

UNIVERSITY OF TORONTO
THE GOVERNING COUNCIL
REPORT NUMBER 54 OF THE AUDIT COMMITTEE

October 13th, 1999

To the Business Board,
University of Toronto.

Your Committee reports that it met on Wednesday, October 13, 1999 at 5:00 p.m. in the Board Room, Simcoe Hall, with the following members present:

Mr. Robert S. Weiss (In the Chair)
Mr. Donald A. Burwash
Ms Christine A. Capewell
Professor Wally Smieliauskas

Mr. Mark L. Britt, Director,
Internal Audit Department

Secretariat:

Mr. Robert G. White, Chief
Financial Officer

Mr. Neil Dobbs
Ms Susan Girard
Mr. Kenneth Hamilton

Regrets:

Ms Wanda M. Dorosz
Mr. Roger P. Parkinson

Dr. Marlene Puffer
Ms Penny Somerville

In Attendance:

Professor Heather Munroe-Blum, member, the Governing Council, and Vice-President
- Research and International Relations**
Dr. Peter B. Munsche, Assistant Vice-President, Technology Transfer**
Dr. George Adams, President, University of Toronto Innovations Foundation**
Ms Kathryn Bennett, Senior Vice-President - Administration and Human Resources,
University of Toronto Press Inc.*
Ms Sheila Brown, Controller and Director of Financial Services
Professor Jack Gorrie, Provost's Special Advisor on Information Technology****
Mr. Graham Kemp, Director, Administrative Management Systems****
Mr. Peter Leeney, Director, Office of Statistics, Records and Convocation***
Mr. George Meadows, President and Publisher, University of Toronto Press*
Mr. Brian Marshall, Director, Human Resources*****
Mr. Michael Moore, Audit Manager, Internal Audit Department
Ms Cathy Palleschi, Ernst & Young
Mr. Pierre Piché, Associate Controller
Mr. Eugene Siciunas, Director, Computing and Networking Services****
Ms Deborah E. Simon-Edwards, Executive Assistant to the Chief Financial Officer
Dr. Eva Swenson, Director, Student Information Systems****

- * In attendance for item 2.
- ** In attendance for item 3.
- *** In attendance for item 5.
- **** In attendance for item 8.
- ***** In attendance for items 8 and 9.

ITEMS 2 AND 3 CONTAIN RECOMMENDATIONS TO THE BUSINESS BOARD FOR APPROVAL.

REPORT NUMBER 54 OF THE AUDIT COMMITTEE - October 13th, 1999**1. Report of the Previous Meeting**

Report Number 53 (June 16th, 1999) was approved.

2. University of Toronto Press Inc: Annual Report and Financial Statements, 1998-99

The Chair stated that the Audit Committee's responsibility was not to conduct its usual review of the financial statements from the point of view of adequacy of representation and disclosure. The statements had been reviewed by the Press's own Audit Committee and would be approved by the Foundation's own Board. Therefore, this Audit Committee was being asked to recommend that the Business Board "accept" rather than "approve" the annual report and financial statements. Questions about the reliability of the statements would, however, be appropriate because the financial results of the Press were consolidated into the University's statements. But, the Committee's primary task was, at the request of the Business Board, to carry the lead responsibility for the Governing Council's - the controlling corporation's - stewardship with respect to the Press.

Mr. Meadows reported that the financial statements before the Committee, which were marked "draft for discussion," had been reviewed by the Audit Committee of the Press and recommended to its Board for approval. The statements would be placed before the Board in November. The performance of the company had improved a great deal from the previous year. The management and staff of the Press had done a superb job in bringing net income from a loss of \$1,279,000 in 1997-98 to a positive \$420,000 in 1998-99. For the 1999 - 2000 year to date, the Press was ahead of the previous year by \$116,000, although it was behind its budget.

Mr. Meadows reported that the financial statements contained two new notes. Note 7 provided a breakdown of "other" operating expenses. Note 9 was a standard note concerning the year-2000 issue. While it was impossible to be certain concerning year-2000 readiness until the new millennium actually began, the Press was confident that there would be no material, adverse impact on its operations or its financial position.

Mr. Meadows recalled that the University served as the Press's banker, providing a line of credit. Over the past year, the Press had reduced the balance of its debt to the University by about \$1-million. The Press had recently made a \$5-million payment to reduce its outstanding balance - a payment arising from heavy September sales in the bookstores - but there would be need to draw back a large part of that money as the year progressed.

Mr. Meadows noted that the Canadian Union of Public Employees had been conducting a campaign to become the certified bargaining agent for the Press's full-time employees. To have a certification vote, union cards would have to be signed by at least 40% of the employees. The Press had not received notice to date that the requisite number of cards had been signed. The Press's part-time staff, which varied between twenty and eighty depending on the time of year, had become represented by a local of the Canadian Union of Public Employees. The unionization of that small group of employees had not caused any problem to the Press's operations. Negotiations were underway with other trade unions, with strike deadlines in the near future.

Questions focused on the following topics.

(a) Payments to the scholarly publishing fund and participating-interest payment to the University. A member recalled that the agreement between the University and the Press provided for an annual division of the Press's net income, including a third to be paid to a scholarly publishing fund and another third to be paid as interest on the otherwise interest-free portion of the University's loan to the Press. Mr. Meadows replied that such payments had not been made for the

REPORT NUMBER 54 OF THE AUDIT COMMITTEE - October 13th, 1999**2. University of Toronto Press Inc: Annual Report and Financial Statements, 1998-99 (Cont'd)**

past year because of the \$1.3-million loss incurred by the Press in 1997-98. When that loss was made up through the 1998-99's \$420,000 net income and the net income in subsequent years, those payments would resume.

(b) Review of operations. A member noted that the Directors of the Press were discussing a review of operations to take place during the 1999 - 2000 fiscal year. Would that be a full strategic review or a more limited review of each of the Press's current operations? Mr. Meadows replied that, while the terms of reference had not yet been established, he anticipated an all-encompassing review. The Directors of the Press were eager to ensure the best operation possible. The management of the Press was currently working on the terms of reference for the review and on gathering data for it. It was likely that the review would be conducted late in November.

On the recommendation of the Chief Financial Officer, subject to the approval of the financial statements by the Board of the University of Toronto Press Inc.,

YOUR COMMITTEE RECOMMENDS

THAT the annual report and audited financial statements of the University of Toronto Press for the year ended April 30th, 1999, copies of which are attached hereto as Appendix "A", be accepted.

Mr. White commented that the University and the Committee had good reason to have confidence in the governance of the Press. Its Board, Executive Committee, and Audit Committee were all active. They consisted of outstanding individuals including a current Governor and Business Board member, Mr. Terry Stephen, who was Chair; a former Vice-Chair of the Governing Council, Mr. E. Kendall Cork; and former Vice-President - Business Affairs of the University, Mr. Bryan Davies. The Press's Board and its committees had been providing excellent advice and guidance.

The Chair congratulated Mr. Meadows, Ms Bennett, their staff and the Directors for their diligence and success in overcoming the problems reported the year before.

3. University of Toronto Innovations Foundation: Annual Report and Financial Statements, 1998-99

The Chair noted that, again, the Audit Committee's responsibility was to consider the annual report and financial statements to assist in carrying out the Governing Council's stewardship responsibility with respect to the Innovations Foundation. Again, the Committee was being asked to recommend that the Business Board "accept" rather than "approve" the annual report and financial statements.

Professor Munroe-Blum reported that the Innovations Foundation was in the midst of a two-year process of re-organizing its operations, developing an ambitious new strategy, and preparing a new business plan. An important element was the appointment of Dr. George Adams, an inventor, a scholar, an individual who had initiated business ventures, and one who understood well the potential impact of opportunities in the commercialization of research discoveries. The Foundation's new plans and leadership were outstanding.

REPORT NUMBER 54 OF THE AUDIT COMMITTEE - October 13th, 1999**3. University of Toronto Innovations Foundation: Annual Report and Financial Statements, 1998-99 (Cont'd)**

The annual report of the previous year's operations contained bad news as well as good. Licensing revenues had declined dramatically. While disappointing, this decline had been anticipated. A significant part of the Foundation's licensing revenue over the past few years had arisen from the test for malignant hyperthermia in pigs, developed by Dr. David MacLennan of the Banting and Best Department of Medical Research. However, the collapse of the pork market had led to a severe decline in the use of the test and thus in royalty revenue from it. The decline in revenue also reflected a problem in the Foundation's previous way of operating. The Foundation had not managed a portfolio of inventions. Rather it had managed a number of files, one very large and the others smaller. Most of them were in the area of biotechnology. Dr. Adams would seek to broaden the range of inventions under management to reduce reliance on one major file and to include such other areas as advanced materials, computer software and information technology, and possibly intellectual property developed by faculty members in the humanities and social sciences. During the transition in leadership, however, the business of the Foundation had suffered. With the new strategic plan, renewed Board and new President, however, Professor Munroe-Blum was confident that the Foundation would provide a first-class technology-transfer service to the University. She noted that she would be presenting the new strategic and business plan to the Business Board at its meeting of Monday, October 25th at 5:00 p.m., and members of the Audit Committee who were not members of the Business Board would be most welcome to attend.

Dr. Adams reported that a number of changes had been made in the version of the financial statements that had been distributed to the Committee.*

- **Innova Corporation.** The Foundation owned equity in four corporations that were developing inventions managed by the Foundation. One of those equity investments was Innova Technologies Corporation, which had an original cost of \$231,000. The value of that investment had declined substantially, and the external auditors had recommended that the investment be written down to reflect its current market value of \$112,000. The writedown of \$119,000 had been reflected in the Foundation's income statement for the year, increasing its loss, and had also been reflected in its balance sheet. The writedown had been described in note 3 to the financial statements, "Investments." Note 3 also listed the Foundation's equity positions in three other firms. Because those firms were private companies, the value of those shares was hard to determine, and they were given no book value in the Foundation's accounts.
- **Commitments and contingencies: severance.** Note 10(d) dealt with severance obligations arising from the resignation of the past-President of the Foundation and two other staff members. The note stated that all obligations to those employees had, in the opinion of management, been fulfilled, with the costs paid by the University.
- **Commitments and contingencies: legal proceedings.** Note 10(c), which had appeared in the statements for a number of years, had pointed out that the Foundation had been named as a defendant in a legal action which, in the opinion of management, was without merit. Dr. Adams reported that subsequent to the end of the fiscal year, the matter had been settled. In response to a question, Dr. Adams said that the Foundation had given the technology back to its inventor. While that would mean that the Foundation would receive no

* The statements attached hereto are the final version.

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3. University of Toronto Innovations Foundation: Annual Report and Financial Statements, 1998-99 (Cont'd)

royalties from the technology, it was the Foundation's judgment, and that of certain other informed parties, that the technology would not yield revenues in any event. There had been no cash settlement with the plaintiff. The legal documentation for the settlement was currently being finalized.

- **Uncertainty due to the year-2000 issue.** This was a standard note. The Foundation had, however, updated all of its software to the latest versions, and Dr. Adams was confident that the Foundation would be safe from material year-2000 problems in its operations.

The Chair reported that he had been asked whether it would be appropriate for Professor Munroe-Blum to present the Foundation's new strategic and business plans to the Audit Committee as well as the Business Board in order to assist members in carrying out their future stewardship activities with respect to the Foundation. The Chair had agreed that it would be appropriate for the presentation to be made to governance only once at the Business Board, on the understanding that copies of the plans would be distributed to members of the Audit Committee and that interested members would be invited to attend that presentation.

Discussion focussed on the following matters.

(a) Cash-flow for operations. The Chair asked about the implications of the 1998-99 deficit of \$567,000 on the Foundation's ability to finance its future operations. Professor Munroe-Blum replied that she would be proposing that the Business Board approve a \$2.45-million line of credit to enable the Foundation to carry on its operations. The amount used under the line of credit, plus interest, would be repaid in full by 2006. Dr. Adams added that, while the Foundation had in the previous year incurred a loss of \$567,000, for the first four months of the current year its loss was only \$88,000. Therefore, the Foundation had already begun to turn around its financial performance. The request for a line of credit was based on a rigorous analysis of the Foundation's portfolio of current licensing agreements and likely future agreements. Professor Munroe-Blum added that she too was confident about the safety of the proposed credit arrangement. First, adequate royalty revenue would be generated with only the current portfolio; there was no need to rely on revenue from anticipated future licensing agreements. Second, the discount factor that had been applied had been based on a model used for pharmaceutical and biotechnology inventions, which took a great deal of time - seven to ten years - to mature and yield a stream of royalties. There was a need for several phases of animal and human testing and completion of regulatory approvals for those kinds of inventions. The Foundation would, however, be diversifying its portfolio to include other inventions that would yield royalties more quickly. For example, the Foundation was managing an invention from the Department of Chemical Engineering for the manufacture of diesel fuel from used edible oils (such as those from deep fryers). That invention, received only about three months ago, had already been licensed in the U.S. and was bringing in revenue. Licensing efforts were also underway in Europe and Asia.

(b) Foundation's financial history. A member noted that the Foundation had been established in 1980. Had its financial returns fluctuated so widely in the past? Dr. Munsche replied that the Foundation had not enjoyed notable financial success in its first decade. In the early 1990s, however, the "pig project" had begun to bring in substantial revenue, with the Foundation's financial position improving considerably but remaining fragile. With the severe decline in the pork market and the consequent decline in revenues from the pig project, the Foundation's financial situation had deteriorated. This pattern was not peculiar to the Innovations Foundation. A number of the successful North American university technology-transfer agencies were highly dependent on single inventions. While they generated large amounts of revenue, they left the agencies vulnerable to negative market

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3. University of Toronto Innovations Foundation: Annual Report and Financial Statements, 1998-99 (Cont'd)

developments and to the patenting of better technology. The Innovations Foundation planned, through the diversification of its portfolio, to reduce this exposure to risk. That did not, of course, imply that the Foundation would turn down the opportunity to manage a "gusher" if one was found.

(c) **Other licensing activity.** Dr. Munsche stressed that while the Committee was responsible for reviewing the results of the Innovations Foundation, the University's inventors were entitled to use other agencies or individuals to manage their inventions. What the Committee was seeing did not represent the full extent of revenue from inventions, which had amounted to \$1.2-million in 1998-99.

On the recommendation of the Vice-President - Research and International Relations,

YOUR COMMITTEE RECOMMENDS

THAT the annual report and audited financial statements of the University of Toronto Innovations Foundation for the year ended April 30th, 1999, copies of which are attached hereto as Appendix "B", be accepted.

4. Introductory Remarks

(a) Chair's Remarks

The Chair welcomed members to the Committee's first meeting for 1999 - 2000. Because the membership of the Committee had not changed from the previous year, there was no need for extensive introductory remarks. He did remind members that the Committee normally met in closed session. It received a great deal of sensitive material. Some items would become public after the Committee had dealt with them, such as the University's financial statements. However, other material, such as the Internal Auditor's plan, had to remain private. Governing Council Guidelines stated that all proceedings taking place in closed session were not to be discussed outside of the Committee, except with people who would have been entitled to attend the meeting - other Committee members, Business Board members or Governors. Appropriate documentation and the record of the Committee's proceedings would be released by the Secretariat in accordance with usual practice or the Chair's instructions.

(b) Deborah E. Simon-Edwards

Mr. White introduced Ms Deborah Simon-Edwards, recently appointed as his Executive Assistant. On behalf of the Committee, the Chair welcomed Ms Simon-Edwards.

5. Enrolment Audit, 1998-99

The Committee received, for information, the audit of the University's enrolment report for 1998-99. The Chair said that the audit was performed by Ernst & Young for the Ministry of Training, Colleges and Universities to verify the enrolment data provided to the Ministry as the basis of the University's claim for operating grants. Mr. Leeney said that the auditors verified both the University's enrolment report and its report on foreign registrants. In response to a question, Mr. Leeney said that summer session enrolments were included with the report for the following winter session.

REPORT NUMBER 54 OF THE AUDIT COMMITTEE - October 13th, 1999**6. Calendar of Business, 1999 - 2000**

The Committee received, for information, the Calendar of Business for 1999 - 2000. The Chair noted that the Calendar set out the items planned to come before the Committee for the year. Of course, developments might well result in additional items that would require the Committee's attention. The Chair invited members to make known any additional items they would like included in the Calendar. No additions were proposed.

7. Legal Services: Summary Report, 1998-99

The Committee received, for information, the annual report summarizing the University's use of legal services. The Chair commented that the report was a useful one, showing where the University spent money for legal services. It could also help point out to the Audit Committee areas of potential legal risk.

Mr. White reported that the spending on legal services in 1998-99 had been very close to budget and had been less than that in most recent years, except for 1997-98, when net spending had been particularly low because of some significant cost recoveries. The primary variables were the occurrence of negotiations with major employee groups in a particular year and the level of student appeals and employee grievances.

In response to questions, Ms Brown said that the legal expenses incurred by the Office of the Vice-President - Administration and Human Resources had exceeded the \$450,000 budget because of costs of about \$300,000 incurred in connection with the certification drive by administrative staff. Costs of about \$100,000 in excess of budget had been incurred with respect to student appeals (where students appealed decisions of their divisions in denying special consideration under the academic regulations), cases before the University's tribunals (where the University brought charges alleging improper behaviour), and faculty grievances. In addition, exceptional legal costs had been incurred in a case where a former student had appealed a University decision to the courts. The cost of faculty grievances appeared in the budget of the Provost's Office (for counsel for the University) and the Governing Council Secretariat (for counsel to the Grievance Review Panel).

A member enquired about the process for engaging legal counsel. Mr. White replied that the Purchasing Policy required a review of professional services at least every five years. The review of services by the University's general legal counsel was currently due. Mr. White did, however, think that a change in the general legal counsel would be very disadvantageous given the extraordinary institutional expertise and memory of the incumbent. With respect to counsel engaged for more specific assignments, the process had been different. For example, the University had recently retained a firm to provide assistance with immigration matters for newly hired faculty from outside of Canada. In that case, three firms with the special expertise in the area had been invited to make proposals.

During the course of his presentation, Mr. White noted that he could not recall the origin of the annual report to the Audit Committee. The Committee would no doubt have found the report to be particularly useful when, a number of years ago, costs for legal services were rising significantly. Those costs had, however, stabilized in recent years. The terms of reference did not require the report, and Mr. White thought it would be useful to enquire whether the Committee would like to continue to receive it. The Chair replied that it was common for audit committees to review legal fees. Among other things, it gave the Committee an indication of areas of risk. He therefore asked the administration to continue to submit the report annually. Mr. White noted that the Vice-President - Administration and Human Resources had overall responsibility for monitoring legal costs. Professor Finlayson had attended on one occasion to deal with a report that

REPORT NUMBER 54 OF THE AUDIT COMMITTEE - October 13th, 1999**7. Legal Services: Summary Report, 1998-99 (Cont'd)**

contained certain unusual features. Would the Committee like the Vice-President to attend as a matter of course to present the report? It was generally agreed that the Vice-President's attendance would not be required. If there were questions that Mr. White and his colleagues could not answer, they could be held over for response at the next meeting.

8. Year 2000 Preparedness

The Chair said that year-2000 preparedness had been a matter of concern. He thought that the University had been moving in the right direction, both in terms of the actions being taken and the documentation of those actions. University staff had had the opportunity over the summer to address the issue. Nothing had been uncovered to demonstrate that the University would have a problem. The concern was, rather, the unknown.

(a) Professor Gorrie's Report

Professor Gorrie reported that since the distribution of his report to the Committee dated October 5th, 1999, a number of other units had reported that they were essentially year-2000 compliant, leaving nine units yet to report compliance. All of the central services were compliant, with the Administrative Management Systems and the Student Information System reporting level-two readiness (all major systems ready, with some smaller system(s) still under review, none of which would, if they failed, have a significant impact on the work of the division).

Professor Gorrie commented on the status of year-2000 readiness in the nine units that had not yet reported that they were at level-one or level-two readiness.

- **Applied Science and Engineering.** Although Professor Gorrie had anticipated that the Faculty would be ready by the end of the summer, it had reported a target date of December 15th, 1999. This had surprised Professor Gorrie because Applied Science and Engineering was probably the best placed division in terms of its internal computing expertise. All of the Faculty's mission-critical systems were ready, with the Faculty using the Administrative Management Systems and the Student Information System for its key administrative operations. The Faculty had reported a later readiness date in order to leave time to review thoroughly all of its internal operations and systems. The systems that might require remedy were the smaller ones on desk-top computers or personal computers. Professor Gorrie was confident that the Faculty would achieve readiness and that it had fall-backs in all cases of non-compliant systems.
- **Faculty of Architecture, Landscape, and Design.** That Faculty had been close to becoming compliant for some time, but it had experienced staff turnover that had prevented the completion of the task by the target date of September 30th. No new compliance date had been established. The non-compliant systems were limited to two teaching laboratories. The output of those systems was not date-sensitive; therefore if the year-2000 problem were not to be remedied, the Faculty could simply roll back the date on the systems to show an earlier year, with the output of the systems still being fully satisfactory.
- **Faculty of Dentistry.** The Faculty's new, year-2000-compliant patient-administration system, purchased at considerable cost, was now in place. The Faculty had now only to upgrade its Novell network software by one level - a relatively simple upgrade. Novell had previously told the Faculty that its version of the network software was year-2000 complaint, and the Faculty had learned only in the past two weeks that the upgrade would be required.

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8. Year 2000 Preparedness (Cont'd)

(a) Professor Gorrie's Report (Cont'd)

- **Faculty of Medicine.** Only five units out of the sixty in the Faculty were not yet year-2000 compliant, and the Faculty had established a mid-October readiness date. The Chief Administrative Officer of the Faculty had advised that each of the five non-compliant units had a plan in place.
- **Faculty of Music.** That Faculty had very little internal expertise, and there had been some debate on its need for action. The Faculty's exposure was limited to personal computers, with twenty out of seventy requiring replacement. With the Vice-President and Provost's approval of support from a central budget, the Faculty would replace those computers. Professor Gorrie therefore anticipated no problem.
- **Innis College.** The College had only recently filed its report, having hired a new staff member with the necessary technical abilities. The College had moved forward its target compliance date from December 31st to November 30th, and it had a contingency plan in place. The College's computerized operations were not large ones.
- **St. Michael's College.** The College had moved forward its compliance date to October 15th. Four of its departments, including the Library and the Pontifical Institute of Mediaeval Studies, were not participating in the year-2000 compliance program; they might have decided to proceed on their own, or they might have no computers. St. Michael's College was a federated university, legally separate from the University of Toronto, and therefore the College was able to choose to deal with the matter as it saw fit.
- **University of Toronto at Scarborough.** Although a written report had not been filed, the Manager of Academic Services at the Scarborough Campus had confirmed by telephone that his campus was at level-two readiness.
- **School of Continuing Studies.** Although a report had not been received, the School had been scheduled to achieve readiness the previous day. As of one month ago, the School's compliance plan had been proceeding on schedule. Should the School's systems fail, it had a contingency plan to revert to semi-manual processing.

(b) Internal Audit Department Report

The Chair recalled that the Internal Audit Department was conducting a continuous audit review of the status of the University's year-2000 readiness. In particular, the Department was assessing the accuracy and completeness of the readiness reports submitted to Professor Gorrie. An interim report dated September 1st, 1999 had been distributed to members of the Committee. That report had outlined a number of deficiencies and had made a number of recommendations for action. Because some time had passed since the issuance of that report, the Chair invited the Department to bring the Committee up to date.

Mr. Moore reported as follows:

- **Central administration.** Mr. Moore understood that testing of the Administrative Management Systems and the Student Information System was nearing completion, but he had not learned the results of the testing to date. In spread-sheet, word-processing and database programs, some offices had not identified date-sensitive macros and formulae.

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8. Year 2000 Preparedness (Cont'd)

(b) Internal Audit Department Report (Cont'd)

When such macros and formulae had been identified, they had usually been corrected or replaced. In response to a question, Mr. Moore said that in one case only, testing had revealed that the corrections had not eliminated the problem.

- **Human Resources Department.** The Department had to migrate certain data from an old, non-compliant server to a new server. Mr. Marshall said that the only work remaining to be done was the physical connection of a few personal computers to the new server. The new server, its software and the data were otherwise fully year-2000 compliant.
- **Department of Environmental Health and Safety.** The Department's database system, which was critical to its operations, was not year-2000 compliant. The system vendor provided a relatively inexpensive upgrade. The Department was awaiting delivery of that upgrade. There was therefore no cause for concern.
- **School of Graduate Studies.** The School had certain information on its legacy student records system, which was not year-2000 compliant. The School had hired a consultant both (a) to convert the data to a form allowing its integration with the Repository of Student Information (ROSI), the new student records system, and (b) to replace two-digit dates with four-digit dates. The work was nearing completion. The first part of the consultant's assignment, enabling the integration of the data from the old system, was the largest part of the task.
- **Faculty of Pharmacy.** One non-compliant system had been described as mission-critical. This system was, however, used by only one member of the faculty. That individual's research would be brought to a halt if the system were not made compliant, but there would be no year-2000 problem critical to the work of the Faculty as a whole.
- **Faculty of Medicine.** The Faculty had taken the view that each Department was fully responsible for ensuring its own year-2000 readiness. It was satisfied with reports it had received from its Departments, and the Faculty itself was not taking an active role.

(c) Reports from the Directors of the Central Systems Departments

Mr. White said that he had invited the Directors of the central systems departments to the meeting so that they could report on their progress in achieving year-2000 readiness. Reports from the Directors of Student Information Systems and Administrative Management Systems had been distributed.

- **Student Information Systems.** Dr. Swenson said that her Department was still testing the Student Information System for year-2000 compliance, but the testing was almost complete. The system had to be tested at three levels. The actual student information system, ROSI, was year-2000 compliant from its recent inception. Use of the ROSI system, however, depended on systems software and on the basic operating system, which were supplied by a number of different vendors. The I.B.M. operating system had been tested with its clock running in the year 2000 and the test had been successful. All aspects of the systems software had been upgraded to year-2000 compliant versions and had been tested successfully. A copy of representative student data was being installed for a test of all three elements working together with the clock run forward to the year 2000. This final test would take place in the last weekend of October. Dr. Swenson noted that the ROSI system had

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8. Year 2000 Preparedness (Cont'd)

(c) Reports from the Directors of the Central Systems Departments (Cont'd)

been given an integrated test in a similar environment at the University of Ottawa. Given the successful testing of all elements of the Student Information System and in light of the success of the test at the University of Ottawa, Dr. Swenson did not anticipate any problem.

- **Administrative Management Systems.** Mr. Kemp said that his Department had been testing its systems for year-2000 compliance since the spring. The systems supplied by S.A.P. had been certified as compliant by the supplier, but they had been tested nonetheless. The systems were currently processing transactions with ending dates in the year 2000. Internally developed software to adapt the S.A.P. software had also been tested using S.A.P.'s "safety check 2000" software. All suspicious fields had been examined, and any necessary changes had been made. The final test had involved the rollover of the date to January 2nd, 2000, and that test had been completed without any problem. A payroll run dated in 2000 would be completed that evening. Mr. Kemp stressed that the final test, involving the entire system operating with the date rolled over to the new year, could have been completed earlier. It had, however, been delayed to await an upgrade to the system so that the complete package tested would be that actually in use at the beginning of the new millennium. All testing would be completed within the week, and Mr. Kemp was fully confident that the Administrative Management Systems would operate without incident in the new year.
- **Computing and Networking Services.** Mr. Siciunas said that his Department was responsible for operating the physical system, running the applications, and providing support to users. With respect to the testing of the Student Information System, Mr. Siciunas' Department had created a parallel environment to allow testing without disruption of the student data. With respect to the Administrative Management Systems, testing had been completed by a rollover of the systems date to the year 2000, and all systems had functioned well. There would be only one difference in the actual environment in the year 2000. The Administrative Management Systems operated on a number of processors, and a new processor had not yet been received. It had been certified as year-2000 compliant by the supplier, I.B.M., and it would be tested separately. Mr. Siciunas therefore had a high degree of confidence that the central systems would be able to handle the transition to the year 2000.

The Chair thanked the Directors for their reports and for their considerable efforts with respect to this very important matter. Mr. Britt also commended the Directors for their actions. His Department had raised issues, to which the Directors had responded in a positive manner. He would report at the November meeting on the outcome of the final testing. The Chair understood the high level of confidence in the central systems, although that level of confidence would be greater in the near future after the completion of all testing. The Committee had been concerned about the timing of action to ensure compliance; it would have preferred that the steps described by the Directors have been taken sooner. But, it was clear that all possible steps had now been taken and the outcome appeared to be satisfactory. The Chair asked that he and the Committee be notified of any problem that might appear.

(d) Discussion

Questions and discussion focused on the following matters.

- (i) **Approval of contingency plans.** The Chair asked whether Professor Gorrie signed off on the contingency plans, indicating his view that they were adequate. Professor Gorrie replied that while there was no formal sign-off procedure, he reviewed all contingency plans and advised

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the Vice-President and Provost of their adequacy. Any unsatisfactory plan would be referred back to the unit.

(ii) Administration's general assessment of readiness. In response to the Chair's question, Professor Gorrie stated that he was confident that the University's operations would continue into the new year without disruption and without liability.

(iii) New Internal Audit report. The Chair noted that a member, who was not able to attend, had viewed the Internal Audit Department's report as a matter of great concern. The Chair asked whether the Department would prepare a new report addressing the issues it had raised in its first report. Mr. Britt replied that audit work had been continuing since the report that had been distributed to the Committee. That report itself was an interim one, and a final report would be distributed to the Committee for its next meeting. That report would include the outcome of the more recent work. The Chair expressed his pleasure that audit testing would continue. This was a critically important matter.

(iv) Accountability for divisional year-2000 preparedness. The Chair expressed his discomfort that in some divisions, including the Faculty of Medicine, the University's process could not provide the Committee with assurance of year-2000 readiness. The Committee was relying on the process that the administration had put into place, but the Internal Audit report made it apparent that the process was by no means "bullet proof." Was there cause for concern with respect to the University's exposure to the year-2000 problem?

Mr. Britt replied that while he had been unable to provide any formal assurance in his interim report, work was proceeding towards achieving readiness. Problems remained in only five or six units, and those problems were being dealt with.

Professor Gorrie said that the Vice-President and Provost, in establishing the University's plan concerning year-2000 compliance, had relied on the usual process of reporting and responsibility to the next higher level in the organizational structure. In academic divisions, responsible staff would report to their department chairs who would in turn report to their deans, and so on. It was generally the case that officers would accept the assurances provided by the people who reported to them. There was no assumption that the higher level officers would initiate checks. In the case of the Faculty of Medicine, the Dean relied on the representations of his Chairs. The Dean's role was coordination rather than verification. It had been very useful that the Internal Audit Department had undertaken its reviews. While those reviews had not found any problem that would have a serious impact on the University's functioning, they had led to further activity in cases where such activity was necessary.

The Chair said that he was pleased that there had been a high level of activity and he recognized the good work of those units that were moving forward. His concern was the exceptions. Those units had delayed too long, leaving no time to deal with unanticipated problems. That was unacceptable. Time was no longer an ally, and the Chair urged that the strongest action be taken in cases where units had not moved forward to achieve readiness.

Another member agreed. He was bothered that there had apparently been no serious effort on the part of the central administration to ensure that appropriate actions were being taken in all units. He asked that the new reports from both the Internal Audit Department and from Professor Gorrie be provided to members of the Committee well in advance of its November meeting.

REPORT NUMBER 54 OF THE AUDIT COMMITTEE - October 13th, 1999**8. Year 2000 Preparedness (Cont'd)****(d) Discussion (Cont'd)**

Mr. White assured members that all of Professor Gorrie's reports and the Internal Audit report had been distributed to the University's senior executive group and had been considered at meetings of that group. The Vice-President and Provost had taken note of inaction in particular divisions, and the President had immediately forwarded the Internal Audit Department's report to the Chair. Professor Gorrie added that the Vice-President and Provost had made calls to Deans in appropriate cases, including the Faculty of Applied Science and Engineering. In the case of St. Michael's College, the Provost had instructed Professor Gorrie to make his assistance available. Given the independent legal status of St. Michael's College, the University of Toronto administration could do no more.

The Chair asked to be notified immediately of any case where a report would show non-compliance. His concern was those few remaining units that were not treating the matter with appropriate urgency.

Mr. Moore noted that he anticipated no serious problem from the major units cited in the Internal Audit report. There was no problem in the Faculty of Arts and Science; the Faculty had simply not submitted its report in a timely manner. In the Faculty of Applied Science and Engineering, there were no problems with mission-critical systems. What was required was simply updates to software in laboratories used by graduate and undergraduate students.

The Chair commented that he could accept delay with respect to systems that were not mission-critical. His concern was the few exceptions where units had simply not made the effort to deal with important systems. He urged that vigorous action be taken in those cases.

**9. Business Arising from the Report of the Previous Meeting:
Item 6, Internal Audit Annual Report, 1998-99**

The Chair recalled that at the previous meeting the Committee had considered the annual report of the Internal Audit Department. During that discussion, a number of matters had arisen that required follow up.

(a) Central Monitoring of Payroll Transactions

Ms Brown said that the main payroll control was the monthly monitoring of gross pay amounts by each budget unit. The administration had developed two additional reports from the Human Resources Information System to monitor payroll transactions. Those reports were reviewed monthly by the Human Resources Department. The first report listed all payroll amounts above a particular threshold. Those payments would be given a detailed review. The amount used in the initial reports was \$8,000 per month, but that amount might well be refined on the basis of experience, and different amounts might be used for members of different employee groups. The second report identified cases where payroll disbursements for two or more people were made to the same bank account. That report could identify cases where fraudulent payments were being made.

Mr. Marshall commented on the outcome of the initial review of the monitoring reports. The first report listed 1,250 employees. Of those employees, 42 cases raised concerns. Investigation indicated that in most cases the payment was appropriate, often representing a stipend for over-load teaching added to the payment of a regular salary. Two questionable cases were found, where the Human Resources Department approached the budget unit, which in turn moved at once to correct the problem.

REPORT NUMBER 54 OF THE AUDIT COMMITTEE - October 13th, 1999**9. Business Arising from the Report of the Previous Meeting:
Item 6, Internal Audit Annual Report, 1998-99 (Cont'd)****(a) Central Monitoring of Payroll Transactions** (Cont'd)

Mr. Marshall added that further reports would be produced. An upgraded version of the Human Resources Information System included a number of standard monitoring reports that would be useful. In addition, the Department would have a number of custom reports developed to suit the University's particular circumstances.

Mr. White noted that the development of such reports had been a concept that had been important to the administration in moving to a decentralized configuration for financial and human-resource administration, and he was pleased that the new reports were being developed. In response to a question, Mr. Britt said that the Internal Audit Department had not yet had an opportunity to assess the reports.

(b) Centrally Generated Exceptions Reports for Budget-Unit Heads and Principal Investigators

Ms Brown said that new exceptions reports generated from the Financial Administration System were intended to provide additional tools to budget-unit heads and others carrying out financial oversight responsibilities. The exceptions reports would make it easier to focus on potentially questionable transactions. The response to those reports to date had been very good. The reports were designed to be flexible. For example, the floor amount for the inclusion of any exception in the reports could be changed from month to month to deter anyone seeking to execute an improper transaction just beneath a fixed floor level. The five new reports were being reviewed by focus groups including academic administrators and business officers. Those groups would provide advice on the usefulness of each new report. When any appropriate modifications were made, the reports would be produced monthly and distributed to all budget-unit heads and principal investigators.

(c) Sanctions for Intentional Violations of Financial Policies and for Misstatements on Accountability Reports

Ms Brown noted that the most problematic area of intentional violations of policy, as identified in internal audits, were violations of the Purchasing Policy. The specific problem was the effecting of purchases through multiple invoices to keep those invoices under the threshold where a purchase-order procedure would be appropriate: \$5,000 for purchase orders issued by Departments and \$25,000 for orders issued by the Purchasing Services Department. In response to the practice of divided purchases, Ms Brown was reviewing monthly exceptions reports listing multiple invoices from the same vendors. The outcome would be included in the next regular report to the Audit Committee on central monitoring activities.

Ms Brown recalled that a second area of concern was misstatements on administrative accountability reports. Those misstatements were most often the result of misunderstandings. For example, unit heads often thought that they had reviewed the appropriate financial reports when they reviewed reports produced by shadow systems within their units. Of course, such review was unsatisfactory because the content of those reports, unlike the centrally produced reports, could well have been manipulated by the individuals controlling the departmental shadow systems. The Financial Services Office was reminding academic administrators in orientations and other sessions of their obligation to review the centrally produced reports. In addition, by improving the quality of the central Financial Information System, especially for principal investigators, the Financial Services Office was seeking to remove the incentive even to maintain shadow systems. Most significantly, the Financial Information System would soon be able to

REPORT NUMBER 54 OF THE AUDIT COMMITTEE - October 13th, 1999**9. Business Arising from the Report of the Previous Meeting:
Item 6, Internal Audit Annual Report, 1998-99 (Cont'd)****(c) Sanctions for Intentional Violations of Financial Policies and for Misstatements on Accountability Reports (Cont'd)**

accommodate the fiscal year of each research grant rather than only the University's own fiscal year. Finally, the new exceptions reports would provide an opportunity to remind administrators of their responsibility to review the basic centrally produced reports.

The Chair thanked Ms Brown for her report and stated his appreciation for the administration's responsiveness and continued progress. However, he noted the concern, conveyed to him by an absent member before the meeting, with respect to those academic administrators who apparently did not take their financial-administrative responsibilities seriously. The member suggested that in cases of intentional violations of University policy and procedures, the names of the individuals be reported to the Audit Committee and stated in the Committee's public report. That might well promote changed behaviour.

Mr. White replied that it was the administration's responsibility to sanction, and if necessary dismiss, administrative officers who were not carrying out their responsibilities. It would be an unfortunate reflection on the administration if it became necessary in the last resort to report individual performance to the Audit Committee. The Chair replied that the objective of the member's suggestion was to assist the administration by establishing a procedure that would encourage compliance. He thanked Mr. White and his colleagues for the steps they had taken to improve the internal-control environment.

10. Report of the Administration

Mr. White and Mr. Britt stated that they knew of no additional matters that should be drawn to the attention of the Committee.

11. Date of Next Meeting

The Chair reminded members that the next regular meeting was scheduled for Wednesday, November 24th, 1999 at 5:00 p.m. Given the late hour and the importance of the items, the Chair proposed that the following items on the current agenda be deferred to allow their full consideration at the November 24th meeting:

- Internal Audit: Risk Assessment Process in Preparing the Annual Audit Plan
- External Auditors' Engagement Letter, 1999 - 2000
- External Audit: Review of Fees

With respect to the Internal Audit Department's risk assessment process used in the preparation of the Department's annual plan, the Chair stated that the report was a very important one and central to the Committee's responsibility. He therefore suggested that Mr. Britt consider preparing a written report that could be distributed in advance of the meeting and discussed at the meeting.

The meeting adjourned at 7:35 p.m.

November 18th, 1999

Secretary

Chair