



Special Review of St. Peter's College

**Report to the Ministry of Advanced Education, Employment and
Immigration**

Prepared as at June 24, 2011

AUDIT



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To: Ministry of Advanced Education, Employment and Immigration (“the Ministry”)

Re: St. Peter’s College, Muenster, Saskatchewan (“SPC”)

As specifically agreed, we have performed the procedures as described in Schedule A of the Consulting Agreement dated April 4, 2011 (herein referred to as “the terms of reference”).

As a result of applying the specified procedures, we note the following general findings, the details of which are outlined in the following report.

- Our analysis of the current state of SPC’s financial condition and stability indicates that the financial condition of the organization has deteriorated from 2005 to present bringing into question the entity’s ability to continue as a going concern. We reviewed the events and conditions impacting the going concern assessment and have noted that as at April 30, 2010 SPC has drawn on restricted cash and securities to finance operating deficiencies. Subsequent to April 30, 2010 SPC has secured financing with a major banking institution which has improved the liquidity of the organization.
- For the period May 1, 2009 to April 30, 2011 we examined the recognition of restricted contributions for designated expenditures and noted that expenditures appear to have been made in accordance with the intention of the restricted contribution. Through our review of SPC’s processes and related documentation we note that in general the control environment is weak, with several significant internal control deficiencies noted.
- We observed that while there is some monitoring performed by the Board, governance of the organization is weak.
- As per the terms of reference, we found that the vehicle and TV in question were present at SPC. We noted no deficiencies or discrepancies with respect to the limited procedures performed at Carlton Trail Regional College.

KPMG LLP
Saskatoon, Canada

Objectives

The objectives of the Ministry in engaging us to undertake the procedures outlined in this report, as defined in the terms of reference, were to:

- 1) To assess the financial condition and financial stability of SPC;
- 2) To assess Management's system of internal control and accountability for public money;
- 3) To assess SPC's board governance; and
- 4) To investigate allegations made against the CEO of Carlton Trail Regional College and President of SPC.

Our procedures covered the operations of SPC from the period of May 2009 to April 30, 2011. Due to the joint operations between SPC and Carlton Trail Regional College ("CTRC"), certain procedures were performed dually at both entities.

Our procedures were outlined in the terms of reference by the Ministry and we did not undertake to assess the sufficiency of those procedures needed to meet the objectives of the Ministry. Our work was limited to, and our recommendations are based on, the procedures conducted. The scope of our engagement was, by design, limited, and therefore the findings and recommendations should be considered in the context of the procedures performed. In this capacity, we were not acting as external auditors and accordingly our work did not result in the expression of a financial statement opinion and does not constitute an audit engagement. We relied on information and representations of management and others and on management for the completeness of background information provided.

Executive Summary of Recommendations

The following summarizes our recommendations to SPC based on the procedures performed:

Recommendations
<p>Operating and capital funds should be accounted for and reported separately and monitored on a monthly basis. Restricted cash should be monitored and separated from funds used for operations. Recognition of deferred revenue from restricted contributions should be approved and the use of restricted contributions must conform to the documented intention of the donor.</p>
<p>We recommend that the Board of Governors and Finance Committee review the auditor recommendations and make an action plan with a detailed timeline of milestones to be achieved in order to address each of the deficiencies noted.</p>
<p>We recommend that the bylaws of SPC be updated to designate those charged with governance as the responsible party for financial oversight. Ensure that financial oversight responsibility includes monitoring and insisting on the appropriate “tone at the top”. Ensure the oversight processes facilitate an understanding and monitoring of key roles, responsibilities and risks within the financial reporting environment.</p> <p>We recommend that the Board charter or mandate be updated to reflect all Board responsibilities, including those delegated to the Finance Committee. Detailed meeting minutes should be kept as evidence of appropriate internal control and review. Original meeting minutes should be signed and kept as hard copies to avoid duplication or unauthorized changes.</p> <p>We recommend that the Board charter should clarify that a majority of Board members be independent. In addition, the Board should ensure that a sufficient number of individuals are financially literate. Financial literacy should be demonstrated through appropriate qualifications, education and experience and should be documented.</p>
<p>A budget should be developed each fiscal year and should be approved by the Board of Governors. Monthly monitoring of budget to actual results should be performed by senior management and results should be reported to the Board. Standard reports should be developed to facilitate this process. In addition, a formal annual review with the external auditors should be conducted. Any information presented to the Board or Finance Committee should be retained as attachments to the meeting minutes.</p>
<p>We recommend that management review and evaluate key internal controls based on their assessment of financial reporting and fraud risks. Policies and procedures regarding internal controls should be developed, communicated and implemented throughout the organization.</p>
<p>We recommend that a capital asset sub ledger be maintained for accounting and insurance purposes. An annual verification of physical assets to this sub ledger should be considered. The sub ledger should be reviewed and approved by senior management.</p> <p>All significant capital purchases should be approved by the Board prior to purchase.</p> <p>We recommend that a formal capital asset acquisition policy be developed. Significant</p>

purchases should be approved by the Board only after a full analysis has been prepared by management and presented to the Board for consideration. Documentation of the analysis and recommendations by the Board should be documented in the Board meeting minutes.

We recommend that a process be put in place whereby all employee expense claims must be reviewed and approved before payment. Expenses for senior management should be reviewed and approved by the Board Chair. All expenses, whether expense claims or credit card charges, should have supporting original documentation attached. Explanations as to the business purpose of the expense should be provided on all expense claims.

All employee salaries and other remuneration should be documented in formal employment contracts. Annual salary increases should be reviewed and approved by the Board of Governors and increases should be formally documented in employee files. Salary increases should be justified through review of employee performance against specified criteria.

We recommend that SPC undertake a comprehensive analysis of past reimbursements made to all employees, including review of supporting documentation for reimbursed expenses and consider whether amended T4 slips should be issued. If the item is a taxable benefit, the employer is responsible to report the taxable benefit on the T4 and withhold the appropriate income taxes (CPP and EI may not apply if they are already at the maximum for the year). If the withholdings are not made by the employer, then the CRA can assess the employer for the income tax withholdings, interest and penalties leaving the employer to recover the income taxes from the employee to the extent they are able to do so.

We recommend that all employees read and sign a code of conduct upon commencement of employment with SPC. Senior management should sign a statement of compliance annually. The Board should implement a monitoring tool whereby concerns of fraud or unethical behavior can be reported anonymously without consequence to the employee. The Board should perform a self assessment against predetermined criteria annually.

We recommend that the Board implement a standard process for reviewing management reports on a quarterly basis at a minimum. The form and content of the reports should be predetermined in order to ensure the Board is provided with all relevant decision making information. The Board should also monitor compliance with other internal control procedures.

We recommend that a formal hiring policy for senior executives be developed and implemented. We understand that a personnel policy exists however it does not appear to be followed consistently. The hiring policy should be communicated to all Board members and employees. Recruitment files should be maintained which contain supporting documentation of all recruitment efforts. Once hired, employee files should be maintained for all existing employees.

Detailed Findings

Term of Reference	General Findings
a) Obtain and analyze SPC's audited financial statements from 2005 to present, noting trends in changes in working capital and restricted funds to assess financial condition and financial sustainability; and assess management's actions to address issues raised by the auditor of the financial statements.	<ul style="list-style-type: none"> • SPC's financial situation has deteriorated since 2005. • We have concluded that appropriate actions with respect to the auditor recommendations were not taken and/or were not documented.

Procedures performed and findings:

We obtained the audited financial statements of SPC for the fiscal years ending April 30, 2005 to April 30, 2010 and analyzed the results with respect to the following key ratios and indicators:

- Operating results
- Working capital
- Allocation of net assets between operations, capital funds and restricted funds

We found that the audited financial statements do not present the operating fund separate from the capital fund, and assets held for restricted purposes. When considering the allocation of net assets for their intended purpose, we noted that the operating position of SPC has declined since 2005 and is in significant deficiency as at April 30, 2010.

A summary of the statement of the net asset position by fund category was derived from the audited financial statements of SPC at April 30, 2010, as follows:

	Operating	Restricted	Capital
Cash and securities	\$ (882,503)	2,647,244	6,233,067
Other current assets	207,472	-	-
Capital assets	-	-	4,826,848
Current liabilities	(14,099)	-	(1,430,507)
Deferred revenue	-	(2,517,244)	(9,036,000)
Net equity (deficiency)	\$ (689,130)	130,000	593,408

Combining the results of the operating and capital funds distorts the true results of operations of SPC. As noted above, restricted cash and securities have been drawn to finance operating deficiencies.

At the time that our work was completed there was insufficient information to perform an analysis on the financial results for the year ended April 30, 2011.

We have reviewed the events and conditions impacting whether SPC will continue as a going concern in the next fiscal period using going concern provided in the CICA Handbook. Management of SPC has prepared a budget for the fiscal period from May 1, 2011 to April 30, 2012. We noted that SPC has secured financing with a major banking institution in order to fund future capital requirements. We note that SPC has budgeted for the repayment of this loan along with interest. However, the budget has been prepared on a break even basis and the entity is heavily reliant on third party funding, tuition, and donation revenue. Accordingly, a decline in tuition or donation revenue could impair SPC's ability to make loan repayments or fund future operations. However, measures could be taken to reduce programming or other discretionary spending in order to conserve cash. In spite of a plan to stabilize the financial position of SPC, there remains material uncertainties that cast significant doubt upon SPC's ability to continue as a going concern.

We have considered the qualification in the auditors' report related to completeness of donation revenue. This qualification is common to many charitable organizations and does not impact our findings with respect to restricted contributions.

With respect to management's actions to address issues raised by the auditor of the financial statements:

1. KPMG noted that the external auditor of SPC provided management a list of recommendations and findings for each of the fiscal years ending April 30, 2006 through to April 30, 2010. KPMG obtained copies of these reports to review the auditor recommendations. Items of significance noted in those reports indicated the following:

- a. In 2007, the auditor noted that an employee of SPC "does not receive a wage for the duties required of this position, however, an honorarium is gifted to [this employee]. This amount has not been T4'd in the current year, or in past years. In order to comply with CRA standards, amounts given as honorariums must be T4'd."¹

Based on our review of T4's issued, the honorarium paid to the employee was not reported on a T4 nor had an amended T4 been issued as at May 31, 2011.

- b. In 2008 the auditor recommended a number of account matters and enhancement of controls as follows²:
 - i. "It is recommended to have Board of Governor meetings once a month and to ensure all transactions are approved through the minutes; ie. purchase and disposal of capital assets, wage increases, employment changes, Board of Governor changes, donations, significant changes in investments, etc."

Generally Board of Governors meetings were held four times per year, and not monthly as suggested by the auditor. We noted that in some cases significant asset purchases and wage increases were approved, however this practice was not consistently applied.
 - ii. "It is recommended that designated funds held be reviewed on a monthly basis and approved by the Board including additions and disposals."

¹ "Audit Findings Report to the Board of Governors"; Meyers Norris Penny. June 11, 2007.

² "Audit Findings Report to the Board of Governors"; Meyers Norris Penny. June 17, 2008.

Based on our review of the meeting minutes, designated funds are not reviewed on a monthly basis or monitored otherwise.

- iii. “It is recommended that all matters approved at the Board of Governor meetings be carried through and implemented as approved ie. wage increases.”

We noted that all matters approved by the Board of Governors had been carried through or were implemented.

- c. In 2009 the auditor repeated the above recommendations and provided the following additional recommendations ³:

- i. “It is recommended that all invoices be tracked using cheque numbers to allow for more efficiencies when searching for invoices and journal entries in the general ledger.”

We noted that progress has been made on this recommendation, however we did note several instances where supporting documentation for expenses could not be located or did not exist.

- ii. “It is recommended that all payments to and on behalf of employees are T4’d as taxable benefits. As well, payments on behalf of others, such as PHD tuition or other types of payments that benefit the related individual, must be T4A’d as the amount is considered taxable.”

We noted that tuition had been paid on behalf of an employee. We noted that this tuition was not reported on a T4 as a taxable benefit, nor was an amended T4 issued in light of the auditor’s recommendation. Refer to g) in this report for further analysis of this issue.

- iii. “During our audit, we noted that a formal capital management policy had not been developed. A formal capital management policy could include how Council ensures (ie. net assets) are safeguarded. It may include such items as to ensure there is adequate cash available to fund # months of operations, investment policy to ensure that large investment losses are unlikely, etc.”

We noted that no formal capital management policy has been implemented to date.

- iv. “We note that there weren’t enough funds available to cover restricted contributions. We recommend that cash flows are monitored closely that transfers from restricted contributions conform to the intention/restriction of the donor’s contribution.”

Based on our review of the meeting minutes, restricted funds and cash flows are not reviewed on a monthly basis or otherwise monitored.

- d. In 2010 we noted the following additional recommendations that we consider to be significant⁴:

- i. “Through discussion with the Finance Committee, we understand that the Finance Committee reviews financial statements on a monthly basis and is responsible for

³ “Audit Findings Report to the Board of Governors”; Meyers Norris Penny. June 4, 2009.

⁴ “Audit Findings Report to the Board of Governors”; Meyers Norris Penny. September 20, 2010.

providing recommendations to the Board including purchase and disposal of capital assets, wage increases, employment changes, donations, significant changes in investments, etc. It was noted during our review of the Board of Governors meeting minutes and the Finance Committee meeting minutes that approvals of monthly financial statements weren't documented and that the Finance Committee meeting minutes were not approved by the Board of Governors. We recommend that all recommendations made by the Finance Committee be documented in the minutes of the Committee and that the Finance Committee meeting minutes are approved by the Board."

Based on our review of the Board of Governors and Finance Committee meeting minutes, our findings are consistent with the above recommendation and no further progress has been made on this recommendation to date.

- ii. "We note that salary increases are occurring throughout the year without formal Finance Committee recommendation to the Board of Governors. We recommend that salaries be reviewed annually and all increases be formally approved and included in the Finance Committee minutes. We recommend that all employees have a job description and accountabilities be set for each role and reviewed at least annually."

Based on our review of the Board of Governors and Finance Committee meeting minutes, our findings are consistent with the above recommendation and no further progress has been made on this recommendation to date.

- iii. "We note that timesheets for most student employees are not formally approved. We recommend that the immediate supervisor of each employee initial each timesheet prior to it being submitted for payroll in order to maintain formal control over the employment expenses incurred."

Based on our review of employee timesheets and discussions with SPC staff, our findings are consistent with the above and no further progress has been made on this recommendation to date.

- iv. "During our audit, we noted that certain employees have credit cards for business expenses. We recommend that processes be put in place to ensure charges to credit cards are substantiated and approved prior to payment.

Based on our review of supporting documentation and discussions with SPC staff, our findings are consistent with the above and no further progress has been made on this recommendation to date.

2. KPMG reviewed the minutes of the meetings of the Finance Committee to determine whether the findings were presented to the Finance Committee by the auditors and whether any action items were noted in those meetings. We noted that the Finance Committee received and reviewed the auditors' reports for the years 2008, 2009 and 2010. In 2010 we noted that the Finance Committee suggested that further clarification and dialog was needed with respect to the auditor recommendations. We did not note any documented action items coming out of these discussions or any detailed actions plans resulting. We note that the auditor is required to make certain communications to those charged with governance, whether orally or in written form. We noted that some of these communications were not documented in the meeting minutes. As a best practice, the Finance Committee should meet in person with the external auditors if communications are not all in written format.

3. KPMG reviewed the minutes of the meetings of the Board of Governors for the 2009, 2010 and 2011 fiscal years to determine whether the audit findings were presented and whether any action items were noted in those meetings. Based on our review of documented minutes, the auditors' reports were not presented to the Board of Governors, nor were they discussed.

Recommendation:

Operating and capital funds should be tracked separately and monitored on a monthly basis. Restricted cash should be monitored and separated from funds used for operations. Transfers from restricted contributions should be approved and should conform to the intention of the donor contributions.

We recommend that the Board of Governors and Finance Committee review the auditor recommendations and make an action plan with a detailed timeline of milestones to be achieved in order to address each of the deficiencies noted.

Term of Reference	General Findings
<p>b) Assess the appropriateness and authorization of the use of restricted funds including those related to scholarship and capital funds.</p>	<p>Based on available documentation reviewed, it appears that deferred restricted contributions were appropriately recognized against designated expenditures, including those related to scholarship and capital funds.</p>

Procedures performed and findings:

As noted in section a) and as evidenced by the significant operating deficiency, restricted cash and securities have been used to finance operating deficiencies as at April 30, 2010. We noted that restricted funds received were not segregated into a separate bank account.

In addition to the use of cash and securities held for restricted purposes, we also reviewed the appropriateness of the recognition of restricted contributions, including scholarships and capital contributions as revenue. In accordance with generally accepted accounting principles, SPC recognizes restricted contributions as revenue in the year the related expense is incurred. Deferred contributions related to capital assets are amortized to revenue on the same basis as the related asset.

We reviewed restricted contributions recognized as revenue for the period of May 1, 2009 to April 30, 2011 and noted the revenue was recognized when the appropriate expenditures were made and based on donor expectations. Due to a lack of sufficient documentation, we were unable to conclude on the nature of the intended use of some donations and contributions. As at April 30, 2010 we noted that capital and scholarship expenditures were in excess of the restricted revenue recognized, meaning that the excess expenditures were funded through operations.

We did not note any specific Board approvals over the use of the funds, however all funds payments were authorized by the appropriate bank signing authorities.

Recommendation:

We recommend that all expenditures of restricted funds be approved by the Board of Governors. Restricted funds should be segregated or separately tracked and monitored on a monthly basis by senior management and/or the Board of Governors or Finance Committee.

Term of Reference	General Findings/Conclusion
<p>c) Review budgeting and financial management reports provided to and approved by the board to determine the degree of monitoring.</p>	<ul style="list-style-type: none"> While it appears that some financial information was reviewed by the Finance Committee and the Board of Governors, we were unable to determine the nature and content of information and whether such information was sufficient to give those charged with governance an accurate picture of the financial status of SPC. Considering the frequency of the information reviewed, monitoring performed by those charged with governance may not be sufficient.

Procedures performed and findings:

We reviewed the “pre-merger” Bylaws Governing the Corporation of St. Peter’s College (Bylaw No.3) and noted that it does not clearly identify that financial management is the responsibility of the Board. We also noted that there were no supporting bylaws or mandates indicating that the Board had delegated this responsibility to the Finance Committee. We noted that an amended bylaw exists, however based on discussions with SPC staff, it is our understanding that this bylaw was intended to be effective if and when a merger with Carlton Trail Regional College took place.

We reviewed the meeting minutes for both the Finance Committee and Board of Governors to determine the degree of financial monitoring. We noted that “financial reports” were approved by the Board twice in the year ending April 30, 2009 and twice for the year ending April 30, 2010. No financial information had been presented to the Board of Governors in 2011 at the time of our review.

We noted that the Finance Committee reviewed financial information once for the year ended April 30, 2009 and that the audited financial statements and auditors’ report for the fiscal years

ending April 30, 2008, 2009 and 2010 were also reviewed and discussed. It is not clear from the documented meeting minutes whether the external auditor was present during these discussions. We noted that only in 2010 did the Finance Committee indicate that a recommendation would be made to the Board regarding the audited financial statements.

While we were able to determine that financial information was reviewed, the nature and content of the financial information submitted for review other than audited financial statements was not documented and not available upon request. Accordingly, we are not able to comment on the sufficiency of the information provided to the Board and Finance Committee in performing their review.

We did not note any discussions regarding budgeted information, nor did we receive any documentation indicating that a budget existed. Based on review of documentation and discussions with SPC staff, we were informed that no budget had been prepared in 2010 or 2011.

Recommendation:

We recommend that the bylaws of the organization be updated to designate those charged with governance as the responsible party for financial oversight. Ensure the financial oversight responsibility includes monitoring and insisting on the appropriate “tone at the top”. Ensure the oversight processes facilitate an understanding and monitoring of key roles, responsibilities and risks within the financial reporting environment.

A budget should be developed each fiscal year and should be approved by the Board of Governors. Monthly monitoring of budget to actual results should be performed by senior management and results should be reported to the Board. Standard reports should be developed to facilitate this process. In addition, a formal annual review with the external auditors should be conducted. Any information presented to the Board or Finance Committee should be retained as attachments to the meeting minutes.

Term of Reference	General Findings
d) Verify the ownership and location of assets, specifically the vehicle used by the CEO/President and the 52” TV in question.	<ul style="list-style-type: none"> We have verified that the vehicle and TV in question are on site at St. Peter’s College. We noted irregularities with respect to the documentation over the purchase of the television.

Procedures performed and findings:

Vehicle

On April 15, 2011 we observed that the 2011 Acura MDX in question was on location at St. Peter’s College.

We obtained source documentation supporting the purchase of the vehicle in order to determine the ownership status. The vehicle was originally purchased in the name of an individual employee of SPC in October 2010 and registered in that name for insurance purposes at the same time. On

March 25, 2011, the registration of the vehicle was changed to reflect St. Peter’s College as the owner of the vehicle.

We noted through our review of the Finance Committee and Board of Governors meeting minutes that the purchase of the vehicle was discussed by the Finance Committee. The nature of the discussion indicated that a subcommittee would be formed, with an objective of researching the cost and suitability of a possible purchase. However, we noted that no recommendation was made to the Board and the final purchase was not approved by the Board before the purchase was made. We noted that the Board was informed of the purchase in November 2010. We also inspected a ‘Statement of Ownership’ dated November 9, 2010 which indicated that St. Peter’s College was to be the owner of the vehicle.

52” TV

On April 15, 2011 we observed that there were six 52” TVs on site at St. Peter’s College. We obtained the supporting purchase documentation and verified the serial numbers from the documentation to the TVs on site.

During our inspection of source documentation, we did note some irregularities with respect to the documentation submitted to the accounting department of St. Peter’s College. We noted one document in particular which detailed the total purchase price of 5 televisions, when in fact the source invoice indicated that 6 were purchased.

We noted that it is not regular practice for the Board of Governors or Finance Committee to approve such purchases.

Recommendation:

We recommend that a capital asset sub ledger be maintained for accounting and insurance purposes. An annual verification of physical assets to this sub ledger would be considered best practice. The sub ledger should be reviewed and approved by senior management.

All significant capital purchases should be approved by the Board prior to purchase.

Term of Reference	General Findings
<p>e) Verify the legitimacy and authorization of Executive Management compensation and expense claims for SPC and Carlton Trail Regional College (CTRC). In addition this will assist in the determination of duplicate expense claims.</p>	<ul style="list-style-type: none"> With respect to procedures performed at SPC, there is concern with respect to the lack of oversight over expense reimbursements and purchases made with corporate credit cards at SPC. There does not appear to be any review or authorization of expenses to be reimbursed. In addition, many expenses do not have supporting documentation and

	<p>therefore it is difficult to determine the validity of the expense as they relate to the business of SPC.</p> <ul style="list-style-type: none"> • Authorization over SPC salary increases is not documented appropriately. • We did not note the above deficiencies with respect to procedures performed at CTRC.
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Procedures performed and findings:

Expense Claims

We examined all expense claims from May 1, 2009 to March 31, 2011 for executive management of SPC and CTRC which represented approximately 43 expense claims. In addition we reviewed all corporate credit card expenses submitted by the executive management of SPC and CTRC. We noted that expense claims for SPC are not reviewed or approved prior to payment and in some instances we noted that supporting documentation was not provided. Without appropriate authorization or supporting documentation, we were unable to determine the nature of some expenses or the validity of the business reason for the expenses submitted through expense claims and through the corporate credit cards.

Approximately \$1,600 in expense claims that were submitted by one employee did not have supporting documentation attached. In addition, \$1,800 in credit card expenses were submitted by that employee without detailed receipts attached. Many expense reports submitted had mathematical errors, resulting in over and under payments to the employees. In total, we noted \$373 in under payments and \$410 in over payments. In addition, many claims submitted did not have detailed descriptions.

We also noted that for the period of May 2009 to May 2010, SPC had reimbursed an employee’s mileage claims for business travel and also reimbursed the employee for all gas purchased for the individual’s personal vehicle at the same time. In addition, expenses of \$1,153 were paid for repairs and maintenance of the personal vehicle. Under usual circumstances, if mileage is paid in addition to fuel costs, the mileage is to cover the cost of repairs on the employee’s vehicle. There is a lack of authorization controls and written policies or procedures. We did observe that the Board had approved “travel expenses” as part of the employee’s compensation.

Finally we noted that for the period of May 2009 to March 2011, an employee had claimed per diem allowances of \$4,230 and had also submitted purchases on the corporate credit card for actual meal expenses of \$3,579. There is a lack of policy regarding reimbursement of employee meals and entertainment expenses. We noted that there is no documented approvals over the payments of such expenses.

Management Compensation

Through review of the meeting minutes of the Board of Governors, we noted that the base salary of certain executive management employees were approved. However, we noted one instance where there was no approval of a formal contract and no formal employment contract existed

that specifies other employment terms. Without a formal employment contract, it is difficult to determine what other benefits the employee may have been entitled to. In another instance we noted that a formal employment contract existed, but that the salary being paid to the employee did not coincide with the salary in the contract. We noted that this employees salary had increased by 50%, 9% and 17% in three years respectively, however approvals of these increases were not documented.

Through discussions with management and staff of SPC we understand that pay increases are communicated informally to the payroll department and no updated documentation is created. We did not locate any documented approvals for the above pay increases.

Recommendation:

We recommend that a process be put in place whereby all employee expense claims must be reviewed and approved before payment. Expenses for senior management should be reviewed and approved by the Board Chair. All expenses, whether expense claims or credit card charges, should have supporting original documentation attached. Explanations as to the business purpose of the expense should be provided on all expense claims.

All employee salaries and other remuneration should be documented in formal employment contracts. Annual salary increases should be reviewed and approved by the Board of Governors and increases should be formally documented in employee files. Salary increases should be justified through review of employee performance against specified criteria.

Term of Reference	General Findings
f) Verify the legitimacy and authorization of Board compensation and expense claims for SPC and CTRC. In addition this will assist in the determination of duplicate expense claims	<ul style="list-style-type: none"> Board expense claims appear to be legitimate and authorized where applicable.

Procedures performed and findings:

KPMG noted that CTRC has a policy in place that sets out the Board compensation and expense reimbursements. KPMG tested a sample of 25 CTRC Board expense claims and noted that all expenses were appropriately approved and in accordance with the compensation policy. No issues were noted.

We note that SPC does not compensate the Board or reimburse expenses and therefore no further testing was undertaken. KPMG searched for payments made to SPC Board members and noted two insignificant amounts that were reimbursed. No further testing was performed.

Recommendation:

None noted.

Term of Reference	General Findings
g) Assess the compliance with taxable benefit reporting as per tax laws administered by the Canada Revenue Agency	<ul style="list-style-type: none"> Based on information provided, it appears that some employee benefits provided by SPC to employees may have been inappropriately treated as non-taxable when in fact they are taxable benefits and should be included on the T4's for the respective years.

Procedures performed and findings:

Our review included determining the total compensation received by executive management. Our review consisted of analyzing the following employee benefits provided by SPC:

1. Tuition and education expenses:
 - If tuition and other professional courses were primarily for the benefit of SPC, then the amounts paid would not be taxable. In order to conclude on the appropriate treatment, it is necessary to determine if the courses were necessary for the employment position and for the primary benefit of SPC.
 - There is a lack of supporting documentation to evidence whether the amounts paid to employees for tuition covered only course costs or were intended to cover other “non-course” costs as well. If the reimbursement covered “non-course” costs then these would be considered taxable benefits and should be reported as such.
 - More information or support is required in order to fully assess the taxable benefit implications.
2. Cash payment for deferring Phd Education
 - Cash payments that do not meet the definition of a scholarship should be included on the employee's T4 slip as a taxable benefit.
3. Accommodations at St. Peter's Abbey
 - The special worksite criteria are not met where an employee is required to regularly travel to Humboldt/Muenster where SPC is located. Accordingly, any benefits paid for accommodation stays in such circumstances are taxable benefits and should be reported an employee's T4 slip.
4. Meal per diems and allowances
 - Business: Meals incurred for business purposes such as meeting with clients etc. which are reimbursed are not considered taxable benefits. However, an employee expensing meals related to the employees commute or while staying in Humboldt overnight these expenses would be a taxable benefit, unless all of the conditions above are met.

- Remote or Special Worksite: Meals incurred at a remote or special worksite are not included as a taxable benefit. As discussed above, Humboldt does not qualify as a remote or special worksite location all meals would be considered a taxable benefit unless they were provided due to working overtime.
- If an employee was entitled to claim per diems for travel associated with business, then no actual meal expenses should be claimed. If both per diem and actual expenses are claimed, then a portion of such a reimbursement would be a taxable benefit. Due to insufficient documentation, we were unable to determine if such reimbursement occurred with employees of SPC.

If none of the above exceptions apply, meals/meal allowance received by employees should have been reported as taxable benefit T4 slips.

5. Vehicle allowances including mileage allowance

- One employee was being compensated twice for travel as the individual is receiving both a kilometer allowance (in connection with SPC related travel) and expense claims for gas consumed. There was insufficient information provided in order to determine if the fuel expense that was reimbursed for related to the same travel that was provided a vehicle allowance on. If the reimbursement and the fuel expense related to the same travel then not all of the rules above are being met and both the gas reimbursement and the kilometer allowance are considered taxable benefits and should be reported on the T4 slip.

6. Tuition discounts offered to employees and family members

- While it is not formally documented in the entity's Personnel Policy, it is our understanding that employees and immediate family members receive a 50% discount on tuition for courses taken through SPC. We noted that in 2009, it appears a family member of an employee was billed for tuition and the receivable was subsequently reversed. It is unclear as to whether this was a discount or withdrawal of enrollment. If it was meant to be a discount and this discount is not available to all employees, the portion that only this employee received is a taxable benefit and should be reported on the T4 slip. In addition, we noted that SPC issued a T2202A slip to the family member for tax purposes. If SPC issued this form in error, there could be fines or penalties imposed if the error is not corrected.

Recommendation:

We recommend that SPC undertake a comprehensive analysis of past reimbursements made to all employees, including review of supporting documentation for reimbursed expenses and consideration as to whether amended T4 slips should be issued. If the item is a taxable benefit, then employer is responsible to report the taxable benefit on the T4 and withhold the appropriate income taxes (CPP and EI may not apply if they are already at the maximum for the year). If the withholdings are not made by the employer, then the CRA may assess the employer for the income tax withholdings, interest and penalties leaving the employer to recover the income taxes from the employee to the extent they are able to do so.

Term of Reference	General Findings
<p>h) Identify the most significant financial risks and key internal controls designed to mitigate these risks.</p> <p>i) Review and evaluate the key internal controls.</p>	<ul style="list-style-type: none"> • We did note some areas where controls have been appropriately designed and implemented. However, we have tested those controls and found deficiencies with respect to the operating effectiveness of those controls. • Other internal controls over key financial risks do not appear to exist.

Procedures performed and findings:

- Our review of the internal control environment consisted of obtaining an understanding of the activities over the initiation, authorization, processing, recording and reporting of financial transactions. We have based our assessment of the key controls on the size of the organization and the key areas of risk as determined by us. While we did note some areas where appropriate controls exist, overall our conclusion is that many necessary financial controls are non-existent or are not implemented or operating effectively.
- As previously mentioned in this report, we noted deficiencies within some high level controls such as:
 - There is no budget and the budget is not actively monitored by management or the Board.
 - There is no record of formal approval of employee compensation and benefits.
 - There is no evidence of policy surrounding the approval of key decisions and who is responsible for such approvals.
 - There is a lack of documented organizational policies and procedures.
- The most significant deficiencies consist of the following:
 - Segregation of incompatible accounting functions has not been achieved. While this is a common issue in smaller organizations, compensating controls should be implemented to mitigate this risk. We noted few, if any, compensating controls. For example, we noted that the employee responsible for processing payroll also processes their own pay.
 - Payroll is not independently reviewed or approved.
 - Pay increases are not formally documented. Authorization is through verbal instruction only.
 - Tuition revenue is not reconciled or reviewed to ensure accuracy or completeness.

- There is a lack of review over revenue invoices before they are issued.
- Accounts receivable are not reviewed to monitor for bad debts. No follow up on outstanding balances is performed.
- Bank reconciliations are not prepared on a timely basis and are not independently reviewed. We noted many outstanding reconciling items that had been outstanding for long periods of time.
- There is no communicated policy for procurement or purchasing limits. There are no preventative controls over items purchased with SPC funds.
- There is no review or authorization of purchases made on SPC credit cards.
- There was no documented review of vendor selection, price investigation, etc which could results in inefficient use of SPC funds.
- We noted inappropriate segregation of duties with respect to cheque signing authorities and other electronic cash disbursements.
- We noted several instances where supporting documentation is not retained to support cash disbursements.
- Appropriate documentation with respect to the Human Resource function of the organization is not maintained.
- Investments are not effectively monitored to ensure they are in accordance with SPC’s investment policy.

Recommendation:

We recommend that management review and evaluate key internal controls based on their assessment of financial reporting and fraud risks. Policies and procedures regarding internal controls should be developed, communicated and implemented throughout the organization.

Term of Reference	General Findings
j) Assess the systems and processes SPC has in place to protect and promote the interests of its diverse stakeholder groups (government, employees (faculty and administration), students, donors, vendors, alumni and the community. Specifically review and assess: i) Board responsibilities as defined by bylaw or charter.	<ul style="list-style-type: none"> ● Some requirements as set out by Board charter were met, however not all requirements were met or were indeterminable.

Procedures performed and findings:

We noted that board responsibilities are documented but are limited . We noted that documentation of Board discussions, decisions, and motions is limited, and accordingly we were unable to determine if the Board had carried out all documented responsibilities. Based on available documentation, we noted the following deficiencies:

- Due to insufficient documentation, we were unable to determine the level of review of the various programs of instruction and other education and general activities of SPC.
- The composition of the Finance Committee is inappropriate. We noted that the Finance Committee consists of senior management involved in the finance function which is not appropriate given senior management is not independent. We noted that the Board charter does not delegate or specify the responsibilities of the Finance Committee.
- The Board charter states that the Board shall meet regularly at such times and at such place as the Board shall determine at its first meeting after the commencement of the academic term. We were unable to determine if the Board was satisfying this bylaw as the meeting times were not determined or documented at the first meeting. We did however, note that meetings were conducted a minimum four times per year as required. We note that this practice did not continue once the Joint Board with CTRC was established.
- Finally, we noted that no master copy of Board or Finance Committee meeting are kept. Without signed copies of minutes, we were unable to determine the authenticity of the minutes under review. The Board did make motions to review and approve the minutes from previous meetings.

Recommendation:

We recommend that the Board charter or mandate be updated to reflect all Board responsibilities, including those delegated to the Finance Committee. Detailed meeting minutes should be kept as evidence of appropriate internal control and review. Original meeting minutes should be signed and kept as hard copies to avoid duplication or unauthorized changes.

Term of Reference	General Findings
ii) Board compliance with legislation.	<ul style="list-style-type: none"> • We noted that the reporting of taxable benefits was not in accordance with tax requirements.

Procedures performed and findings:

- We noted that the reporting of taxable benefits was not in accordance with tax requirements. Refer to g) above for further discussion.
- We reviewed “1968, Chapter 96, An Act to Incorporate St. Peter’s College, Muenster” in order to identify other specific legislation that may apply to SPC. We did not note any instances of non compliance with this act.

Recommendation:

Refer to g) above (Taxable benefits analysis).

Term of Reference	General Findings
iii) Board and committee minutes including records of decisions and votes, including the discussion and acceptance of annual audited financial statements and auditor letters of significant findings, including follow up to the board on actions to address auditor findings.	<ul style="list-style-type: none"> Without clear delegation of authority and authorization, we were unable to determine whether the Board had approved all relevant decisions and transactions.

Procedures performed and findings:

- For discussion and acceptance of annual audited financial statements and auditor letters of significant findings, including follow up to the board on actions to address auditor findings refer to item a) above.
- We noted that while some decisions and votes were documented, due to a lack of clear policy on authorization limits and approval policies, we were unable to determine whether the Board had appropriately approved all relevant decisions and transactions.

Recommendation:

Refer to item a) above (Actions over auditor recommendations)

Term of Reference	General Findings
iv) Review of president performance and compensation.	<ul style="list-style-type: none"> Refer to e) above.

Procedures performed and findings:

- With respect to the President’s compensation, refer to discussion in e) above.
- There is not documented evidence of a review of the President’s performance or linkage to performance and compensation.

Recommendation:

Refer to recommendations in e) above (Executive Compensation analysis).

Term of Reference	General Findings
v) Board and Committee review and approval of Executive Management expenses, consistent with SPC policy and procedures.	<ul style="list-style-type: none"> Refer to e) above.

- There was no documented review of Executive Management expenses by the Board or other committees. We did not note any other form of review of Executive Management expenses. Refer to e) above.

Term of Reference	General Findings
vii) Criteria for Board member selection including number of independent Board members and financially experienced Board members.	<ul style="list-style-type: none"> • Board members are selected rather than elected or nominated which may not be best practice. • Board members are financially literate, however two financially literate members are not independent from management.

Procedures performed and findings:

- As defined in the bylaws of SPC, all Board members were appointed by the Chancellor of the Abbey. The Chancellor is an “ex officio” member of the Board. We noted that the Board consisted of three Abbey members as required by the bylaws. There was no other documented criteria for Board member selection.
- As defined by Multilateral Instrument 52-110, a person is considered financially literate if "he or she has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the issuer's financial statements." We noted three individuals on the Board who would have sufficient education and experience such that they would be considered financially literate. One individual is a bank manager and the other two individuals are in the process of obtaining Certified Management Accounting designations. However, two of these individuals are members of the executive management, and as such, are not independent of the Board which is not best practice and may represent a conflict of interest.

Recommendation:

We recommend that the Board charter should clarify that the majority of Board members be independent. In addition, the Board should ensure that a sufficient number of individuals are financially literate. Financial literacy should be demonstrated through appropriate qualifications, education and experience and should be documented.

Term of Reference	General Findings
viii) Compliance with laws, including the reporting of taxable benefits.	<ul style="list-style-type: none"> Refer to g) above.

Procedures performed and findings:

- Refer to discussion in item g) above regarding compliance with the reporting of taxable benefits.
- We did not note any other monitoring of compliance with laws.
- We examined compliance with GST, PST and payroll related remittances and noted no discrepancies.

Recommendation:

Refer to g) above (taxable benefits analysis).

Term of Reference	General Findings
ix) Board discussions concerning ethics issues, fraud awareness and Board self assessments.	<ul style="list-style-type: none"> Board activities concerning ethics issues and self assessments are ineffective.

Procedures performed and findings:

- We obtained the SPC Personnel Policy (2007) and reviewed it for its contents. While the policy does refer to employee ethical behavior, the availability to employees as well as employee awareness is not determinable as there is no documentation available upon request for employee sign off.
- The policy does not indicate any whistle blower policy or similar mechanism for reporting fraud.
- There was no documented evidence of any discussions on ethical issues, fraud, or compliance with laws and regulations in the board meeting minutes.
- There was no evidence of any self review or self assessment done by the Board.

Recommendation:

We recommend that all employees should read and sign a code of conduct upon commencement of employment with SPC. Senior management should sign a statement of compliance annually. The Board should implement a monitoring tool whereby concerns of fraud or unethical behavior can be reported anonymously without consequence to the employee. The Board should perform a self assessment against predetermined criteria annually.

Term of Reference	General Findings
x) Review and assess monitoring activities including review and approval of management reports.	<ul style="list-style-type: none"> Monitoring activities are ineffective.

Procedures performed and findings:

- Based on our review of available documentation and Board meeting minutes, KPMG was not able to determine the extent of monitoring as the financial reports that are approved were not available for review, therefore the nature of financial information could not be determined.
- There is no evidence of any monitoring of compliance with the employee handbook which serves as the code of conduct.
- There is no evidence of any internal monitoring of controls by management or the Board.
- There is no evidence of any monitoring of budget to actual results. We understand that a budget did not exist for the 2010 and 2011 fiscal years.
- There is some evidence of providing updates on merger activities as well as progress on the renovations, however, significant detail was not provided.

Recommendation:

We recommend that the Board implement a standard process for reviewing management reports on a quarterly basis at a minimum. The form and content of the reports should be predetermined in order to ensure the Board is provided with all relevant decision making information. The Board should also monitor compliance with other internal control procedures.

Term of Reference	General Findings
xi) Review and assess Executive Management hiring policies and practices.	<ul style="list-style-type: none"> Hiring policies and practices are not formally documented, nor are the applied consistently.

Procedures performed and findings:

- Through discussions with SPC staff, we understand that Executive Management is hired through a panel interview with the Board, however this practice is not consistently followed or documented.
- Through discussion with SPC staff and Board members, we noted that background checks are performed however we were unable to determine if this was consistently practiced due to a lack of documentation retained in employee files.

Recommendation:

We recommend that a formal hiring policy for senior executives be developed and implemented. We understand that a personnel policy exists however it does not appear to be followed consistently. The hiring policy should be communicated to all Board members and employees. Recruitment files should be maintained which contain supporting documentation of all recruitment efforts. Once hired, employee files should be maintained for all existing employees.

Term of Reference	General Findings
xii) Review and assess due diligence, planning and affordability of capital purchases and facility improvements.	<ul style="list-style-type: none">• Due diligence is performed for some purchases, however the process is not formalized and is not consistently applied.

Procedures performed and findings:

- We noted through review of the Board meeting minutes that while there was some discussion over capital purchases by the Board, the level of discussion is not documented in significant detail. We did not note any documented evidence of submissions by management on cost analysis, pros and cons, and pay back.
- Based on meeting minutes of the Finance Committee, there is evidence that the Finance Committee has reviewed and considered financing options, however, the nature of the options considered is not available. Therefore, KPMG is not able to determine the level of due diligence used in determining feasibility of the project discussed.

Recommendation:

We recommend that a formal capital asset acquisition policy be developed. Significant purchases should be approved by the Board only after a full analysis has been prepared by management and presented to the Board for consideration. Documentation of the analysis and recommendations by the Board should be documented in the Board meeting minutes.