

Review of the Financial Position,  
Governance and Accountability, and  
Fiscal Oversight Policies & Procedures  
in Place at Durham College of  
Applied Arts and Technology

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Summary of Issues & Recommendations  
Advice to the Durham College Board of  
Governors

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October 2009

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## **Introduction: Announcement of an Independent Advisor**

In 2008 it became apparent that Durham College was facing a number of governance, accountability and financial challenges that placed the College in a very difficult position. These included:

- Organizational structure and decision-making issues;
- financial management and oversight issues;
- the college's relationship to UOIT.

An independent advisor, supported by Ernst & Young LLP and Ministry officials, was retained in December of 2008 to help Durham College address these and other issues. College staff at many levels of the organization were consulted in the preparation of the final recommendations

The mandate of the Independent Advisor was to review the financial position, the governance, accountability and fiscal oversight policies and procedures in place at the College and report back on his findings to the Minister. To the degree that it might be applicable, and respecting the autonomous nature of universities in Ontario, such review and report back was to include consideration of the College's overlapping governance and shared resources with the University of Ontario Institute of Technology (UOIT). The report and recommendations analyse College activities in seven different categories: organizational structure and decision-making processes; budgeting and overall financial management; contribution margins; shared services; information technology; capital expansion; and entrepreneurial activities.

## **Organizational Structure & Board Decision-making: Governance**

The financial performance of the College and the excess of expenditures over revenues (deficit) are the results in part of weaknesses of the organizational structure and decision making process.

Like all colleges, Durham is managed by a board of governors (BOG), which is responsible for governing the college and ensuring it is effectively and appropriately managed to achieve its established mandate and to provide needed services.

Under the UOIT legislation, at least six members of the Durham board are to be members of the UOIT board.

Durham also faced challenges with respect to appropriate monitoring and oversight of key activities, most notably in its arrangements with UOIT and in its international division.

### ***Actions Taken***

The Board of Governors has developed a work plan that outlines its key responsibilities in planning and policy development, accountability and monitoring, finance and compliance, senior management performance evaluation, and governance.

The president has taken a number of steps to improve the organizational structure of the College with a view to improving transparency and accountability:

- Realignment of the finance & accounting offices;
- Monthly budget reporting to the BOG;
- New and revised administrative, human resource policies, and contract approval processes;
- International department restructuring;
- Establishment of a campus capital & facility planning team;
- Implementation of a strategic enrolment management team;
- Review of the current strategic plan and development of a process for a new plan;
- Appointment of a vice president finance and CFO; and
- Individual performance plans to be aligned with divisional operating plans and the new strategic plan.

## **Budgeting & Overall Financial Management**

The complex nature of the College's integrated services arrangement with UOIT has led to difficulties in producing annual audited statements and valid business plans (as required by O.Reg 34/03). UOIT informally agreed to cooperate fully in any efforts to clarify these matters.

The Advisor identified the following weaknesses in the budgeting process:

- Lack of monitoring of internal budgets resulting in over-spending; formal comparison of budget to actual was only done at year end, making the College unable to react to changing financial circumstances throughout the year;
- Department heads were not held accountable for their actual results, creating little incentive to operate within budget;
- The increasing complexity of financial transactions within both the College and UOIT made it challenging and time-consuming to separate the transactions, making reporting more challenging.

### ***Actions Taken***

The College established a Re-Engineering Committee and worked with the Advisor to address areas of fiscal and budgetary concern.

The Advisor recognizes that significant progress has been made in recent months to rectify some of the outstanding issues. The College has moved forward in a number of areas:

- Continuing efforts to build a more comprehensive accounting procedures manual, to effectively use current software (Banner) functionality, and to streamline the bank reconciliation process;
- Adopting more comprehensive treasury management (to optimize working capital and to minimize cost of borrowing) and adopt periodic budgeting (i.e., by month / quarter) to better monitor in-year performance;
- Enhancing the ability of the GL system to generate financial statements for each institution;
- Collaborating with UOIT in developing a budget for shared services.

The outcome of various initiatives has improved the financial performance of the College which enabled management to forecast a balanced budget (break-even position for fiscal 2009 – 2010). The Board has approved the balanced budget and continues to monitor the performance.

## **Contribution Margins & Financial Results**

The financial shortfall in 'core operations' is a result of expenditures exceeding revenue for a multi-year period. An overall contribution margin (program revenues minus program expenses to arrive at a gross financial contribution) of 30% is viewed as necessary to reach a balanced budget; Durham's overall contribution margin declined from 30% in 2005-06 to 14% in 2007-08; two schools had a negative contribution margin.

### ***Actions Taken***

The College has introduced program costing methodology, effective April 1, 2009.

The Advisor recommends (Appendix I, R15) the College ensure proper system interfacing between Banner, payroll and any other relevant applications; ensure proper reports can be generated; ensure both management and support staff are adequately trained; additionally, management to be trained in using the reports for decision-making.

The Advisor recommends (Appendix I, R16) that the College consider annual assessment of labour market conditions to ensure its program mix remains aligned with market demands.

## **Shared Services**

There is no formal cost sharing agreement between the two parties, and as a result not all allocations of shared revenues and expenses are reflective of actual use. For example:

- Depreciation and interest expense on residential building is shared 50 / 50 between the College and UOIT. While this is reasonable based on the current year use of the buildings, this rate is not evaluated on a year-over-year basis to ensure continuing relevance;
- Depreciation and interest expenses relating to other capital assets have been recorded exclusively on the books of the institution that owns the capital asset and the related debt, regardless of usage of the asset;
- There was improper matching of revenue and expenditure of the bookstore operations of the College in the fiscal year 2008-09. The revenue of the bookstore is split between the College and UOIT when the sale is recorded; however the entire cost of the bookstore is recorded in the College's books. The transfer of the cost of books to UOIT is done at year-end. This process makes it impossible to know and monitor the monthly operational results of the bookstore during the year.

### ***Actions Taken***

The two institutions have started to address this issue; they have improved the charge-back processes by monthly invoicing re shared revenues and expenditures.

A committee of presidents and senior officials has been meeting regularly since January to develop shared service and/or service level agreements in a number of areas with a completion goal of December 2009.

The recommendations (Appendix I, R17 – R20) recognize the work accomplished, call for an equitable distribution of revenue and expenditures, and recommend that the agreements include provisions for dispute resolution and termination.

## **Information Technology**

Information technology (IT) is of critical importance to the successful operation of the College. There are a number of issues, including security, integration with UOIT, limitations of applications, and the alignment of institutional strategies and needs.

### ***Actions Taken***

A comprehensive review of IT services began in the summer; cost sharing arrangements for IT will resume subsequent to the completion of this review.

The Advisor recommends (Appendix I, R21) that the College work closely with the current vendor to maximize all relevant features of the system, improve security and separate the general ledger functions of the two institutions. The Advisor also recommends (Appendix I, R22) that the College consider having an external IT security and control review done to ensure there are valid controls and to determine the various levels of control and the accuracy of the access rights.

## **Capital Expansion**

Since 2002-03 fiscal the College has taken on significant capital asset additions without strategic capital planning through formal policy and procedural guidance. No formal project approval process was established to ensure senior management that these capital projects would enable the College to achieve its mandate and remain with current and projected financial conditions; the result has been significant increases in capital spending and long-term debt. In some cases the use of capital funds was co-mingled with the use of operating funds.

### ***Actions Taken***

Effective January 2009 the College has decided to not incur further debt, except in the case of critical strategic initiatives authorized by the Board. The Advisor recommends that the College establish a formal debt management policy with respect to investment and funding, aligned to its strategic goals and risk profile.

Investment decisions are to be supported by a detailed business case, and senior management should review and monitor the budget decisions presented to it to ensure the sustainability of debt and investment decisions.

## **Entrepreneurial Activities: Durham College Subsidiaries**

Durham College put its productivity improvement centres (PICs) and its call centre (DCC) up for sale in 2008. These are subsidiaries of a Durham College holding company: the Durham College Educational Network (DCEN) established in 2002-03.

### ***Actions Taken***

The sale of DCC closed in October 2008. The College is currently in litigation with the purchaser with respect to some obligations that the purchaser does not feel were adequately disclosed / discharged. As a result, some of the milestone payments with respect to the sale have not been received by the College. The legal negotiations are continuing.

In March 2009 Durham College sold the PIC group of companies to the existing management.

## **Conclusion**

The actions currently being taken by the College with respect to organizational structure and decision-making, budgeting and overall financial management, are improving the overall management of the College and its financial performance.

Specific initiatives including contribution margin, shared services, capital expansion, and entrepreneurial activities will continue to require management's close attention going forward.

If the College adopts the Advisor's recommendations, many of which are now underway, it should be in an even stronger position with respect to its overall management and financial performance.

## **Appendix I: Summary of Recommendations**

### **Organizational Structure and Decision-making**

R1. The Board should continue to re-emphasize its roles and responsibilities with respect to strategic planning / policy development, accountability and monitoring, finance and compliance, presidential evaluation, and governance.

R2. The Board should closely monitor the financial health of the College through regular review of management's analyses of actual results against the approved budget.

R3. A thorough and comprehensive evaluation of the President should be conducted by the Board on an annual basis to ensure the goals and objectives of the College are being met.

R4. The President should continue to work with the Board in the development and implementation of decision-making processes and accountability procedures to meet the goals and objectives of the College.

R5. The President should continue with the administrative restructuring of the organization and the creation of a culture of transparency and accountability throughout the organization.

R6. Close attention should be given to the operating and financial results of the International Education and Entrepreneurial activities.

### **Budgeting and Overall Financial Management**

R7. Continue current efforts towards building a more comprehensive accounting procedural manual.

R8. Continue with efforts to effectively use the Banner functionality.

R9. Continue to streamline the bank reconciliation process.

R10. Adopt more comprehensive treasury management to optimize working capital and minimize cost of borrowing.

R11. Conduct a comprehensive review of Banner functionality to ensure an efficient and effective alignment between information management system and the achievement of strategic goals.

R12. Enhance the capability of the GL system to generate financial statements for each institution.

R13. Adopt periodic budgeting, i.e. break down budget by months/quarter to improve ability to monitor in-year financial performance.

R14. Collaborate on developing and finalizing budget of shared services with finance personnel of UOIT.

### **Contribution Margin and Financial Results**

R15. The College should consider the following for the successful implementation of a Program Cluster Costing system:

System inter-face: Ensuring proper system inter-face between Banner and Payroll systems (as well as any other relevant applications) for accurate accumulations of expense and revenue by program clusters.

- Reporting: Ensuring that accumulated information can be properly extracted and organized in report format for review purposes.
- Training: Ensuring that both management and support staff are adequately trained for the success of program costing system. Additionally, ensuring that management is trained to use the reports provided by the program costing system for decision-making.

R16. To mitigate the risk of offering programs in areas for which there may be lower demand and less marketing potential, the College should consider performing an annual assessment of labour market conditions and the demand outlook for different trades and skills. Mix of programs and courses offered by the College may be considered within this market-demand framework.

### **Shared Services**

R17. The College and UOIT should continue with their analysis of the cost drivers for all areas of Shared Services to ensure there is an equitable distribution of revenues and expenditures between the two institutions.

R18. The College and UOIT should develop appropriate cash flow procedures associated with the analysis of the cost drivers to ensure equitable treatment of both institutions.

R19. The College and UOIT should continue to work towards the completion of the Service Level Agreements between the two institutions. These Service Level Agreements should be expedited; however, completion in some instances will be not possible until the issues with respect to the ownership of land and facilities have been resolved.

R20. The Shared Services and/or Service Level Agreements between The College and UOIT should include provisions with respect to dispute resolution and termination that protect the rights and obligations of both institutions and result in an equitable distribution of the financial burdens.

### **Information Technology (IT)**

R21. The College should continue with its initiative for the separation of GL (in Banner) and identify a solution to ensure that two separate financial statements can be easily generated for the College and UOIT. Further the solution must also solve the problem of the staff having access to the records of both the institutions. Each employee must have access to only the records of the Institution who is their employer. In addition, the College must continue to work together with the vendor to ensure that they actually use all the available additional features of the system so as ensure a seamless integration and an optimum value from the Banner system.

R22. The College should consider having an overall external IT Security and Control Review conducted for all of its IT functions, including logical and physical security. This is especially important to ensure that there are valid controls existing around the applications, especially since staff members have access to all of the data of both the institutions. Also for Banner Finance, where the access is restricted for each institution it would help the College to know about the existence of necessary level of control and accuracy of the access rights.

### **Capital Expansion**

R23. The College should establish a formal debt management policy with respect to investment and funding, aligned to its strategic goals, and to its risk tolerance profile.

R24. Investment decision should be supported by a detailed business case for such decisions.

R25. Senior management should review and monitor the forecast and budget details presented to it to ensure the sustainability of these debt and investment decisions on an ongoing basis.

**Entrepreneurial Activities**

R26. The College should continue with the divestiture procedures for all its subsidiaries and also continue to seek legal advice to ensure the collection of sale proceeds and to minimize contingent legal and financial liabilities.

R27. Due to the challenges from the current economic conditions, the College must closely monitor the operations and results of the Corporate Training Department and continue its effort to diversify into other client markets.