted.

Results in Brief

RMCC has been training military officers since the 1870s in areas of knowledge related to the military profession. In 1959, the institution was recognized as a Canadian university, authorized to grant degrees in undergraduate and graduate studies. In line with other universities, research is a growing component of RMCC's activities. Total funding available in fiscal year (FY) 2009/10 was approximately \$76 million, of which \$18 million was earmarked for research. This audit of the financial stewardship of RMCC focused on research budget management, contracting for services and safeguarding of assets.

Findings and Recommendations

Budget Management. With the exception of reimbursement of professors' professional membership fees, a relatively robust control framework is in place for managing RMCC's baseline funding. Significant improvement is required, however, in the management of funds provided by DND for research activities. The absence of a clear trail linking expenditures to matching projects and associated funding precludes providing assurance that funds are used as intended. This is of particular importance given that research has a mix of funding parties comprised of DND, other government departments and the private sector.

Contracting for Services. Despite the fact that contracting for services is a significant portion of RMCC annual expenditures, controls are not currently in place to ensure compliance with contracting policy in the area of research or to prevent misuse of the Standing Offer for Research Assistants. Steps should be taken to reduce the appearance of contract splitting, employee-employer (EE/ER) relationships, payroll, and improper application of the standing offer, as well as to improve overall fiscal management and oversight of the RMCC research program.

Asset Safeguarding. RMCC has recently completed a verification of asset safeguarding, identified areas of concern and has an action plan to improve the controls. The CRS audit team did not identify further issues in this area.

Overall Assessment

Increased budget management transparency, including an enhanced transaction trail and improved supporting documentation, is required if funding parties are to be assured that research funds are used as intended.

As well, additional controls are required to ensure proper use of the approximately \$11 million annual expenditures on contracts for research assistants.

RMCC has identified some weaknesses in asset safeguarding and has implemented additional controls.

Note: For a more detailed list of CRS recommendations and management response, please refer to [Annex A](#)—Management Action Plan.

Introduction

Background

RMCC was established in 1874 to train and educate officers in military tactics, fortification, engineering, and general scientific knowledge necessary in the military profession. Over a hundred years later, the RMCC continues this program and has expanded its scope to include Arts, Sciences, and Engineering at both the undergraduate and graduate levels. Courses are offered on site through traditional studies and by distance learning through the Division of Continuing Studies to both military and civilian students.

As RMCC's student base and course offerings have grown, so has the volume of research performed. Each year RMCC carries out over a hundred research projects that are funded by organizations both internal and external to DND. In FY 2009/10, RMCC received \$18.6 million in research funding, 75 percent of which (\$14 million) was provided by DND organizations. The financial accounting for the College's academic programs and the financial accounting for research are clearly segregated. Distinct fund centres, accounting methodologies, and reporting practices have been established for the two functions.

In FY 2009/10, the College had a staff of 275 civilian professors, 32 military professors and 513 supporting staff. The student population comprised 1,055 undergraduates, 505 master's students and 71 doctoral students, along with over 850 students in part-time continuing studies. The vast majority (77 percent) of the College's expenditures in support of academic programs related to personnel costs, with the second most common expense (12 percent) being supplies. All of the funds spent in support of the academic program originate from DND. The vast majority (77 percent) of the College's expenditures in support of research activities related to contracts for services. The College does not have an allocated budget for research. Rather, it relies on funding from other parties for specific research projects.

RMCC reports to the Canadian Defence Academy (CDA), which is a branch of DND's Chief of Military Personnel (CMP). It is registered as a university with the Ontario Ministry of Education and Training.

Objectives

To assess whether RMCC's major financial activities are managed in a way that ensures diligent use of funds, compliance with financial and contracting policies, and proper recording of capital assets.

Scope

This audit assessed the financial stewardship of RMCC for FY 2009/10 in terms of the following:

- budget management;
- contracting; and
- asset safeguarding.

The audit criteria employed for these assessments are listed in [Annex B](#).

Methodology

Interviews were conducted with senior management of the College and the CDA, professors, key College support staff, as well as DND managers in the organizations funding research projects.

Data analysis was performed using information held in databases accessed solely by RMCC or the CDA and using information held in the DND Financial Managerial Accounting System.

A sample of research projects was selected, primarily based on value, to determine the accounting methodology, level of monitoring, and transparency in the use of the funds.

Testing for compliance with the Treasury Board (TB) and departmental contracting policy was based on a sample of 37 contracts extracted from the RMCC Comptroller's listing of professional services contracts, and a sample of 80 call-ups under the Standing Offer for Research Assistants.

As RMCC conducted its own verification of Crown assets in FY 2009/10, the audit focused on a sample of assets purchased since that verification, to ensure that supply accounts were being updated on a timely basis.

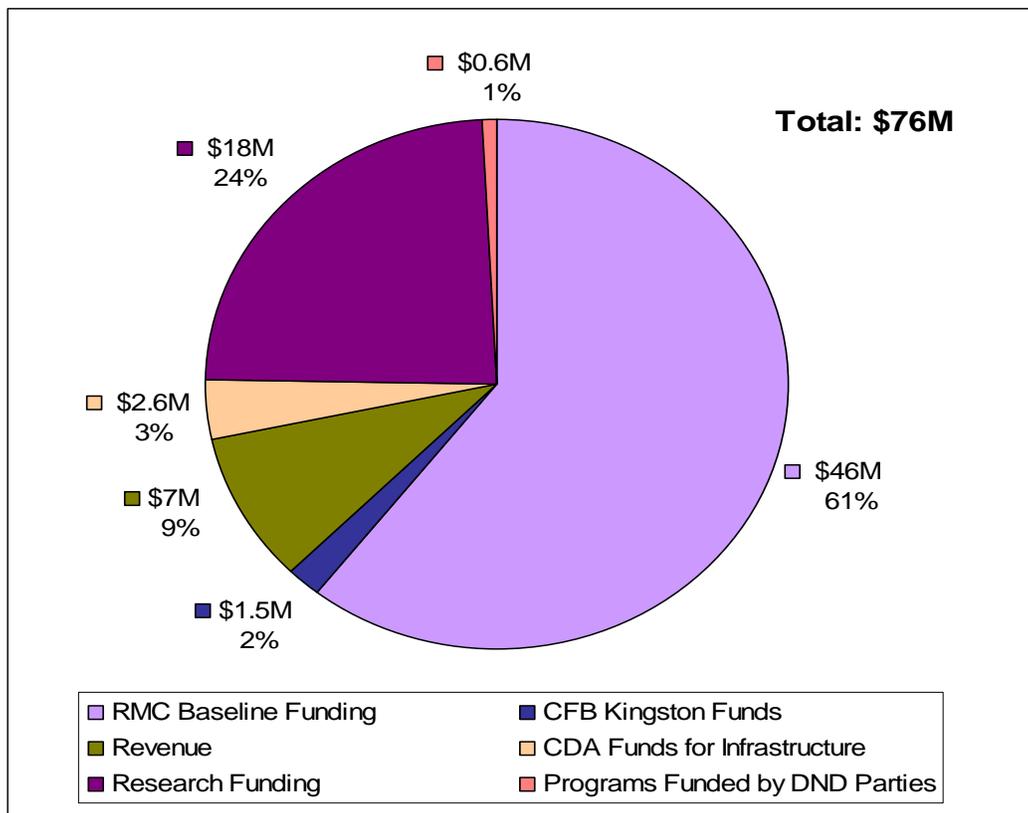
Findings and Recommendations

Budget Management

While the control framework relating to RMCC’s baseline funding was found to be relatively robust, weaknesses in the management control framework related to research funding create a lack of transparency regarding the use of these funds.

Available Funding in FY 2009/10

In FY 2009/10, RMCC received a baseline budget of \$46 million and re-spensible revenues of \$7 million. In addition, RMCC had access to approximately \$4.7 million in funding from Canadian Forces Base (CFB) Kingston, the CDA, the Chief of the Land Staff, and the Chief of the Air Staff for specific purposes, such as infrastructure and equipment maintenance, and to offer specialized training programs. During the same time period, multiple DND and external organizations provided \$18 million for research projects. See Figure 1 for a breakdown of all funding available to RMCC in FY 2009/10.



Source: Office of the RMCC Comptroller

Figure 1. RMCC Available Funding in FY 2009/10. Total funding available to RMCC in FY 2009/10 was \$76 million. The two largest parts are baseline funding (61 percent) and research funding (24 percent). The data is summarized in Table 1.

Management of Research Funding

RMCC does not receive an allocated budget for its research projects, but rather depends on funding from external parties. The listing of approved funding for research projects in FY 2009/10 totalled over \$18 million.¹ The majority (75 percent) of the funding was received from DND sources. The remainder was received from other government departments, private industries and research councils such as Natural Sciences and Engineering Research Council (NSERC), as shown in [Annex C](#).

The audit focused on DND-funded projects. In FY 2009/10, there were 161 such projects with a combined estimated value of \$14 million. Generally, the professor carrying out the research is responsible for managing the project expenditures. In some cases, this is to be done according to the estimates in a Service-Level Agreement (SLA). In other cases, a more generic agreement is established, and e-mails are used to specify funding amounts per project. Expenditures on research projects are tracked by assigning a separate Internal Order (IO) code to each research project in the DND financial system.

There is a lack of transparency regarding the use of research funds as a result of shadow accounts, a lack of details on contracts, timesheets and invoicing, incomplete project files and a lack of transparency in the use of overhead fees. This hinders funding parties' ability to monitor the use of their funds.

Shadow Accounts. A term used by RMCC, shadow accounts are IO accounts that relate to selected RMCC research areas rather than to specific projects. They are essentially an umbrella account used to post expenditures for all projects the research area is performing, including projects funded by parties external to DND. In FY 2009/10, \$10 million of research expenditures were initially charged to RMCC's five shadow accounts. Periodically, the expenditures are reallocated in bulk amounts from a shadow account to the IO accounts of specified projects.

Supporting documentation was not available to confirm that the bulk transfers actually allocated costs to the correct research projects. Consequently, it is not possible to confirm that research funds were used as the funding parties intended. Funding parties can vary with each project and they can be both internal and external to DND.

In addition, when bulk reallocations occurred, the expenditures were most often charged to the general ledger account for research supplies, rather than contracted services, travel, and equipment, as applicable. As a result, the DND accounts did not reflect the true nature of the expenditures. For example, a breakdown of one shadow account showed that 72 percent of actual expenditures were for contracted services, but 92 percent of the value of bulk transfers to projects was accounted for as laboratory supplies. Other

¹ This excluded the projects funded through overhead fees and match-up funding provided by RMCC, which total approximately \$1.5 million. Details can be found in [Annex C](#).

examples of improper coding and transfers were observed, with the end result being that two RMCC research expense accounts had erroneous credit balances of \$5.3 million and \$10 million at year end.

To increase transparency on the use of funds and improve the accuracy of project budgets, shadow accounts should not be used and expenditures should be allocated to project codes as they occur.

Contracts, Timesheets and Invoicing. To ensure that contractor costs are charged to the proper projects, the call-up, the timesheets and the invoicing for research assistants should clearly identify the associated research project. This was not the case for the sampled contracts and timesheets. Almost half (47 percent) of the sampled labour call-ups did not clearly state which project the contractor was to work on. Placing the shadow account code on contracts and order forms complicated determining which project(s) the goods and services were intended for and allowed the costs to subsequently be reallocated at the professors' discretion. None of the reviewed timesheets indicated the projects to which the claimed working hours related. The monthly invoices submitted by the contractor contained insufficient information to relate the charges for individuals to their assigned research projects. As a result, it was not possible to confirm that the costs were charged to the appropriate projects.

Incomplete Project Files. Neither the Research Administration Office nor the professors conducting the research maintain complete project files. Documents such as equipment order forms, service contracts, invoices, and timesheets were in various offices, usually filed by type of document. None of the projects in the audit sample had a complete file that would be useful for budget management.

An example of a complete research project file was provided by another research organization. The file contained the proposal, risk assessment on various issues (intellectual property, technical, client, and external), cost estimate by categories (human resources, supplies, contractors, capital), Statement of Work (SOW), quarterly progress reports signed by the project manager and director, project change requests, project closure checklist, and post mortem evaluation form. Files on RMCC research projects should also include the SLA and documentation supporting all related expenditures. For monitoring purposes, the budget manager funding the project should have easy access to the file.

Funding Parties' Ability to Monitor Spending. Based on interviews with a small number of DND funding parties, their expectations relating to confirmation of the appropriate use of research funds varied. Some expected no feedback apart from the final research paper, others expected on-going detailed financial and progress reports. Given the volume of transfers of expenses between project codes, RMCC could not always provide reports that satisfied these funding parties' requirements. For example, in some cases, research expenses were incurred before funding for the project was assured. In these cases, the expenses were charged to a different project with full intention of reallocating the costs to the proper IO when the funding was received. However, if the

funding did not materialize, the expenses could not be properly reassigned. Detailed analysis of 12 sample projects showed an average variance of 0.64 percent between funding received and costs incurred.² This level of precision could be an indicator that expenditures are allocated to projects with available funding rather than to the project to which they actually relate. Bulk transfers at year-end with no supporting documentation are a further indication.

Funding parties should be able to monitor the expenditures charged against their project budgets to ensure that activities are in line with the intended use of the funds and that any remaining credit is returned at year end.

Overhead Fees. Currently, overhead fees are charged to each research project as an expense, and held in a special account for use at the discretion of the RMCC Principal. The rationale for these fees is to cover indirect costs that research imposes on the College, such as purchasing additional library books related to the projects, or hiring new administration staff to manage research agreements, funding transfers and contracting. However, according to information provided by RMCC, only a small portion of the overhead fees collected was actually used for these types of expenses. In FY 2009/10, RMCC research collected \$1.7 million in overhead fees, of which \$1.5 million was reallocated to fund research projects for which there was no sponsoring party. Only \$0.2 million was used to offset the indirect costs described by RMCC. Most funding parties interviewed were aware of the overhead fees and have not questioned them, but were not aware whether charging such a fee to another section of DND was compliant with policy. Departmental financial policy writers have indicated that RMCC is only entitled to recover the direct costs of projects that are funded by other DND entities. Other senior financial managers reason that, if both parties agree to the overhead charge, then it is justified. Current policy does not clearly indicate the correct interpretation.

Financial Authorities. For the research projects within the scope of this audit, funds were not transferred from other DND organizations to RMCC; rather, the expenses were transferred and reported against the budget of the funding party. As a result, it was not clear to what extent RMCC has authority to initiate expenditures or contracts, or to authorize payments using these funds.

This authority can be transferred by the funding party to an RMCC budget manager, with documented records of the delegation. This requirement was not met for any of the sampled research projects. Consequently, RMCC administration officers were exercising *Financial Administration Act* (FAA) Sections 32 and 34, and contract call-up authority without documented evidence that they were authorized to do so for the specific research funds involved.

² Unused funds are to be returned to the funding party at fiscal year end. However, out of the 12 sample projects, only two showed such transactions. The other ten had expenditures almost equal to the promised funding.

Similarly, it is not clear who has authority on the use of funds labelled as overhead. The expenses are charged to the funding party's budget, but the RMCC Principal exercises full discretion on deciding to which activities these funds are allocated.

Recommendations

1. **Membership Fees.** Requests for reimbursement of membership fees should be correctly identified as individual or corporate, have original financial authorization by the proper level of authority and be accurately recorded.
2. **Research Project Accounting.** Strengthen the accounting of expenditures related to DND-funded research projects to ensure a clear audit trail of the funding received, corresponding expenditures and amounts outstanding. Maintain complete files with the documentation supporting the planning, execution and closure of the research projects.
3. **Overhead Fees.** RMCC should consult with Assistant Deputy Minister (Finance and Corporate Services (ADM(Fin CS))) to obtain clear direction on the validity of overhead fees on projects funded by other DND organizations.
4. **Financial Authority.** RMCC should maintain a clear audit trail of financial authorities transferred from DND funding parties for research, in accordance with DND policy.

OPI: Comd (RMCC) in consultation with CDA and CMP Comptrollers

Contracting

There is ineffective administration and a significant lack of compliance with policy relating to the contracting for research assistants. In addition, some issues were observed with contracting for professional services using RMCC's baseline funding.

Professional Service Contracting Using Baseline Funding

Contracts for professional services were for short-term requirements, such as guest speakers, paper examiners, sports coaches, substitute teachers, and staff training courses. In FY 2009/10, the RMCC comptroller's office arranged 250 professional services contracts totalling \$509,000. This audit reviewed documentation for a sample of 36 of these contracts totalling \$81,000.

Four payments associated with the sampled contracts totalling approximately \$3,000 were not properly authorized in accordance with the FAA. In addition, several contracts for interviewees and guest speakers were signed after service delivery had been initiated, specifically in cases where the contractor travelled to RMCC for the event. This contravenes TB contracting policy, which requires proof of agreement to the contract terms prior to the beginning of the expenses. One sampled contract, authorized by the CDA, was for leadership skills training for contractors. The government should not fund the training of contractors for the skills they must already have in order to qualify for their contract.

According to a January 2009 Management Letter on Contract Reporting signed by the Assistant Deputy Minister (Materiel), all contracts greater than \$5,000, and all call-ups must be recorded in DND's Contract Data Management System (CDMS).³ This was not being done at RMCC. In FY 2009/10, 37 such contracts totalling \$209,000 were not reported.

Standing Offer for Research Assistants

Under the terms of a standing offer authorized by Public Works and Government Services Canada (PWGSC), RMCC has been sourcing research assistants from a sole provider. The majority of these research assistants are contracted to work for terms longer than one fiscal year. In FY 2009/10, 521 contract call-ups were created under this standing offer, each representing the labour requirements of an individual contractor, and totalling \$10.3 million. Travel requirements were reflected in an additional 647 call-ups that totalled approximately \$870,000.

³ This is in compliance with paragraph 42(1)(e) of the FAA requirement of departments to report on contracting activity as part of proactive disclosure.

The administration process for 80 labour call-ups initiated during FY 2009/10 was examined. The call-ups were reviewed for compliance with contract regulations and terms of the standing offer. The audit team also reviewed all of the FY 2009/10 invoices from the sole provider for proper accounting and contracting controls. This review highlighted indications of contract splitting, potential issues of EE/ER relationships, misuse of the standing offer and poor administration.

Contract Splitting. A contract call-up under the standing offer should be completed when a requirement for research assistance is identified to complete a research project. For example, if a project requires three assistants at a junior level and one at a senior level over an estimated period of three years, the estimated labour and travel of all four contractors over this time period should be included in one contract call-up.⁵ Subsequently, a single invoice should be received for each such call-up so that the terms of payment can be confirmed against the agreement.

Contract Splitting

Contract splitting is defined as unnecessarily dividing an aggregate requirement into a smaller number of contracts, thereby avoiding controls on the duration of assignments or contract approval authorities.⁴

There are recurring indicators of contract splitting under the research standing offer. The contract call-ups are for individual contractors rather than for the total requirements of a specific research project. Almost half of the sampled contracts did not state which project the contractor was to work on, providing the opportunity to split the aggregate needs of a project into multiple contracts. Moreover, none of the contractors' timesheets were related to specific projects.

As well, separate contract call-ups were issued for contractors' travel requirements. In FY 2009/10, there were 521 labour and 647 travel contracts issued under the standing offer. Issuing separate call-ups for travel obscures the total cost of the requirement. At the inception of a contract, the nature of the SOW should be clear enough to provide an estimate of the required travel. Amendments can later be made should the estimate for travel be insufficient.

Finally, multiple consecutive labour contracts were issued under the standing offer for contractors working extended, uninterrupted time periods. Many situations were observed where one contract had an end date, but the work continued uninterrupted under a new contract that began the very next work day. Again, this obscures the total cost and duration of the requirement.

By definition contract splitting is carried out with the intent to keep the value below defined contracting authority thresholds. Because there was no direct link between research projects and expenditures on contract call-ups, timesheets or invoices, and in the

⁴ Defence Administrative Orders and Directives (DAOD) 3004-2, Service Contracts, General Prohibitions.

⁵ PWGSC Quick Reference on Standing Offers.



absence of complete project files, the audit team was unable to determine if their sum exceeded the \$400,000 call-up limit of the standing offer. However, the audit results identified contractors who were continuously renewed for at least seven years. Their annual labour costs alone for this amount of time exceeded \$400,000.

Employee-Employer Relationships. Working conditions for a contractor are to be distinct from those of a public servant; otherwise, the perception of an EE/ER relationship develops. The audit highlighted many indicators of potential EE/ER relationships within the research area of the College, including weak SOWs, defined working hours, lack of deliverables and progress reports, payment by per-diem, performance of on-going functions and renewal of the same individuals over an extended period of time.

EE/ER Relationship

It is important to avoid having a contractor's employment status that is similar to that of a public servant as it impacts how the contractor is treated under the Canada Pension Plan, the *Employment Insurance Act* and the *Income Tax Act*.⁶

Both policy⁷ and the terms of the standing offer⁸ state that each contract must have an SOW that specifies the work to be done by the contractor. Over 80 percent of the contracts for research assistants reviewed during the audit had unclear descriptions of the work to be completed. Examples of the SOW include *Research on Rotating Stalls*, *Participate in On-Going Studies*, and *Perform Lab Experiments*, or *As Outlined in the C/U⁹ Application*, with no application attached. In the absence of clear SOWs, professors must direct the day-to-day work and assign ad hoc tasks. None of the call-ups for travel included an SOW. While the contract call-ups did have a start and end date, continuous renewals made the duration somewhat irrelevant.

The terms of payment in the reviewed call-ups were based solely on the hours worked rather than on completion of a deliverable. None of the sampled contracts stated a desired final product, yet each specified how many hours a day the individuals would work. One call-up specified the exact number of overtime hours to be worked each week, paid at 1.5 times the hourly rate, and these hours were reflected on the contractor's timesheets throughout the fiscal year. Others claimed payment for hours while attending a conference or a training course. The latter is acceptable for public servants, but as stated in the PWGSC Supply Manual, "Canada will not incur per diem charges from the Contractor for time while the Contractor personnel are being trained."¹⁰ Reliance on per diem payments increases the Crown's risk of non-delivery, and is a further indicator of a potential EE/ER relationship.

⁶ Revenue Canada Agency, "Employee or Self-Employed?"

⁷ DAOD 3004-2, Service Contracts, Overview, Contracting for Services.

⁸ W0046-021410/001/SV and W0046-080001/001/TOR, Provision of Research Assistants, Call-Up Authorization, paragraph 2.

⁹ C/U stands for "call-up."

¹⁰ PWGSC Supply Manual, Chapter 10.

Providing training to contractors for the skills they require to qualify for the contract contradicts the standing offer¹¹ and the DND policy on service contracting.¹² A sampled contract for professional services was for leadership management training for 15 contracted research team members. According to the Canada Revenue Agency, having the worker receive training or direction from the payer on how to do the work, is an indicator of an EE/ER relationship.¹³

CRS recognizes that other indicators of EE/ER relationships are acceptable for RMCC research assistants because of the nature of work being performed. For example, in many cases research contractors must work on-site, at specified hours in order to have access to the specialized equipment, or to collaborate with other team members.

Misuse of the Standing Offer. The purpose of the standing offer is to provide RMCC with personnel to carry out research activities in science, engineering and humanities.¹⁴ During interviews, a few professors indicated that contractors in their area performed administrative duties rather than research assistance. Their work descriptions included statements such as, “Tasks include coordinating financial information with regards to technical, logistical and administrative aspects of [research] projects.” These were not research activities as identified in the standing offer. Since at least one of these individuals has been working as a non-research contractor since 1997, their role appears to be an integral and ongoing function of RMCC and should not be filled by use of the standing offer.

In addition, some interviewed professors stated that a few of the contractors brought in under this standing offer were RMCC civilian post-graduate students doing research papers for their thesis, and that the call-ups were a means of providing these students with a source of financial income. Using the standing offer as a means to provide certain individuals with financial income or requesting that the contract be with a particular individual is referred to as “payrolling”¹⁵ and is expressly prohibited.

A review of the invoices for FY 2009/10 related to the standing offer found charges for shipping fees, parking fees, training courses, conference fees, medical expenses and internet fees, none of which were part of the agreement in the standing offer or part of the estimated costs in the labour contracts.

¹¹ Standing Offer W0046-021410/001/SV, Provision of Research Assistance, Requirement for Training and Familiarization: “Any non-specialized training required by the Offeror's personnel to perform the Work will be the Offeror's responsibility, time and expense.”

¹² DAOD 3004-2, Service Contracting.

¹³ Canada Revenue Agency, “Employee or Self-Employed?”

¹⁴ Standing Offer W0046-021410/001/SV, Provision of Research Assistance, Annex A, paragraph 2(a).

¹⁵ DAOD 3004-2, Service Contracts, General Prohibitions.

Poor Call-Up Administration. Contract administration was not always completed in a compliant manner. While the terms of the standing offer state that “the [Dean Graduate Studies and Research] will provide the Offeror with a description of the Work to be performed in sufficient detail to enable the Offeror to submit a firm price...,”¹⁶ in practice professors are contacting the contracting firm directly stating the funding available and the number of contractors needed (or the specific individual they recommend). This information lacks details, such as the level of education or levels of experience required, which are the primary factors in determining the basis of payment under this standing offer.

Ninety-three percent of labour contracts reviewed were authorized after the call-up start date and some had a gap of over six months. Every contract for travel was also authorized after the event. In addition, the value of the contract was usually the exact amount on the corresponding invoice.

On all contracts, the name listed as the contact person for further information is a representative of the contracting firm. This is incorrect, as the terms of the 2010 standing offer state that the project authority (RMCC Vice President of Research) is responsible for the technical content of the call-ups, and that the contracting authority (PWGSC representative) is responsible for any contractual issues.

The contracting firm has a numerical system for tracking the contract call-ups. When requested to provide a listing of all contracts in FY 2009/10, RMCC did not have access to the firm’s list and did not maintain its own list, but depended on a search in the DND financial system for these codes. The result was a listing that was missing at least 40 contract numbers.

There is a requirement for contracts, including call-ups under standing offers awarded since 1 January 2008 to be reported in the CDMS. This system serves as a basis for DND to produce the quarterly Proactive Disclosure Report and the Purchasing Activity Report. None of the RMCC call-ups for research assistants have been reported. In FY 2009/10 alone, more than 1,000 call-ups totalling over \$11 million had not been reported.

None of the sampled call-up files held by either the managing professor or the Research Administration Office were assessed as complete, as required in the DND Procurement Administration Manual. Key documentation that was lacking included the request for the call-up with defined requirements, detailed work description, delivery schedule, progress reports, final date of completion, and a clear audit trail of the history of the call-ups and invoicing for the contractor. Without these documents, monitoring and oversight for contractor performance or compliance with applicable policies is not feasible.

¹⁶ W0046-021410/001/SV and W0046-080001/001/TOR, Provision of Research Assistants, Call-Up Authorization.

Recommendations

5. **Professional Service Contracting Using Baseline Funding.** Enhance the control process to ensure there is documented proof of agreement prior to contract commencement, proper financial authority of payments, and timely reporting in DND's CDMS.

6. **Contracting for Research Assistants.** A more robust control process should be developed that ensures compliance with contracting policy and that removes the possibility of contract splitting, EE/ER relationships, payrolling, and improper use of the standing offer. In addition, steps should be taken to find more appropriate means of completing non-research tasks. Oversight and on-going monitoring by CDA or CMP may be required to ensure the identified weaknesses are corrected.

OPI: Comd (RMCC) in consultation with CDA and CMP Comptrollers

Asset Safeguarding

A previous RMCC verification of asset safeguarding identified areas of concern and developed an action plan to improve the controls. CRS found that asset records are currently updated in a timely manner.

Supply Customer Accounts Verification in 2009

Upon the change of command in 2009, RMCC conducted a verification of Supply Customer Accounts (SCA) that identified control weaknesses and prepared and implemented an action plan to address the College's asset safeguarding. At that time, a number of accounts were found to be deficient. One in particular was missing materiel in excess of the write-off authority for the RMCC Commandant. As of 11 June 2010, the records had been updated and RMCC had 99 SCAs and just over 90,000 assets valued at almost \$55 million.

CRS Verification in 2010

Given the recentness of the RMCC verification, CRS reduced the scope of this audit to verifying that the data pertaining to assets purchased since the RMCC SCA verification has been completely and timely entered into the proper records.

Based on the audit sample, assets were appropriately recorded within one month of receipt, with one exception where RMCC was awaiting a North Atlantic Treaty Organisation number from an Ottawa office.

Annex A—Management Action Plan

Budget Management

CRS Recommendations

1. **Membership Fees.** Requests for reimbursement of membership fees should be correctly identified as individual or corporate, have original financial authorization by the proper level of authority and be accurately recorded.

Management Action

Concur. During the recent university teaching collective bargaining process, memberships were discussed, and the resultant University Teaching Collective Agreement, Appendix D, authorized the procurement of individual memberships through the use of University Teaching Professional Development Allocation funds without the requirement to seek the Deputy Minister's approval in advance. Corporate memberships still require pre-approval in accordance with direction from the Deputy Minister, as has been occurring at RMCC, and will continue to be tracked/reported. In accordance with the collective agreement, detailed guidelines on Professional Development Allocation expenditure and reimbursement procedures will be promulgated in writing through the Principal's office, in consultation with the Canadian Military Colleges Faculty Association, CDA, Comptroller RMCC and other agencies, no later than 1 August 2011. The Principal RMCC is also responsible and accountable for ensuring full compliance with membership policy and use of Professional Development Allocation funds.

OPI: Comd (RMCC) in consultation with others as indicated

Target Date: 1 August 2011

CRS Recommendations

2. **Research Project Accounting.** Strengthen the accounting of expenditures related to DND-funded research projects to ensure a clear audit trail of the funding received, corresponding expenditures and amounts outstanding. Maintain complete files with the documentation supporting the planning, execution and closure of the research projects.

Management Action

Concur. A number of actions will be taken to address this observation both in the near term and in the future:

- The Research Administration Office will be restructured immediately to enable the Comptroller to fully exercise fiscal and contracting oversight responsibilities and accountabilities for the RMCC research program. This reorganization will be reviewed and assessed in five years.

OPI: Comd (RMCC) in consultation with others as indicated

Target Date: 14 July 2011

- The Comptroller and Principal will ensure that all faculty and staff involved in the management, conduct and oversight of the RMCC research program have the requisite knowledge and training to conduct their duties. They will confirm completion of this training to the Research Management Committee by 30 March 2012

OPI: Comd (RMCC) in consultation with others as indicated

Target Date: 30 March 2012

- The Comptroller and Principal will conduct a comprehensive review of all ongoing research projects to ensure that appropriate fiscal tracking and reporting mechanisms are in place and being adhered to. Effective immediately, they will also ensure that any new research projects are established with proper fiscal control, oversight and tracking mechanisms. They will confirm completion of this action to the Research Management Committee by 30 March 2012.

OPI: Comd (RMCC) in consultation with others as indicated

Target Date: 30 March 2012

Annex A

- The use of shadow accounts for informal tracking/accounting of research funding will be discontinued. The Comptroller and Principal will ensure that research funding is formally accounted for against the financial coding provided by the sponsor, and that full transparency on the use of individual sponsor funding is available. While changes implemented this year will not be completely reflected in the FY 2011/12 summary of financial records, full implementation of the revised research accounting system will be complete by the end of FY 2012/13.

OPI: Comd (RMCC) in consultation with others as indicated

Target Date: 30 March 2013

CRS Recommendations

3. **Overhead Fees.** RMCC should consult with ADM(Fin CS) to obtain clear direction on the validity of overhead fees on projects funded by other DND organizations.

Management Action

Concur. The application of “overhead” or “indirect cost” fees to research activities is a common and necessary practice across all universities, and is essential for the sustainability of the RMCC research program. As the audit notes, the CF/DND policy direction in this area is unclear and subject to varying interpretations across the Department. In order to support the ancillary costs of research projects at RMCC, an overhead fee (12 percent) for the indirect costs is applied. This fiscal practice is consistent with the federal government NSERC/Social Sciences and Humanities Research Council indirect cost program, though the percentage charged by RMCC is less than that applied by these other federal programs for similar indirect cost expenses. RMCC will seek clarification from ADM(Fin CS), through the chain of command, on the CF/DND fiscal policy related to the charging of overhead fees on research projects in direct support of CF/DND. In the interim, RMCC will continue to normally charge the 12 percent overhead fee on all CF/DND research activities.

OPI: Comd (RMCC) in consultation with others as indicated

Target Date: 30 July 2011

CRS Recommendations

4. **Financial Authority.** RMCC should maintain a clear audit trail of financial authorities transferred from DND funding parties for research, in accordance to DND policy.

Management Action

Concur. In addition to the actions noted in response to Recommendation 2, RMCC will review its internal “Delegation of Authority” structure to better enable research funding and associated authorities to be transferred and tracked from DND funding parties to RMCC. This will include delegating responsibility centre manager authorities to deans to enable them to accept research funding once project files have been established, spending authorities confirmed in writing from the sponsor, and program deliverables/timelines agreed to. The Principal, with support from the Comptroller, will report quarterly to the Research Oversight Committee on research funding received with confirmation that this has been reconciled to the Defence Resource Management Information System by the Research Administration Office.

OPI: Comd (RMCC) in consultation with others as indicated

Target Date: 30 September 2011

Contracting

CRS Recommendations

5. **Professional Service Contracting Using Baseline Funding.** Enhance the control process to ensure there is documented proof of agreement prior to contract commencement, proper financial authority of payments, and timely reporting in DND’s CDMS.

Management Action

Concur. Action has already been completed to ensure that appropriate agreement and financial authority is obtained and formally documented prior to any contract commencement. All contracts awarded by CDA that are greater than \$5,000 are being entered into the CDMS.

OPI: Comd (RMCC)

Target Date: Completed

CRS Recommendations

- 6. Contracting for Research Assistants.** A more robust control process should be developed that ensures compliance with contracting policy and that removes the possibility of contract splitting, EE/ER relationships, payrolling, and improper use of the standing offer. In addition, steps should be taken to find more appropriate means of completing non-research tasks. Oversight and on-going monitoring by CDA or CMP may be required to ensure the identified weaknesses are corrected.

Management Action

Concur. This recommendation, and associated background in the report, reflects a serious lapse in oversight and management of the contracting and management of research assistants under the standing offer. In addition to the broader actions noted above to enhance fiscal and contracting oversight within the research section of RMCC, the following specific actions will be taken in response to this recommendation:

A. Poor Call-up Administration—The Principal and Comptroller are to develop guidelines, by 31 August 2011, on the use of the Standing Offer for Research Assistance to include, as a minimum, direction as to the following:

- professors will submit their requirements for research assistants for each project in advance for approval by the Dean or Vice President (VP) Research, ensuring that financial resources are available and that the level of education and experience required is clearly stated;
- full contracts, to include all project labour and travel costs, will be established, confirmed by RMCC Comptroller and signed by all parties prior to the call-up start date;
- the RMCC VP Research (technical contact for call-ups) or the contracting authority (PWGSC representative) will be listed as contact persons;
- RMCC will maintain a current list of all contract call-ups;
- RMCC Research Administration Office will record all call-ups against the Standing Offer for Research Assistance in the CDMS. In addition, RMCC will enter all call-ups against the standing offer that were not recorded in 2009/10;
- commencing immediately, RMCC Principal will ensure that all research assistant call-up files contain complete documentation, including the request for call-up with defined requirements, detailed statement of work, delivery schedule, progress reports, final date of completion, and clear audit trail of the history of the call-ups and invoicing for the contractor; and

Annex A

- the Comptroller will ensure that only acceptable charges, as authorized in the Standing Offer for Research Assistance and agreed to in the call-up contract, are included in the final payment for the research assistant.

B. Contract Splitting— Effective immediately, RMCC Principal and Comptroller will ensure that all call-ups/contracts for research assistants are inclusive of all labour and travel authorized for the duration of the contract, and will include a proper work description and associated deliverables. In keeping with the Standing Offer for the Provision of Research Assistance, the call-up limit of \$400,000 will be respected. In addition, a single invoice, itemized and inclusive of all costs, will be submitted for each project, as authorized in the specific call-up contract. All associated timesheets must reference the project name and the funding line for the specific project for which the work was done.

C. Employer-Employee Relationships—Effective immediately, each call-up against the Standing Offer for the Provision of Research Assistance will include a detailed and specific SOW for both labour and, if applicable, travel. In all cases, the Comptroller and Principal will ensure that the SOW includes a comprehensive job description and specific deliverables expected from the individual researcher. No payments will be made for labour charges when the contractor is attending a conference or taking part in training. While the standing offer contains provision for the approval and payment of overtime, care will be taken in the correct application of this requirement, including prior authorization by the applicable Dean or VP Research. The Principal will report quarterly to the Research Oversight Committee on the number of research assistants employed during the quarter and associated costs, along with projected new call-ups anticipated in the subsequent quarter. The Principal will also confirm that no conflict of interest situations, or EE/ER relationships involving research assistants, exist within the research program and report this to the Research Management Committee.

D. Misuse of the Standing Offer—The use of research assistants, on call-up against the standing offer, exclusively for administrative duties is inappropriate and will be discontinued. Further, the long-term use of contractors, through the provision of multiple and consecutive call-up contracts will cease immediately. Finally, the directed hiring by professors of graduate students, under the Standing Offer for Research Assistants, for summer employment is not appropriate and must be reviewed.

Annex A

The Principal will conduct an analysis and provide recommendations to the Research Management Committee by 30 March 2012 on the person years requirements to support the administration of the research program and associated mitigation strategy to include fiscal, person years and space offsets within other areas of the Academic Wing. RMCC will also examine the feasibility of an additional standing offer to facilitate the call-up of administrators in support of specific research projects. Further, the Comptroller and Principal will work with functional authorities to determine an appropriate mechanism to address the observation on the employment of graduate students at RMCC.

OPI: Comd (RMCC) in consultation with others as indicated

Target Date: 30 March 2012

Annex B—Audit Criteria

Area Assessed

- RMCC budget planning and reporting, and DND-funded research projects

Criteria

- Accounting and reporting is accurate and transparent;
 - Budgets are monitored on a continuous basis; and
 - Funding is used as intended.
-

Area Assessed

- Contracting for professional services and Standing Offer for Research Assistants.

Criteria

- Compliance with all applicable TB and DND policies
-

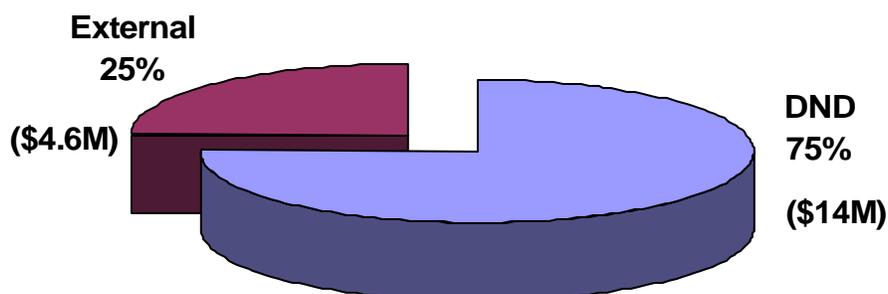
Area Assessed

- Assets worth more than \$1,000 purchased since last verification by RMCC

Criteria

- Asset records are properly and promptly updated for purchases.

Annex C—RMCC Research Funding



Source: These numbers were compiled from RMCC’s Funding by Type Report for FY 2009/10, created on 23 April 2010.

Figure 2. RMCC Available Funding in FY 2009/10. Three quarters of the funding for RMCC research projects is from DND, the remainder coming from external parties. The data is summarized in the following tables:

DND Source	Amount
Department of National Defence	\$12,334,571.53
Defence Research and Development Canada	\$ 1,671,054.59
Total	\$14,005,626.12

Table 2. RMCC Research Funding from DND Sources.

External Source	Amount
Other Government Departments	\$1,872,745.77
Natural Sciences and Engineering Research Council	\$ 950,092.00
Private Industries	\$ 755,172.26
Funding for Research Chairs	\$ 813,000.00
Social Sciences and Humanities Research Council	\$ 83,711.00
Canadian Foundation for Climatology and Atmospheric Sciences	\$ 62,000.00
Ontario Research Fund	\$ 34,300.00
National Centers of Excellence	\$ 32,000.00
Canadian Foundation for Innovation	\$ 6,352.00
Total	\$4,609,373.03

Table 3. RMCC Research Funding from Sources External to DND.