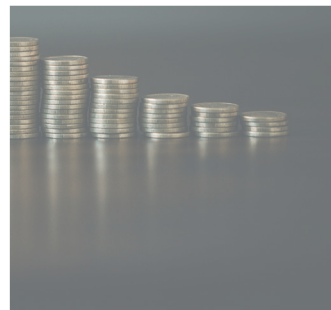
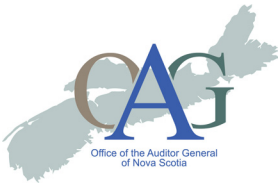


2025
**Report of the Auditor General
to the Nova Scotia
House of Assembly**

**Funding to Universities:
Department of Advanced Education**



Performance Audit
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March 4, 2025

Honourable Danielle Barkhouse
Speaker
House of Assembly
Province of Nova Scotia

Dear Madam Speaker:

I have the honour to submit herewith my Report to the House of Assembly under Section 18(2) of the *Auditor General Act*, to be laid before the House in accordance with Section 18(4) of the *Auditor General Act*.

Respectfully,

Kim Adair, FCPA, FCA, ICD.D
Auditor General of Nova Scotia

5161 George Street
Royal Centre, Suite 400
Halifax, NS B3J 1M7
Telephone: (902) 424-5907
www.oag-ns.ca



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Funding to Universities

Department of Advanced Education

Key Messages

Department is not effectively funding, monitoring, or holding universities accountable for public funds; new 2024-25 bilateral agreements, if followed, should improve accountability

- Financial health and sustainability of universities is not defined or regularly assessed
- Over five years, \$1.9 billion in public funds for unrestricted operating grants based on unsupported arbitrary allocation
- Funding agreement terms and conditions not adequate to protect public funds
- No financial performance accountability to protect public funds despite concern raised with the long-term financial sustainability of certain universities
- No plan to assess if \$276.9 million in health education funding over five years will achieve intended priorities

Why We Did This Audit

- Nova Scotia's 10 universities received \$2.5 billion in Department funding over last five years
- Financially healthy and sustainable universities are important to Nova Scotia's economy
- University sector has evolved in the 10 years since our last audit
- Current one-year funding agreements expire March 31, 2025

Department's Approach to Funding Prioritizes Unrestricted Operating Grants, Although New Bilateral Agreements Should Improve Accountability

- Department placed no restrictions on \$1.9 billion in operating grants for universities over five years
- Allocation of university operating grants is arbitrary and not supported
- Committee responsible for implementing the 2019-24 Memorandum of Understanding did not create the required work plan
- New 2024-25 bilateral agreements should improve accountability through performance targets, however \$139.9 million paid to universities before agreements were signed

Program Grants of \$276.9 Million Over Five Years to Address Provincial Healthcare Priorities Lack Protections for Public Funds and a Plan to Assess Outcomes

- Testing revealed the Department has not assessed whether \$163.8 million in health education grants are achieving healthcare priorities
 - Unclear if nursing seat expansion, despite \$65 million spent, is adding more nurses to the provincial workforce
 - \$119.4 million in health education grants unspent by universities as of September 2024
- Funding agreement terms and conditions not adequate to protect public funds
- Enforcement of funding agreements requires improvement











Department Does Not Adequately Monitor the Financial Health and Sustainability of Universities

- Department has not defined financial health and sustainability for universities
- No indicators or benchmarks to assess financial health and sustainability of universities
- Some universities report a pattern of year-end deficits
- Universities owe \$370.3 million in long-term debt and rely on government, on average, for a third of their annual revenue
- Department highlighted concern with the long-term financial sustainability of certain universities, but places no financial performance accountability to protect provincial funding
- 2015 *Universities and Accountability Sustainability Act* intended to promote greater funding accountability, but is not effectively used by Department

Reference Guide – Key Findings and Observations

Paragraph	Key Findings and Observations
<i>Department's Approach to Funding Prioritizes Unrestricted Operating Grants, Although New Bilateral Agreements Should Improve Accountability</i>	
1.13	Department places no restrictions on how universities spend operating grants
1.15	Allocation of operating grants is arbitrary and based on a formula established over 25 years ago
1.19	One per cent annual operating grant increase not supported
1.21	Committee responsible for implementing the 2019-24 MOU did not create required work plan
1.24	New bilateral agreements introduced in 2024-25 intended to improve accountability
1.26	New bilateral agreements include performance targets for \$46.2 million of operating grant funding
1.29	Two per cent (\$3.5 million) in additional payments available to universities under bilateral agreements once strategic alignment plan approved
1.33	\$139.9 million paid to universities before bilateral agreements were signed
<i>Program Grants of \$276.9 Million Over Five Years to Address Provincial Healthcare Priorities Lack Protections for Public Funds and a Plan to Assess Outcomes</i>	
1.35	Health education is a top priority for Department yet it has no plan to assess if health funding outcomes are met
1.41	No assessment of funding for health education
1.47	\$119.4 million in health education program grants unspent as of September 2024
1.48	Health education grant costs not supported
1.50	Funding agreements missing key terms and conditions to protect public funds
1.56	Enforcement of funding agreements requires improvement
<i>Department Does Not Adequately Monitor the Financial Health and Sustainability of Universities</i>	
1.58	Department has not defined financial health and sustainability for universities
1.61	No indicators or benchmarks to assess financial health and sustainability of universities
1.64	Universities report varying financial results over five-year period
1.67	Government funding accounts for an average of 33 per cent of university revenue
1.69	Universities owe \$370.3 million in long-term debt
1.74	Universities have over \$1 billion in endowment funds
1.77	Universities list nearly \$2 billion in capital assets, but almost \$1 billion needed in maintenance
1.82	Department highlighted concern with the long-term financial sustainability of certain universities
1.86	2015 <i>Universities Accountability and Sustainability Act</i> intended to promote greater funding accountability
1.88	No financial performance accountability to protect provincial funding, with few exceptions
1.89	Outcome agreements not effectively used by Department
1.93	Department did not review standardized financial reports from universities prior to providing additional funding
1.97	Onus on the universities, not Department, to initiate revitalization process
1.101	Unclear if Department ever met with universities to discuss financial results
1.103	More universities participating in alternative payment arrangements



Recommendations and Responses

Recommendation	Department Response	
<p>Recommendation 1.1 We recommend the Department of Advanced Education identify and evaluate new operating grant funding allocation options. A new allocation model should specify what factors are considered in determining the funding level and should be reviewed and updated on a regular basis.</p> <p style="text-align: right;">See paragraph 1.20</p>	<p>The Department will explore and evaluate options for a new university operating grant funding model.</p>	<p> Department Agrees</p> <p> Target Date for Implementation: April 2027</p>
<p>Recommendation 1.2 We recommend the Department of Advanced Education only disburse public funds to universities after agreements are signed by all parties.</p> <p style="text-align: right;">See paragraph 1.34</p>	<p>While there was a 6-week gap between the disbursement of funds and the signing of the bilateral agreements in 2024-25, it was due to an administrative correction. In future, the Department will ensure the agreements are signed prior to the release of funds.</p>	<p> Department Agrees</p> <p> Target Date for Implementation: Complete</p>
<p>Recommendation 1.3 We recommend the Department of Advanced Education develop a plan for health education funding. We recommend the plan include:</p> <ul style="list-style-type: none"> • roles and responsibilities; • support for the cost of the initiatives; • goals and objectives; • timelines for completion; • measurement of progress; and, • public reporting requirements detailing the effectiveness of funding. <p style="text-align: right;">See paragraph 1.47</p>	<p>The newly formed Health Education Programs and Planning (HEPP) unit within the Department will work with key partners to create a plan that advances the strategic health priorities of government. Public reporting will be incorporated into existing public reporting mechanisms e.g. Accountability Reporting.</p>	<p> Department Agrees</p> <p> Target Date for Implementation: April 2026</p>
<p>Recommendation 1.4 We recommend the Department of Advanced Education require detailed cost estimates prior to determining program grant amounts.</p> <p style="text-align: right;">See paragraph 1.49</p>	<p>The Department will require detailed cost estimates prior to determining program grant amounts.</p>	<p> Department Agrees</p> <p> Target Date for Implementation: April 2025</p>
<p>Recommendation 1.5 We recommend the Department of Advanced Education require funding agreements with universities include terms and conditions to address:</p> <ul style="list-style-type: none"> • conflict of interest; • the ability to audit; • the assignment of interest earned on funds; • the return of unused funds to the Department; and, • measurable performance targets. <p style="text-align: right;">See paragraph 1.55</p>	<p>As noted in the OAG report, the Department enhanced terms and conditions in funding agreements in 2023-24. In January 2025, following the dates of this audit, the Department implemented a new funding letter agreement template which includes these terms and conditions.</p>	<p> Department Agrees</p> <p> Target Date for Implementation: Complete</p>

Recommendations and Responses

Recommendation	Department Response	
<p>Recommendation 1.6 We recommend the Department of Advanced Education monitor funding agreements for compliance with terms and conditions and enforce due dates for deliverables. Funding should not be disbursed if universities do not comply with the terms and conditions of funding agreements.</p> <p style="text-align: right;">See paragraph 1.57</p>	<p>The Department will continue to monitor funding agreements for compliance. In January 2025, the Department formalized the process for monitoring funding agreement compliance which includes an established process and method.</p>	<p> Department Agrees</p> <p> Target Date for Implementation: Complete</p>
<p>Recommendation 1.7 We recommend the Department of Advanced Education define what financial health and sustainability means for universities.</p> <p style="text-align: right;">See paragraph 1.60</p>	<p>Financial health and sustainability will be defined through the use of financial indicators and benchmarks in recommendation 1.8.</p>	<p> Department Agrees</p> <p> Target Date for Implementation: November 2025</p>
<p>Recommendation 1.8 We recommend the Department of Advanced Education work with universities receiving public funds to develop financial indicators and benchmarks to assess the financial health and sustainability of universities and report the results publicly.</p> <p style="text-align: right;">See paragraph 1.63</p>	<p>The Department is working collaboratively with universities to develop financial metrics and benchmarks which will support monitoring and assessing the financial health of Nova Scotia universities.</p>	<p> Department Agrees</p> <p> Target Date for Implementation: November 2025</p>
<p>Recommendation 1.9 We recommend the Department of Advanced Education add accountabilities for financial performance as a condition of operating grants.</p> <p style="text-align: right;">See paragraph 1.102</p>	<p>The Department will include financial reporting requirements and specific accountabilities impacting financial performance as a condition of receiving an operating grant.</p>	<p> Department Agrees</p> <p> Target Date for Implementation: April 2025</p>
<p>Recommendation 1.10 We recommend the Department of Advanced Education improve transparency, comparability, and accountability with the financial reporting and review process. This includes defining reporting requirements and developing a standardized financial report to improve transparency and comparability of financial results; and regularly meeting with universities to review financial results and the indicators of financial health and sustainability.</p> <p style="text-align: right;">See paragraph 1.102</p>	<p>The Department currently requires universities to provide financial information in a standardized financial template and will work with the universities to review and revise the template as needed, to improve transparency and comparability.</p> <p>The Department meets with universities frequently throughout the year on various topics. Starting in 2025-26, the Department will schedule at least annual meetings with universities to specifically discuss financial results, including the university financial metrics and benchmarks.</p>	<p> Department Agrees</p> <p> Target Date for Implementation: April 2026</p>

Recommendations and Responses

Recommendation	Department Response
<p>Recommendation 1.11 We recommend the Department of Advanced Education require a plan from universities that request an alternative payment arrangement to rectify their cash flow challenges and demonstrate financial sustainability.</p> <p>See paragraph 1.106</p>	<p>Cashflow management will be reflected as part of the metrics identified in recommendation 1.8 and the accountabilities for financial performance in recommendation 1.9.</p> <p> Department Agrees</p> <p> Target Date for Implementation: November 2025</p>

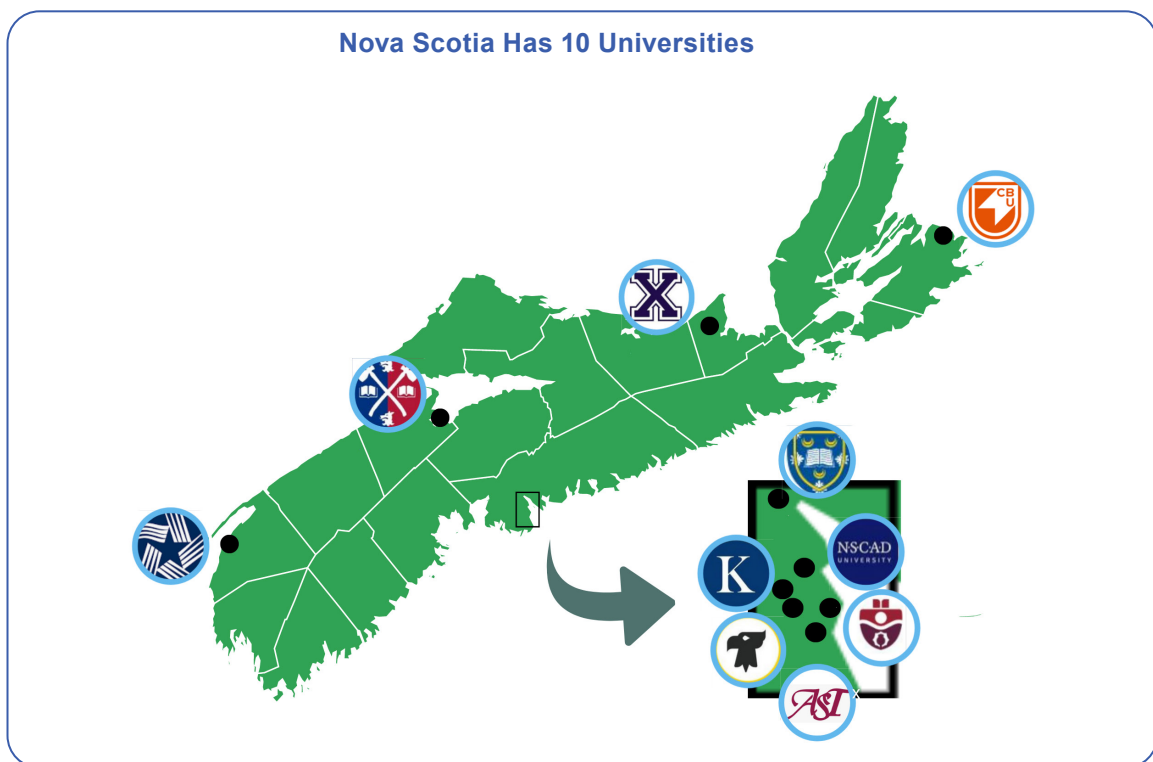
Questions Nova Scotians May Want to Ask

1. How does the Department of Advanced Education plan to hold universities accountable for the public funds they receive?
2. Will the Department of Advanced Education impose expectations or restrictions on the significant operating grant funding universities receive annually?
3. How will the Department of Advanced Education assess whether health education funding is effective?
4. How will the Department of Advanced Education define and assess universities for financial health and sustainability?
5. Why is the Department of Advanced Education not applying the full weight of the *Universities Accountability and Sustainability Act*?

1 Funding to Universities

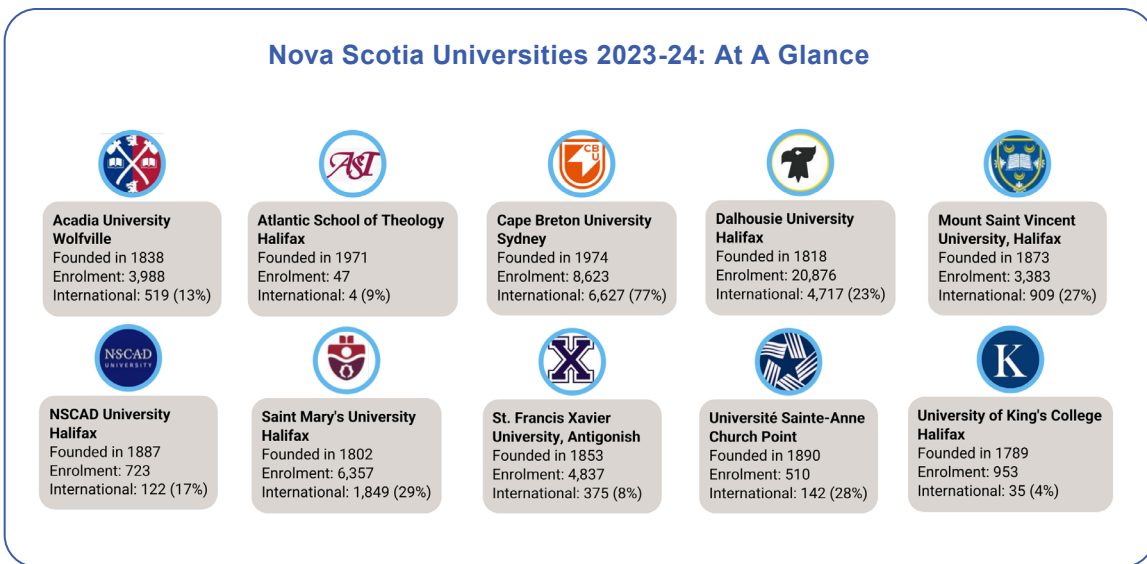
Background

- 1.1 The Department of Advanced Education (the Department) is responsible for the supervision and management of post-secondary education in the province. The *Universities Accountability and Sustainability Act* authorizes the Department to provide universities with public funding for operational and capital costs.
- 1.2 The Department works with Nova Scotia's 10 universities to help them provide programs, courses, and inclusive learning environments.



Source: Office of the Auditor General of Nova Scotia

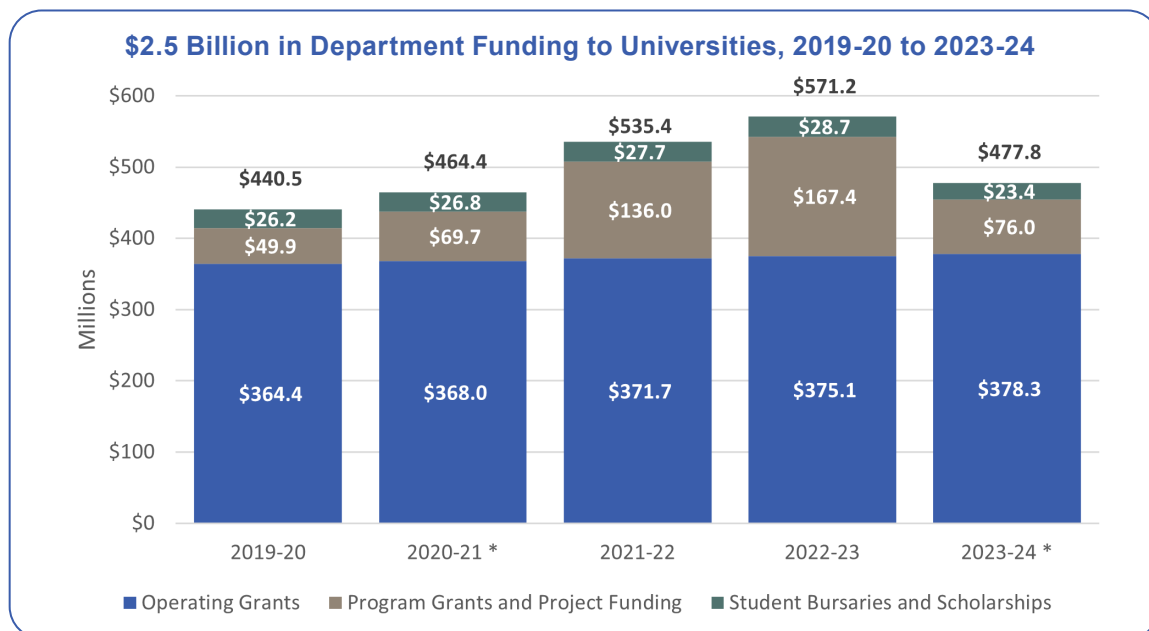
- 1.3 The 10 universities – six in Halifax, three in rural Nova Scotia (Antigonish, Church Point, and Wolfville), and one in Sydney – are independent institutions, operating separately from each other and the Province. The Province does not have the authority to govern the financial or the operating policies of the universities.
- 1.4 The Province recognizes the key role that universities play in the communities and lives of Nova Scotians. Nova Scotia's universities are important to the economy of the province, and the Province plays a critical role in the sustainability of the post-secondary sector.



Source: Office of the Auditor General of Nova Scotia; Maritime Provinces Higher Education Commission (Table A: Full-Year Full-Time Equivalent 2023-24 and Table C: Full-Year Full-Time Equivalent of International Students 2023-24)¹, unaudited

Universities received \$2.5 billion in funding over 5 years

- 1.5 The Province provides funding to universities through the Department in the form of unrestricted operating grants; restricted program grants and project funding; and student bursaries and scholarships. Between April 2019 and March 2024, Nova Scotia's 10 universities received \$2.5 billion in funding from the Department, with the largest share directed to the operating grants. Universities may also receive grants from other provincial departments; however, this accounts for only a small fraction of overall funding, totaling \$13.1 million in 2023-24.

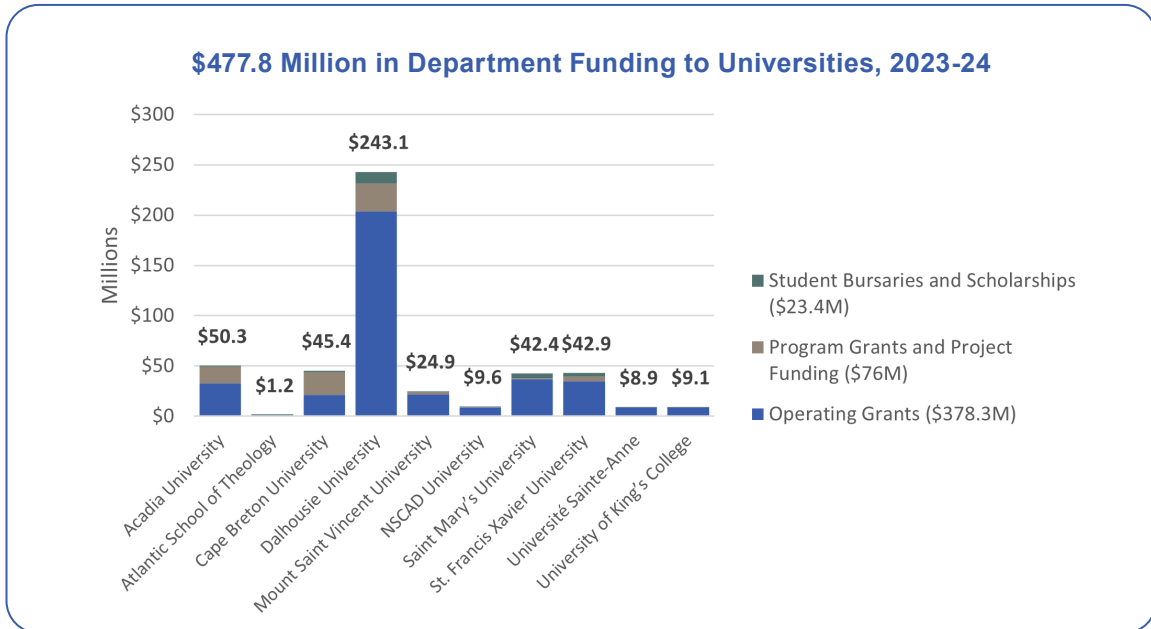


Source: Office of the Auditor General of Nova Scotia analysis of Public Accounts 2019-20 to 2023-24
* rounded totals do not sum

¹Full-time equivalent (FTE) is a value assigned to each student dependent upon the registration status (full-time or part-time) and level (bachelor's, master's or doctoral) of the student. All full-time students are assigned an FTE of 1.00. Part-time undergraduate students are assigned an FTE of 0.10 for every one semester course and 0.20 for every two-semester course in which they are enrolled. Part-time master's level students are assigned an FTE of 0.33 for the academic year. Part-time doctoral level students are assigned a 1.00 FTE for the academic year.

Operating grants account for majority of Department’s \$477.8 million funding in 2023-24

1.6 In 2023-24, Department funding totaled \$477.8 million, with \$378.3 million or almost 80 per cent, in the form of operating grants. Dalhousie University, Nova Scotia’s largest university by revenue and enrolment, received over 50 per cent of overall funding.



Source: Office of the Auditor General of Nova Scotia analysis of Public Accounts 2023-24; rounded totals do not sum to \$477.8 million

1.7 Since 2004, the Department and the universities have worked through a series of Memorandums of Understanding (MOU), with the most recent MOU expiring in March 2024. While non-binding, the MOU set out annual operating grant increases and established a tuition² capping policy limiting increases to three per cent annually for Nova Scotia undergraduate students.

1.8 In April 2024, the Department changed its funding approach and entered into one-year bilateral agreements with universities. Bilateral agreements continue the operating grants established under the previous MOU, cap tuition increases at two per cent for Nova Scotia undergraduates, and institute a set of performance targets intended to increase accountability.

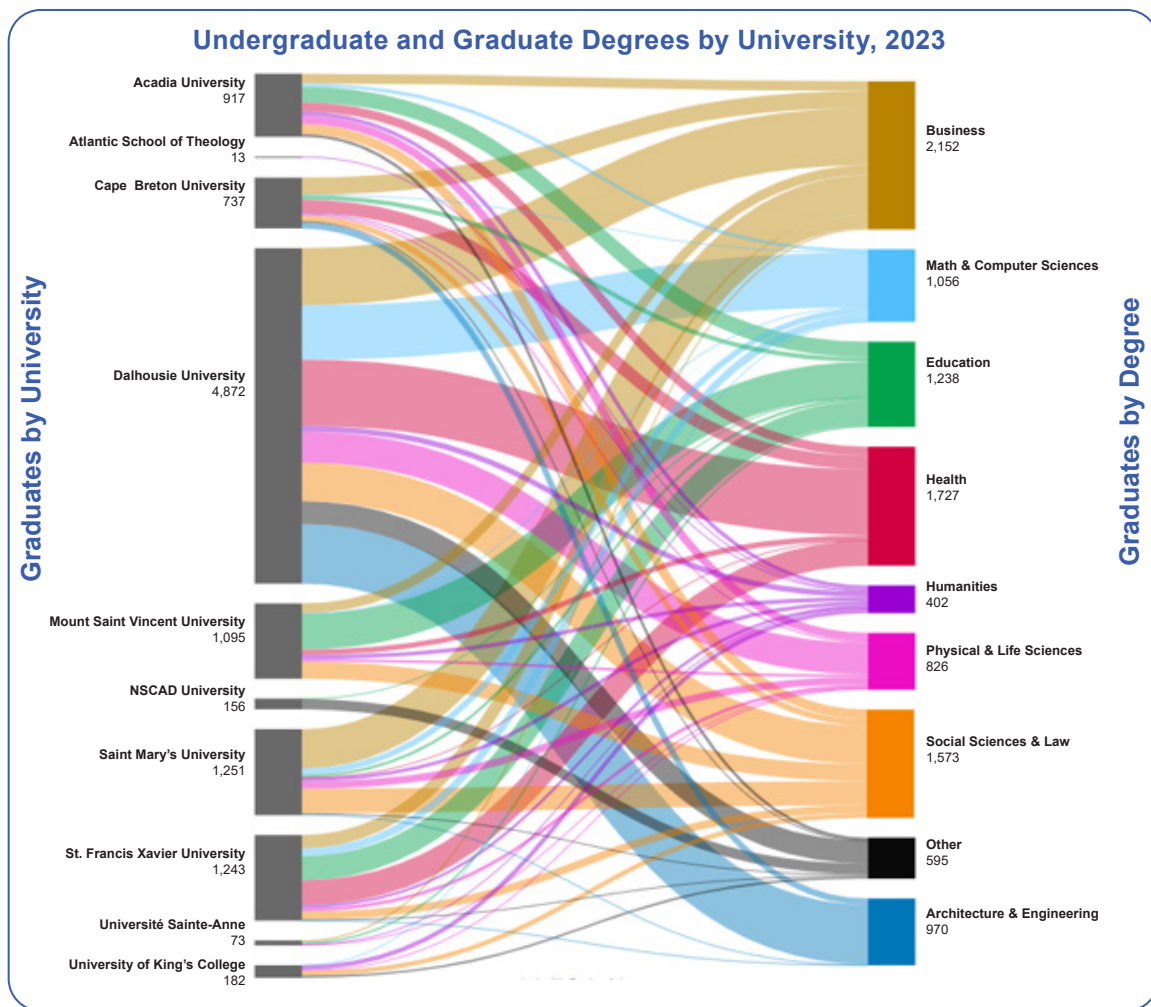
Universities are not controlled by the Province

1.9 Universities are independent organizations, and while the Department is a funding partner, it has limited ability to influence alignment with provincial priorities. The Department’s funding approach prioritizes unrestricted operating grants, with universities free to spend these grants how they choose.

1.10 Each university is governed by a Board of Governors and Senate. In general, a board is responsible for administration and provides oversight of the budget and operations. The Senate is responsible for overseeing academic and research activities, by hiring faculty and setting programs for courses and degrees.

² Tuition means the total mandatory cost charged to a student by the university in respect to a program or course for which the student is registered, excluding auxiliary fees (e.g. supplies, equipment, labs, etc.) and ancillary fees (e.g. residence accommodations, food services, health services, etc.).

- 1.11 Universities offer courses and degrees in a wide range of subjects at varying levels of difficulty and complexity. While the degrees offered at each of Nova Scotia's 10 universities have differences, there is also considerable overlap.
- 1.12 The chart below details the total undergraduate and graduate degrees awarded by the 10 universities in 2023. While, for example, Dalhousie University advertises over 200 degrees available, we have sorted all degrees by the major field of study.



Source: Office of the Auditor General of Nova Scotia analysis of data from the Maritime Provinces Higher Education Commission (Table 15: Undergraduate Degrees Granted 2023 and Table 16: Graduate Degrees Granted 2023), unaudited

Department's Approach to Funding Prioritizes Unrestricted Operating Grants, Although New Bilateral Agreements Should Improve Accountability

➡ Department places no restrictions on how universities spend operating grants

- 1.13 The Department has provided universities with \$1.9 billion in operating grants over the last five years. While operating grants represent a large portion of total university revenue, and a significant investment by the Province in the sector, there are no restrictions or accountability requirements for how this funding is spent.

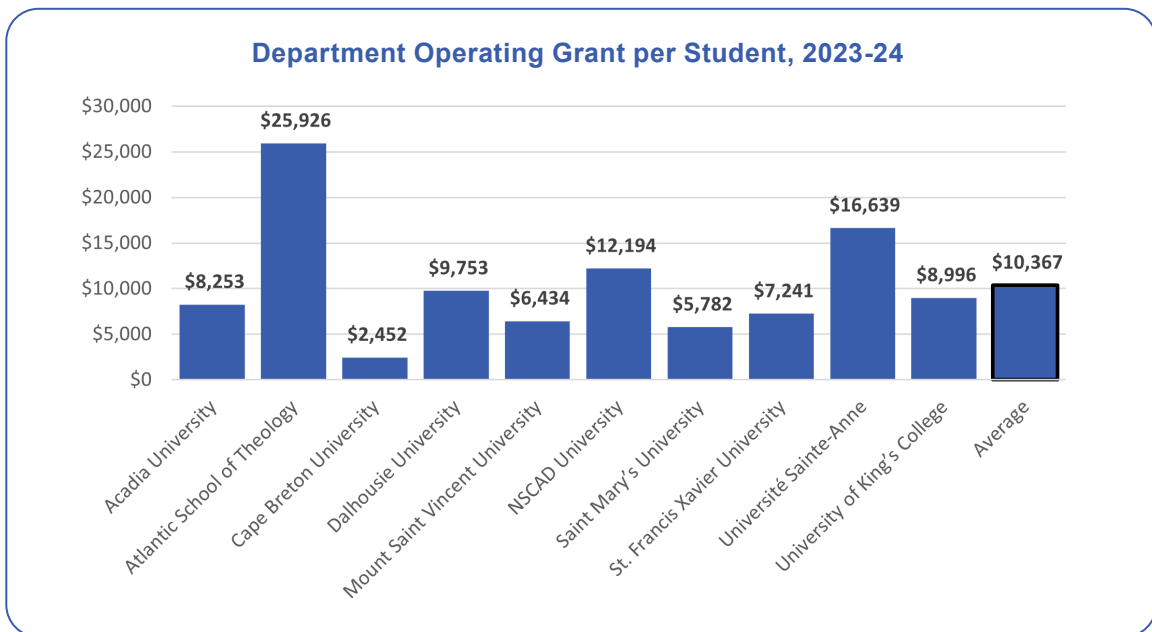
1.14 Since there are no restrictions placed on operating grant spending, universities can spend the funding as they choose. For example, universities may use operating grants for staff salaries, student aid, development of new programming, and maintenance of existing infrastructure. Universities are also free to spend on executive compensation, new infrastructure, debt servicing costs, and other expenses.

Allocation of operating grants is arbitrary and based on a formula established over 25 years ago

1.15 In 1998, the Department established a formula to calculate and allocate operating grants to universities based on average enrolment and weighted program costs. Due to infrequent updates to enrolment numbers and program cost data, the formula quickly became outdated. The funding calculated also exceeded what the Province was able to pay. The Department explained the formula has not been used since 2010.

1.16 Our November 2015 Report on Funding to Universities (see Appendix II – Results of the November 2015 Report of the Auditor General) recommended the Department develop and implement a new funding allocation method. Instead of creating a new funding formula, the Department decided a base operating grant would be established for each university, and the base would grow annually at a predetermined rate. The Department could not explain how the base operating grant for each university was determined or what factors were considered.

1.17 We calculated the operating grant received per student³ at each university in 2023-24, to examine funding on a per student basis. Universities on average received just over \$10,000 per student. However, Nova Scotia’s six largest institutions, namely, Acadia University, Cape Breton University, Dalhousie University, Mount Saint Vincent University, Saint Mary’s University, and St. Francis Xavier University, all received less than the provincial average.



Source: Office of the Auditor General of Nova Scotia analysis of Public Accounts 2023-24 and data from the Maritime Provinces Higher Education Commission (Table A: Full-Year Full-Time Equivalent 2023-24), unaudited

³ Full-time equivalent (FTE) is a value assigned to each student dependent upon the registration status (full-time or part-time) and level (bachelor's, master's or doctoral) of the student. All full-time students are assigned an FTE of 1.00. Part-time undergraduate students are assigned an FTE of 0.10 for every one semester course and 0.20 for every two-semester course in which they are enrolled. Part-time master's level students are assigned an FTE of 0.33 for the academic year. Part-time doctoral level students are assigned a 1.00 FTE for the academic year.

- 1.18 We are concerned the Department cannot support the rationale behind base operating grants provided to each university, especially considering operating grants are the largest portion of funding provided by the Department. Given our 2015 audit recommendation on this issue, we expected to find support and rationale for the allocation of \$378.3 million in operating grant funding for 2023-24. If funding levels are not based on an analysis using an appropriate mix of factors, universities may be receiving an inappropriate or inequitable allocation of the available funding.

One per cent annual operating grant increase not supported

- 1.19 Annual operating grants increased by one per cent year-over-year throughout the 2019-24 MOU. When asked, the Department could not explain why one per cent was recommended and selected as the percentage annual increase.
- 1.20 While predictable funding levels may allow for improved budgeting and planning by both universities and the Department, there was no analysis that one per cent was the appropriate annual increase. Without such an analysis, universities may be over- or under-funded by the Department.

Recommendation 1.1

We recommend the Department of Advanced Education identify and evaluate new operating grant funding allocation options. A new allocation model should specify what factors are considered in determining the funding level and should be reviewed and updated on a regular basis.

Department of Advanced Education Response: The Department will explore and evaluate options for a new university operating grant funding model. Target Date: April 2027

Committee responsible for implementing the 2019-24 MOU did not create required work plan

- 1.21 The 2019-24 MOU was the fifth in a series of MOUs between the Department and the universities stretching back to 2004. In addition to governing operating grant funding and guiding tuition policy, the MOU outlined 11 shared priorities between the Department and the universities.
- 1.22 The Partnership Committee, which includes all university presidents and representatives from the Department, was tasked with guiding the implementation of the MOU.
- 1.23 It is unclear how the committee intended to implement the MOU. No terms of reference existed to define the committee's purpose, and notes were not typically taken during meetings. Although the MOU stated a work plan would be developed to achieve the shared priorities, the Department informed us that a work plan had not been created as attention was diverted during the COVID-19 pandemic.

New bilateral agreements introduced in 2024-25 intended to improve accountability

- 1.24 In 2024-25, the Department introduced bilateral agreements with each university replacing the expiring MOU. The agreements included terms and conditions, for example conflict of interest and the ability to audit, which are intended to increase the Department's ability to hold universities accountable for the public funds they receive. This is an improvement over the previous MOU. Agreements were also tailored to each university, rather than one universal agreement.

- 1.25 However, the new bilateral agreements, like the predecessor agreements, do not include any restrictions on how universities can spend operating grants. Moreover, the allocation of operating grant funding available to all 10 universities did not change with the Department's move to bilateral agreements.

1.26 New bilateral agreements include performance targets for \$46.2 million of operating grant funding

- 1.26 The 2024-25 bilateral agreements with five of the 10 universities include performance target holdback provisions governing a combined \$46.2 million in operating grants. The five universities must meet certain requirements, such as filling at least 97 per cent of available health education program seats, in order to receive funding.
- 1.27 By setting out requirements in the bilateral agreements for funding, the Department has improved its ability to hold universities accountable for this portion of public funds they receive.
- 1.28 We will not know how successful universities have been in implementing these performance targets until March 2025. We encourage the Department to continue to use performance targets in future agreements once current bilateral agreements expire.

1.29 Two per cent (\$3.5 million) in additional payments available to universities under bilateral agreements once strategic alignment plan approved

- 1.29 All 10 universities were required to provide the Department with a strategic alignment plan by June 2024. Strategic alignment plans detail how each university will work to achieve common outcomes and advance Department priorities.
- 1.30 A satisfactory strategic alignment plan is worth an additional two per cent in operating grant funding to universities in 2024-25. A combined \$3.5 million is tied to the strategic alignment plans for nine of the 10 universities.
- 1.31 The exception is Dalhousie University, where a satisfactory strategic alignment plan does not provide additional funding, but instead triggers the release of a two per cent, or \$4.1 million, holdback in operating grant funding. The Department indicated these special circumstances for Dalhousie were due to the fact the university was already receiving substantially more funding than the other nine universities.
- 1.32 As of September 2024, the Department had not yet decided on strategic alignment plan approvals or whether the funding would be issued to the 10 universities.

1.33 \$139.9 million paid to universities before bilateral agreements were signed

- 1.33 All 10 bilateral agreements were signed after initial operating grant payments were made to universities for the 2024-25 year. A total of \$139.9 million was disbursed by the Department before the agreements were signed. All 10 agreements were later signed, roughly six weeks after universities received the funding.
- 1.34 Providing payment before an agreement is signed is not good practice. Agreements outline specific goals and objectives enforced through terms and conditions. This is an important step in creating accountability for public funds. Without signed agreements in place, it may be difficult to hold universities accountable to the terms and conditions of the agreement.

Recommendation 1.2

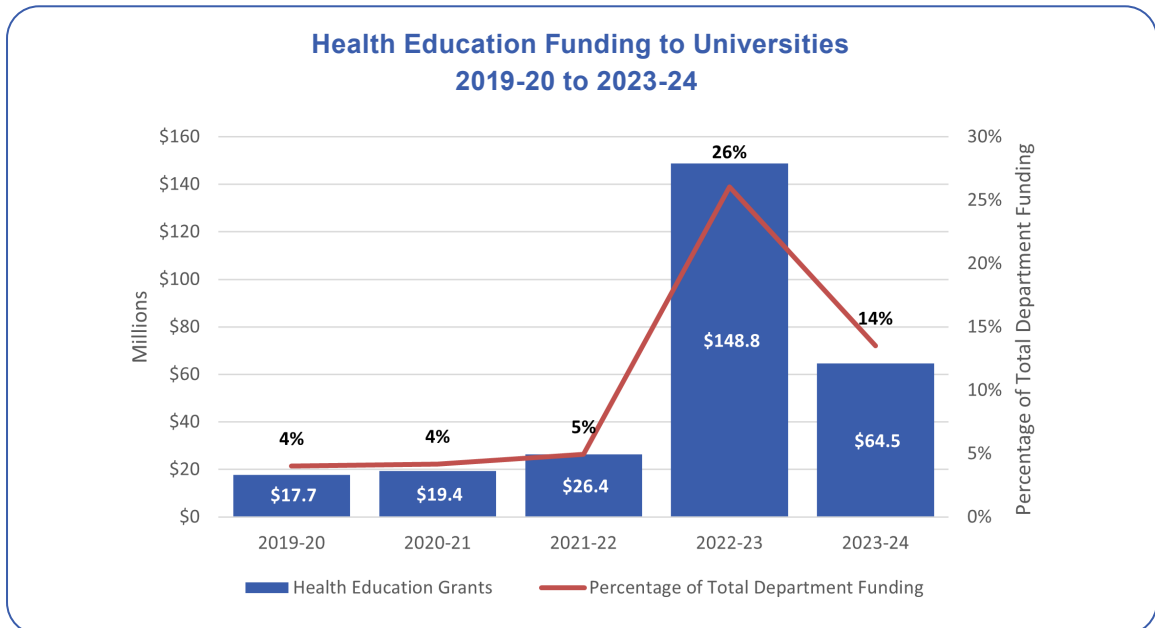
We recommend the Department of Advanced Education only disburse public funds to universities after agreements are signed by all parties.

Department of Advanced Education Response: While there was a 6-week gap between the disbursement of funds and the signing of the bilateral agreements in 2024-25, it was due to an administrative correction. In future, the Department will ensure the agreements are signed prior to the release of funds. Target Date: Complete

Program Grants of \$276.9 Million Over Five Years to Address Provincial Healthcare Priorities Lack Protections for Public Funds and a Plan to Assess Outcomes

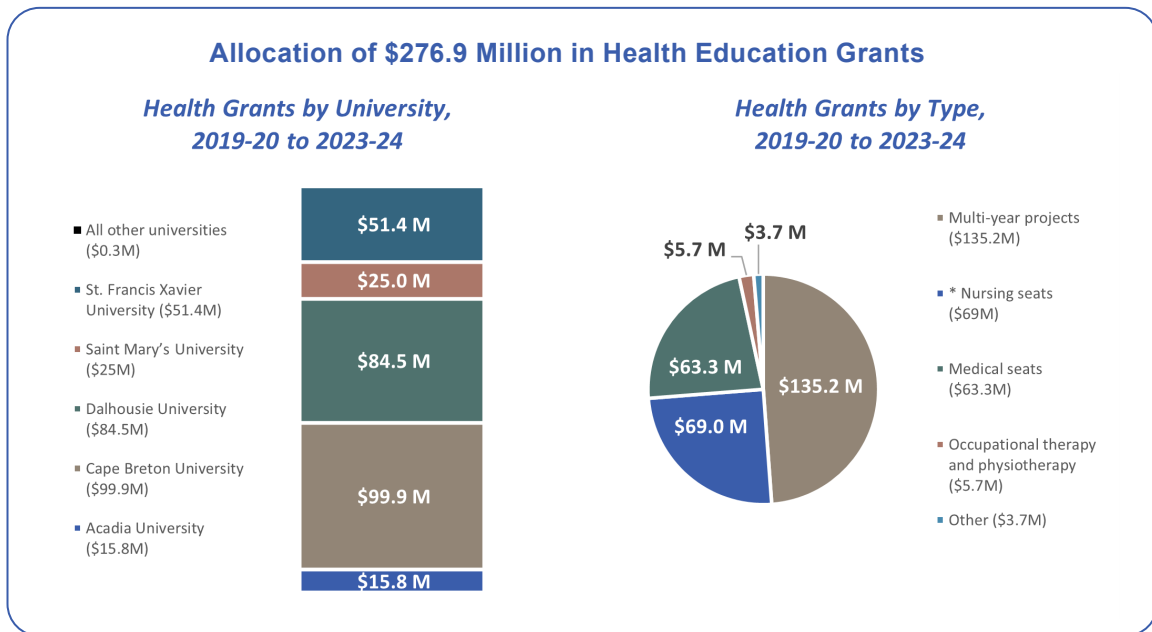
Health education is a top priority for Department yet it has no plan to assess if health funding outcomes are met

- 1.35 In 2022, the Province released Action for Health, a strategic plan to grow the workforce and provide Nova Scotians with faster access to healthcare. Since this time, the Department has worked to prioritize funding for health education.
- 1.36 The Department collaborates with key partners to identify areas where health education can align with provincial healthcare priorities. The Department has prioritized short-term funding to increase the supply of healthcare professionals with an identified labour market need.
- 1.37 Between April 2019 and March 2024, the Department invested \$276.9 million in health education grants to universities, accounting for as much as 26 per cent of all Department funding in 2022-23.



Source: Office of the Auditor General of Nova Scotia analysis of Public Accounts 2019-20 to 2023-24; rounded totals do not sum to \$276.9 million

- 1.38 Over the five-year period, five universities have received almost 100 per cent of the \$276.9 million in health education funding. Health education grants are typically provided to expand existing healthcare seats, such as nursing and medical programs, or contribute to the construction costs of new health education facilities.



Source: Office of the Auditor General of Nova Scotia analysis of Public Accounts 2019-20 to 2023-24

* Nursing seats include registered nursing (Bachelor of Science in Nursing), licensed practical nursing, master of nursing (nurse practitioner and mental health and addictions), and continuing care assistant programs

- 1.39 Despite the investment in health education, the Department does not have a plan for advancing health education priorities. A plan should include goals and objectives, timelines, and how success will be measured. It should also include an assessment of how funding will achieve intended outcomes.
- 1.40 As we were completing our audit, we learned the Department was planning to establish a Health Education Programs and Planning Unit that would be accountable for developing and maintaining an annual plan. A dedicated Unit within the Department is a good first step towards developing and implementing a plan for health education.

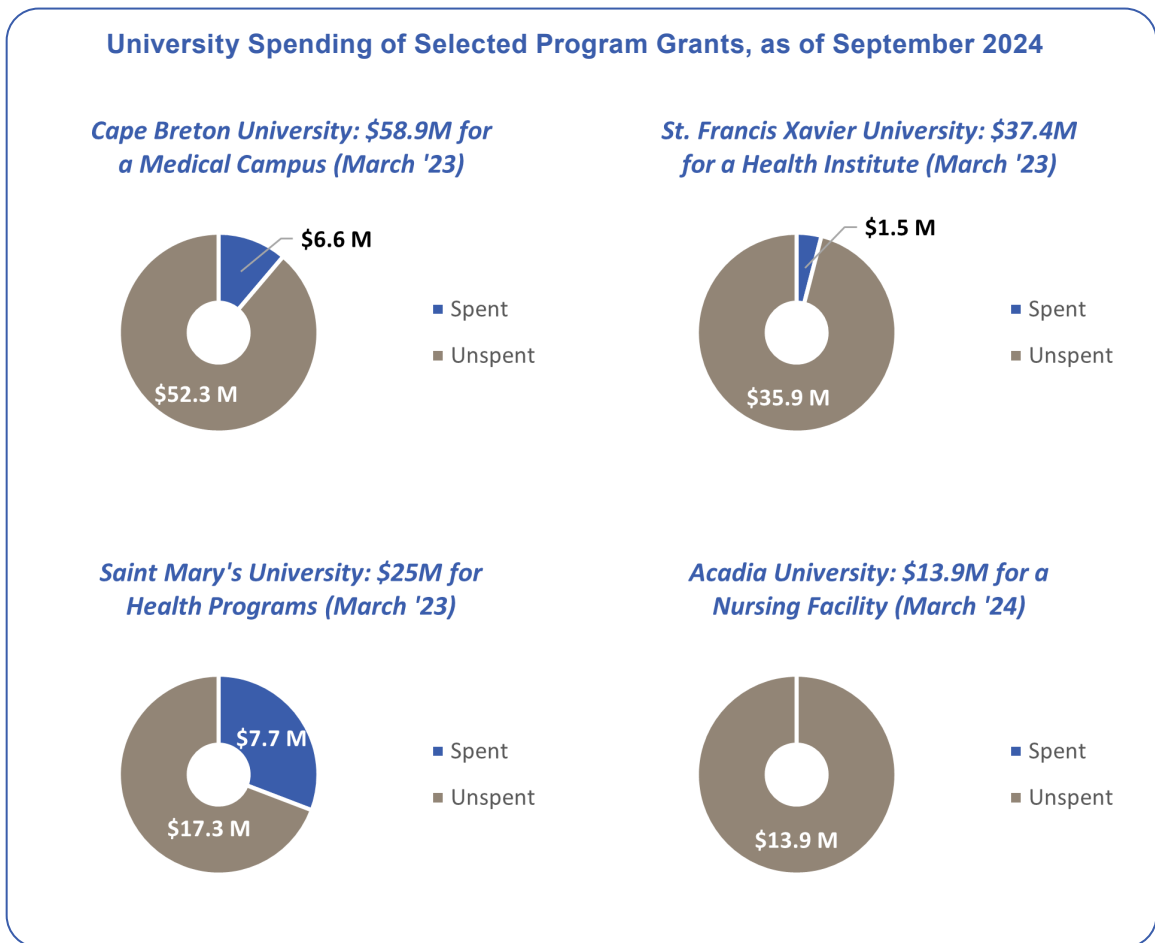
No assessment of funding for health education

- 1.41 Our audit examined 10 health education program grants, totalling \$163.8 million, made in 2022-23 and 2023-24. Program grants are a form of restricted funding, and unlike the unrestricted operating grants, come with conditions. This type of funding accounts for a much smaller percentage of overall Department funding, roughly 20 per cent over the last five years.
- 1.42 Despite the significant public funds involved, we found the Department was not assessing whether health education program grants were advancing healthcare priorities. A key part of any plan is monitoring whether goals and objectives are achieved. An assessment would inform the Department of a program's success or failure, and whether the use of public funds is providing value for money.
- 1.43 For example, the Department provided a total of \$65 million between April 2019 and March 2024 to four universities to expand nursing seats in Bachelor of Science in Nursing (BScN) programs. While the Department received reports from each university detailing the annual enrolment and graduations in BScN programs, it could not explain whether the program grants were effective in increasing the supply of healthcare professionals.

- 1.44 The Department explained that an increase in enrolment does not always translate to a corresponding increase in graduates or ensure graduates will remain in the province to work.
- 1.45 Other examples where the Department has not assessed whether funding was achieving health education goals and objectives include four multi-year program grants, costing a combined \$135.2 million. We reported on three of these four grants in our March 2024 Report on Over-Budget Spending.
- 1.46 None of the four grants were included in the Department’s original budget. Instead, they were all approved outside of the budget process, through an additional appropriation. While this process is permitted under the *Finance Act*, our March 2024 Report concluded spending outside the budget does not adequately consider value for money or safeguard public funds.

 **\$119.4 million in health education program grants unspent as of September 2024**

- 1.47 Based on reporting provided by universities, there is as much as \$119.4 million of the four multi-year program grants, 88 per cent of \$135.2 million, unspent as of September 2024. While the medical campus at Cape Breton University has a target completion date of September 2025 to accept 30 medical students, the other three multi-year projects have no timeline for completion. We are unsure how the Department plans to assess whether these projects are on track without target timelines.



Source: Office of the Auditor General of Nova Scotia analysis of documentation received by the Department of Advanced Education, unaudited

Recommendation 1.3

We recommend the Department of Advanced Education develop a plan for health education funding. We recommend the plan include:

- roles and responsibilities;
- support for the cost of the initiatives;
- goals and objectives;
- timelines for completion;
- measurement of progress; and,
- public reporting requirements detailing the effectiveness of funding.

Department of Advanced Education Response: The newly formed Health Education Programs and Planning (HEPP) unit within the Department will work with key partners to create a plan that advances the strategic health priorities of government. Public reporting will be incorporated into existing public reporting mechanisms e.g. Accountability Reporting. Target Date: April 2026

 **Health education grant costs not supported**

- 1.48 We found the amounts for eight of the 10 program grants examined were not supported by detailed cost estimates. A cost estimate should be based on the best information available so the Department can make an informed decision on how much funding is needed to achieve the desired objective.
- 1.49 One university, which received two program grants to expand nursing seats in their BScN program in 2022-23 and 2023-24, underspent funding by a combined \$722,000. These unspent funds were not required to be returned to the Department and were not deducted from future grants the university received. The Department explained they repurposed \$633,000 of the unspent funds on another initiative, however, could not provide evidence the money was returned by the university, or account for the remaining \$89,000.

Recommendation 1.4

We recommend the Department of Advanced Education require detailed cost estimates prior to determining program grant amounts.

Department of Advanced Education Response: The Department will require detailed cost estimates prior to determining program grant amounts. Target Date: April 2025

 **Funding agreements missing key terms and conditions to protect public funds**

- 1.50 The Department drafts agreements with individual universities which outline key activities for the university to undertake. These funding agreements are in addition to the MOU and the bilateral agreements.
- 1.51 As we reported in our March 2024 Report on Over-Budget Spending, agreements should have a set of basic terms and conditions to protect public funds and require funding be used for the intended purpose. Without strong terms and conditions, the level of risk associated with each grant is increased.
- 1.52 We found key terms and conditions were missing in most agreements. However, this was most pronounced in agreements signed in 2022-23, whereas those signed in 2023-24 showed signs of improvement.

- 1.53 We found one program grant, a \$835,000 annual payment to Dalhousie University to fund its occupational therapy program, had no agreement between the Department and the university. The Department explained this funding had been in place since 2006-07. Without a funding agreement, there are no safeguards to protect public funds and ensure the university is using the funding as intended.
- 1.54 We also found key terms and conditions missing from the other nine program grants examined, including: three with no audit clause; five without a conflict-of-interest clause; seven without a clause requiring unused funds be returned to the Department; and eight without a clause to account for interest earned on the grant.
- 1.55 Lastly, we found that three of the nine program grants did not include measurable performance targets. Performance targets are an important safeguard in any grant program. Performance targets define success with metrics to determine if the overall goal has been achieved.

Recommendation 1.5

We recommend the Department of Advanced Education require funding agreements with universities include terms and conditions to address:

- conflict of interest;
- the ability to audit;
- the assignment of interest earned on funds;
- the return of unused funds to the Department; and,
- measurable performance targets.

Department of Advanced Education Response: As noted in the OAG report, the Department enhanced terms and conditions in funding agreements in 2023-24. In January 2025, following the dates of this audit, the Department implemented a new funding letter agreement template which includes these terms and conditions. Target Date: Complete

Enforcement of funding agreements requires improvement

- 1.56 The nine program grants with funding agreements we tested outlined deliverables and reporting requirements as conditions of funding. For example, deliverables include a project update, enrolment and graduation data, or an audit certificate verifying the grant was spent as intended.
- 1.57 Of the 25 deliverables in the nine funding agreements we tested, only six deliverables were received from universities by the due date. Of the remaining 19 deliverables, 14 were either late or lacked a received-by date, and five were outstanding. In some cases, universities continued to receive program grants even after failing to meet deadlines in the prior year. We are unsure how the Department is able to verify public funds are used as intended or if the grants meet goals and objectives if deliverables are not met.

Recommendation 1.6

We recommend the Department of Advanced Education monitor funding agreements for compliance with terms and conditions and enforce due dates for deliverables. Funding should not be disbursed if universities do not comply with the terms and conditions of funding agreements.

Department of Advanced Education Response: The Department will continue to monitor funding agreements for compliance. In January 2025, the Department formalized the process for monitoring funding agreement compliance which includes an established process and method. Target Date: Complete

Department Does Not Adequately Monitor the Financial Health and Sustainability of Universities

Department has not defined financial health and sustainability for universities

- 1.58 As we have discussed, the Department provides significant public funds to universities. Funding agreements commit the parties to a partnership adhering to the principles of efficiency, effectiveness, and the financial sustainability of the sector. Therefore, a shared understanding of financial health and sustainability is paramount.
- 1.59 While there are numerous ways to define and measure financial health and sustainability, we are concerned the Department has not outlined parameters for these terms. In fact, we reported on this very thing almost ten years ago. We wrote in our November 2015 Report on Funding to Universities, the *Universities Accountability and Sustainability Act*, proclaimed in 2015, indicates the Department may require evidence of a university's financial sustainability before providing operating funding. However, this process has not yet been defined.
- 1.60 Without a definition for financial health and sustainability, we are unsure how the Department can assess whether they are effectively funding, monitoring, and holding universities accountable for public funds.

Recommendation 1.7

We recommend the Department of Advanced Education define what financial health and sustainability means for universities.

Department of Advanced Education Response: Financial health and sustainability will be defined through the use of financial indicators and benchmarks in recommendation 1.8. Target Date: November 2025

No indicators or benchmarks to assess financial health and sustainability of universities

- 1.61 Universities are required to submit financial documents, such as financial statements, projections, and forecasts. Despite receiving these documents, the Department does not conduct a regular financial analysis of universities.
- 1.62 We expected the Department to have a process to monitor and evaluate the financial performance of universities receiving funding. This would allow the Department to assess sustainability risks to the sector and promote efficient and effective operations, as outlined in their shared commitment. A regular financial analysis and examination of trends would help the Department assess potential problems before they arise.
- 1.63 The groundwork has been laid in other jurisdictions such as the Province of Ontario, where the Ministry of Colleges and Universities has collected information on measures of financial sustainability since 2014-15. We learned the Department is aware of the Ontario financial health

indicators and has formed a committee to create a set of indicators and benchmarks appropriate in the context of Nova Scotia. We note the committee first met in July 2024, after we began our audit.

Recommendation 1.8

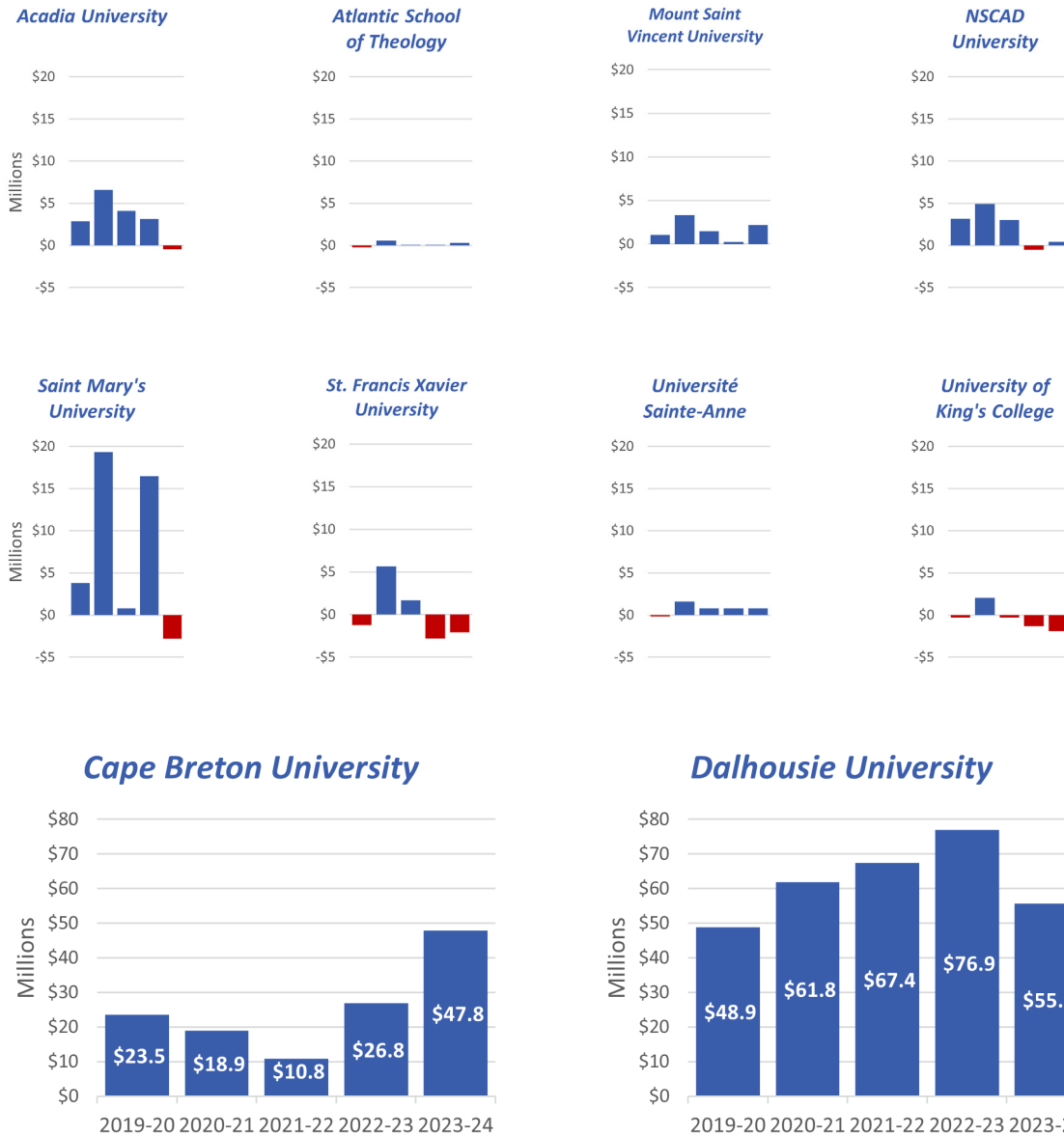
We recommend the Department of Advanced Education work with universities receiving public funds to develop financial indicators and benchmarks to assess the financial health and sustainability of universities and report the results publicly.

Department of Advanced Education Response: The Department is working collaboratively with universities to develop financial metrics and benchmarks which will support monitoring and assessing the financial health of Nova Scotia universities. Target Date: November 2025

Universities report varying financial results over five-year period

- 1.64 Universities are required to provide their financial statements to the Department. We reviewed five years of financial results and found most universities reported at least one deficit between April 2019 and March 2024. A deficit occurs when total expenses exceed total revenues for the year.

University Reported Surplus or Deficit, 2019-20 to 2023-24



Source: Office of the Auditor General of Nova Scotia analysis of 2019-20 to 2023-24 Audited University Financial Statements⁴

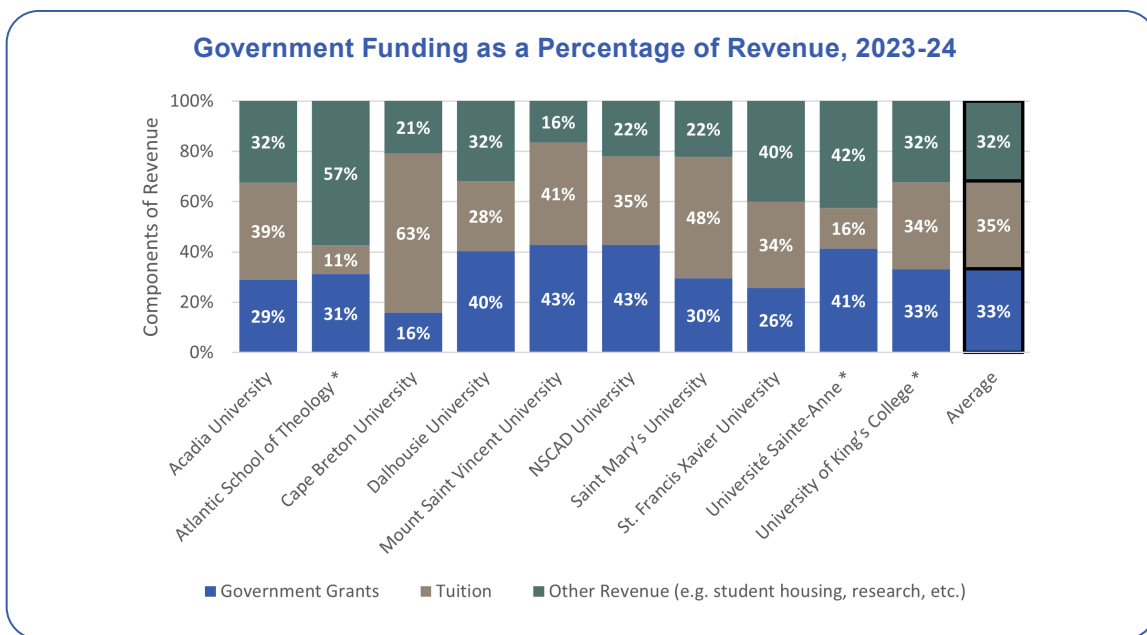
1.65 While the results shown above are uneven, there were two universities that consistently posted a large surplus during the five-year period. In fact, in the 2023-24 year alone, these two universities reported a combined \$103.5 million surplus, while the other eight combined listed a \$3.5 million deficit.

⁴The surplus (deficit) is reported in financial statements on the Statement of Operations and is calculated as the difference between the total revenue and the total expense of all fund balances.

1.66 There may be many factors responsible for these widely varying financial results, such as the size of the student population or the amount of operating grant funding, and a surplus is only one indicator of financial health.

Government funding accounts for an average of 33 per cent of university revenue

1.67 University revenues generally consist of three sources: government grants; tuition; and other revenues which include ancillary fees, auxiliary fees, research funding, and endowments. In 2023-24, total government funding accounted for 33 per cent of revenues on average across the 10 universities. We use government funding as opposed to provincial funding as many universities report all sources of government – federal, provincial, and municipal – funding in their financial statements.



Source: Office of the Auditor General of Nova Scotia analysis of 2023-24 Audited University Financial Statements⁵
* rounded totals do not sum

1.68 Universities differ in their revenue mix. Tuition revenue is driven by enrolment and the origin of students. Although Nova Scotia domestic undergraduate tuition increases are capped, all other tuition rates – out of province, graduate, and international – are unregulated, with international students often paying double the rate of their domestic counterparts. Additionally, schools with substantial research income such as Dalhousie University, or those with higher rates of on-campus student housing, may have higher proportions of other revenue.

Universities owe \$370.3 million in long-term debt

1.69 Our review of the universities 2023-24 financial statements identified a recurring theme in reported large sums of debt.

1.70 Universities commonly take on long-term debt to fund capital projects. However, increasing levels of debt add pressure to operating budgets and can stress financial resources. Large annual debt repayments may also indicate financial challenges as they represent the amount of cash that must be used to pay off long-term debt, rather than support operations.

⁵ Government funding is reported in financial statements on the Statement of Operations and is the total of government source grants.

University Long-term Debt, 2023-24		
University	Long-term Debt	Principal Payments on Long-term Debt
Acadia University	\$46.3 million	\$2.9 million
Atlantic School of Theology	N/A	N/A
Cape Breton University	\$6.5 million	\$0.6 million
Dalhousie University	\$150.1 million	\$11.4 million
Mount Saint Vincent University	\$13.4 million	\$0.7 million
NSCAD University	N/A	N/A
Saint Mary's University	\$65.1 million	\$3.9 million
St. Francis Xavier University	\$75.4 million	\$5.8 million
Université Sainte-Anne	\$2 million	\$0.5 million
University of King's College	\$11.6 million	\$0.7 million
Total	\$370.3 million *	\$26.6 million *

Source: Office of the Auditor General of Nova Scotia analysis of 2023-24 Audited University Financial Statements ^{6 7}
* rounded totals do not sum

- 1.71 Eight of the 10 universities collectively owe \$370.3 million in long-term debt and together made principal payments in 2023-24 totaling \$26.6 million. Principal payments do not include interest payments, which, when combined, account for the total annual cost of servicing the debt. In 2023-24, we calculate the cost of servicing the debt was \$41.4 million for the eight universities.
- 1.72 Debt per student⁸ is another way to look at debt which considers the varying sizes of universities. The average debt per student across all ten universities in 2023-24 was \$6,533. However, four universities rang in much higher, topping \$10,000 per student.
- 1.73 We highlight this figure as a report by our colleagues at the Office of the Auditor General of Ontario found that Laurentian University had debt per student of \$12,793⁹ in 2019-20. This is noteworthy, as in February 2021, Laurentian – a publicly funded university – applied for creditor protection, becoming the first university in Canada to attempt to restructure operations using a process designed as a last resort for private companies.¹⁰

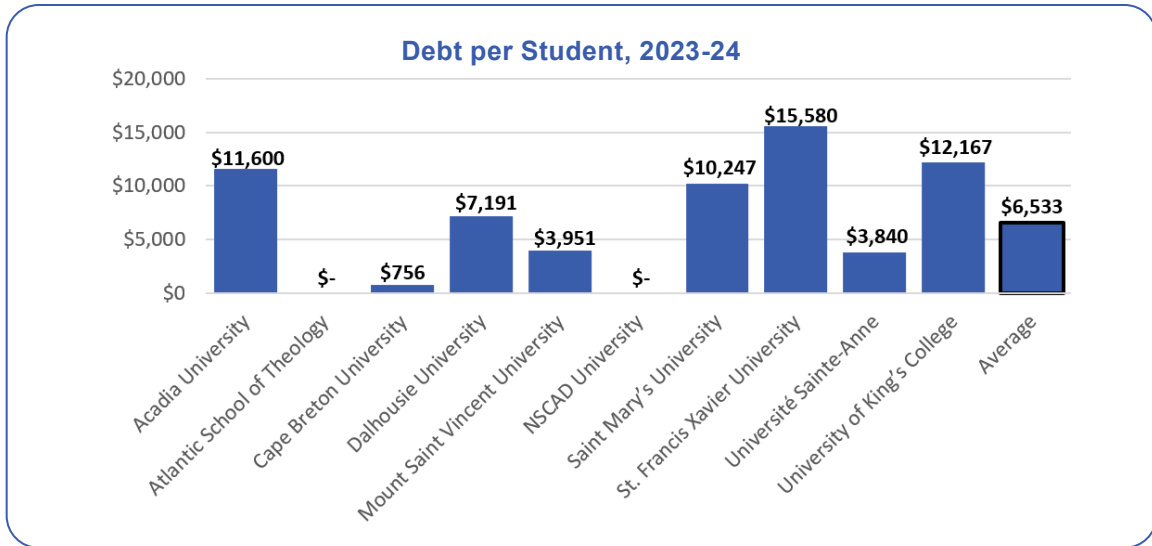
⁶ The long-term debt is reported in financial statements on the Statement of Financial Position and is the total of the current portion of long-term debt and long-term debt.

⁷ The principal payment on long-term debt is reported in financial statements on the Statement of Cash Flows.

⁸ Full-time equivalent (FTE) is a value assigned to each student dependent upon the registration status (full-time or part-time) and level (bachelor's, master's or doctoral) of the student. All full-time students are assigned an FTE of 1.00. Part-time undergraduate students are assigned an FTE of 0.10 for every one semester course and 0.20 for every two-semester course in which they are enrolled. Part-time master's level students are assigned an FTE of 0.33 for the academic year. Part-time doctoral level students are assigned a 1.00 FTE for the academic year.

⁹ Office of the Auditor General of Ontario. (2022, November). [Special Report on Laurentian University](#), page 28. Toronto, Ontario

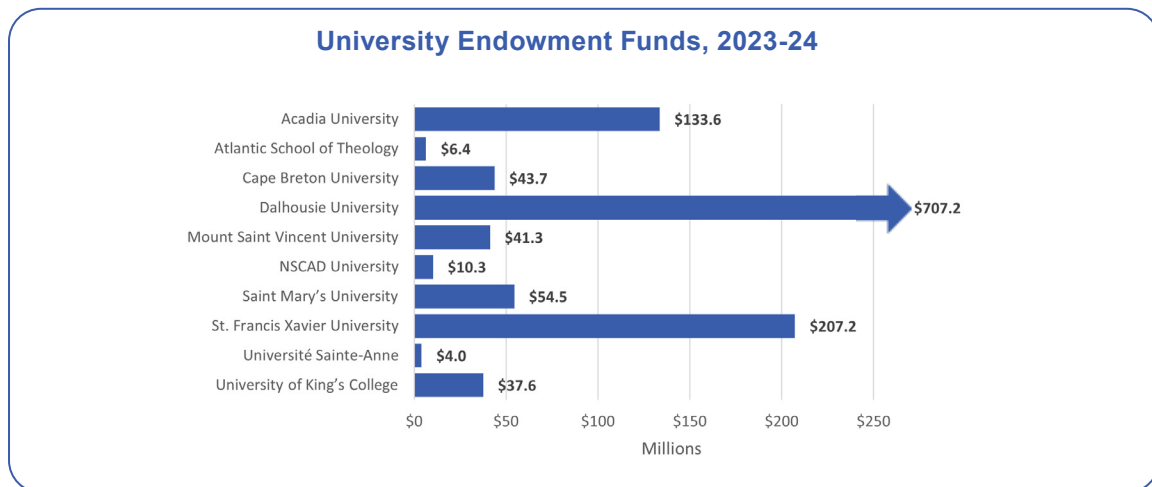
¹⁰ Office of the Auditor General of Ontario. (2022, November). [Special Report on Laurentian University](#), page 7. Toronto, Ontario



Source: Office of the Auditor General of Nova Scotia analysis of 2023-24 Audited University Financial Statements¹¹ and data from the Maritime Provinces Higher Education Commission (Table A: Full-Year Full-Time Equivalent 2023-24), unaudited

Universities have over \$1 billion in endowment funds

- 1.74 Universities raise and receive funds through donations and gifts or through financial assets such as annuities, investments, and property. Some of these contributions come with agreements between the university and the benefactor. Agreements include restrictions on how the university can spend the funds, ensuring the donor's wishes are known and understood by the university. Contributions sit in the university's bank account until they can be used for the intended purpose.
- 1.75 Endowment funds are gifts from donors to be used for a specific purpose. The initial donation is invested by the university and remains unspent, but the investment income earned on the funds can be spent in accordance with an endowment agreement. Examples of investment income spending include scholarships, staff, and the construction of new facilities. According to 2023-24 financial statements, universities have \$1.2 billion in endowment funds.



Source: Office of the Auditor General of Nova Scotia analysis of 2023-24 Audited University Financial Statements¹²

¹¹ The long-term debt balance is reported in financial statements on the Statement of Financial Position and is the total of the current portion of long-term debt and long-term debt.

¹² The endowment fund balance is reported in financial statements on the Statement of Financial Position or the Statement of Changes in Fund Balances.

1.76 We learned the Department does not monitor or assess endowment funds, which the Department explained are governed by the individual universities under endowment policies. The Department also does not consider the value of endowments when determining its level of funding to universities, even though endowments can be an important source of revenue.

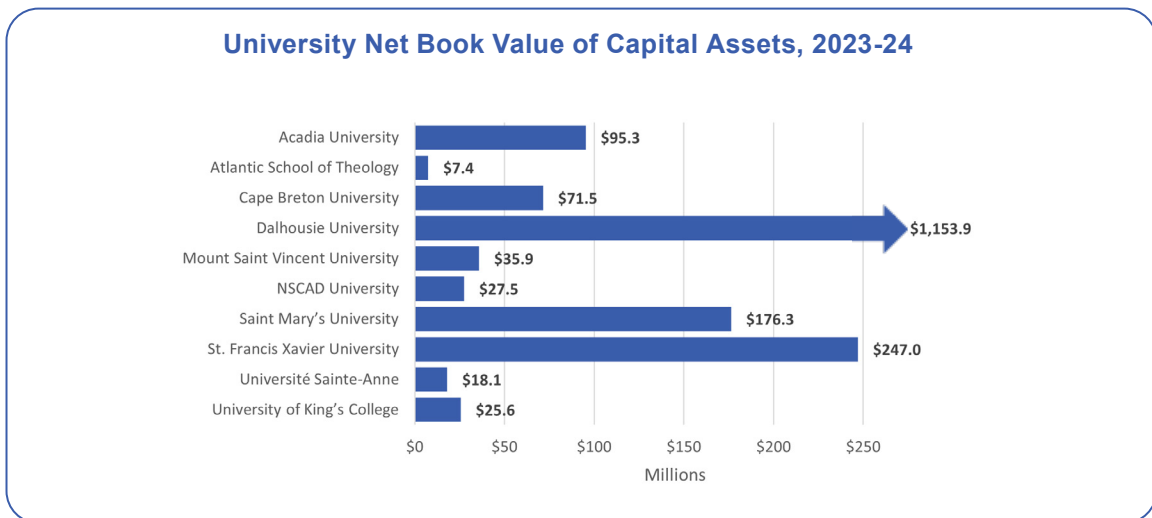
Universities list nearly \$2 billion in capital assets, but almost \$1 billion needed in maintenance

1.77 Capital assets are equipment or goods owned and operated by a university. These assets generally consist of buildings, land, and equipment, but can also include library books, art collections, as well as the improvements made to existing assets, such as a renovation to a campus building.

1.78 Capital assets are recorded by the university at the cost to acquire or construct new, net of the accumulated depreciation over the life of the asset. Depreciation occurs as assets decrease in value over their useful life span. The resulting net book value is reported in university financial statements.

1.79 Most capital assets across the ten universities are in the form of buildings, where students learn, study, and live. Annual maintenance is required to keep things in working order and to adhere to building code standards.

1.80 In March 2022, the Department found universities had a \$912.7 million backlog in “deferred maintenance,” the practice of postponing maintenance activities such as repairs to save costs or reappportion available budgets. The Department explained if not addressed, the deteriorating buildings posed a safety risk to students, faculty, and staff, and negatively impact a university’s ability to deliver programming.



Source: Office of the Auditor General of Nova Scotia analysis of 2023-24 Audited University Financial Statements¹³

1.81 In March 2022, the Department provided \$65 million in funding to four universities to address deferred maintenance. We reported on this grant in our March 2024 Report on Over-Budget Spending. The Department explained the grant would allow universities to address a backlog of infrastructure improvements, such as electrical upgrades, roof replacements, and accessibility and mechanical upgrades.

¹³ The net book value of capital assets balance is reported in financial statements on the Statement of Financial Position and is calculated as the net of capital assets and accumulated amortization.

Department highlighted concern with the long-term financial sustainability of certain universities

- 1.82 A Department assessment from May 2023 found several universities were experiencing cash flow challenges. According to the Department, two universities were rated in poor financial health; three in moderate financial health; and the remaining five universities were classified in strong financial health.
- 1.83 The Department highlighted concerns regarding the long-term financial sustainability of two universities. The assessment predicted a decrease in revenue, either from a drop in enrolment or a decline in operating grant funding, was highly likely to create serious financial challenges.
- 1.84 Another two universities, the Department assessed, were at moderate risk due to a heavy reliance on international student revenues. We note, since the assessment was completed in May 2023, the Federal Government made changes to the international study permit program, decreasing the number of international students coming to Canada.
- 1.85 While the assessment is an important step, it was the only evidence of financial monitoring we were able to obtain from the Department and consisted of just a handful of financial indicators. Monitoring should be a regular activity and include a range of financial indicators and benchmarks to adequately assess the financial health and sustainability of universities.

2015 *Universities Accountability and Sustainability Act* intended to promote greater funding accountability

- 1.86 The *Universities Accountability and Sustainability Act* came into effect in 2015 to promote greater accountability for Department funding through the development of outcomes to measure progress and standard financial reporting. Additionally, the Act allows universities to restructure in the event of serious financial trouble.
- 1.87 There are three main components to the Act which ensure universities remain on solid financial footing: outcome agreements; standardized financial reports; and the revitalization planning process.

No financial performance accountability to protect provincial funding, with few exceptions

- 1.88 We reviewed the 2019-24 MOU, the 10 2024-25 bilateral agreements, and 10 program grants and found almost no accountabilities placed on funding related to financial performance. The one exception applies to a small percentage of operating grant funding, which we discuss below.

Outcome agreements not effectively used by Department

- 1.89 Outcome agreements in place during the 2019-24 MOU are individual agreements between the Department and each university. Outcome agreements establish expectations in return for predictable funding.
- 1.90 We reviewed three outcome agreements and found measurable performance targets in the form of 23 deliverables. The universities we tested appeared to submit all reports and information required prior to the final year of the MOU. However this was difficult to determine as the deliverables were not always dated and the Department did not always have original copies.

- 1.91 Outcome agreements only applied to a small percentage of Department funding for the 2019-24 MOU. Outcome agreements were used to determine a university's ability to qualify for an annual one per cent year-over-year increase to operating grant funding. This one per cent increase was available to all universities that complied with the requirements of the outcome agreements. In 2023-24, the increase was budgeted at \$3.8 million shared by all 10 universities. The remaining \$374.5 million in operating grants universities received that year were not subject to the requirements of the outcome agreements.
- 1.92 The Act states the outcome agreements should require the university to demonstrate financial sustainability. Our review found only two of the 23 deliverables related to financial sustainability. These deliverables required universities balance their budget each year or provide a financial plan that would lead to a balanced budget, and to provide a three-year budget forecast.

Department did not review standardized financial reports from universities prior to providing additional funding

- 1.93 As noted above, universities are required to provide financial reports and projections, including standardized financial reports (SFRs). SFRs are a template designed by the Department to streamline reporting to ensure comparability given the differences in financial statement preparation.
- 1.94 We found limited use for the SFRs as the financial information contained in these documents differed significantly from the financial statements. For example, one university's revenues varied by \$15 million between the SFR and the financial statements, changing a surplus in one document to a deficit in the other.
- 1.95 We also learned that the Department did not require universities to submit a SFR in 2019-20, due in September 2020, during the COVID-19 pandemic.
- 1.96 This is concerning as the Department provided a combined \$25 million unbudgeted grant to universities in January 2021. This funding was to assist in managing the impacts of the COVID-19 pandemic. However, the grant was issued prior to the Department's receipt and review of the SFRs. We question the usefulness of the SFRs if the Department determined they did not need to review these financial documents before providing financial aid to universities.

Onus on the universities, not Department, to initiate revitalization process

- 1.97 The Act includes a revitalization plan process as an option available to universities experiencing financial problems. Revitalization plans are meant to be an option of last resort for universities, several of which have received emergency funding in the past.
- 1.98 The revitalization process is only available to universities with a significant operating deficiency, defined in the Act as a significant annual operating deficit, a significant cash flow deficiency, or a pattern of operating deficits or cash flow deficiencies.
- 1.99 The Department explained revitalization plans have so far never been used by universities; for this process to begin the university must be the instigator. However, universities have received additional operating funding from the Department since the Act became law, including \$10.5 million to Acadia University in 2017-18, \$4 million to St. Francis Xavier University and \$2.2 million to University of King's College in 2018-19.

- 1.100 It is concerning that the Act puts the onus on the university, not the Department, to initiate a revitalization plan process. The Department has no framework or policy outside of the revitalization process for granting emergency funding to universities; relies on the universities to bring financial issues to their attention when they arise; and does not perform a regular financial analysis of university health. While the Act sets the parameters, the Department should be taking proactive measures in the event universities experience a significant operating deficiency.

Unclear if Department ever met with universities to discuss financial results

- 1.101 The 2019-24 MOU required the Department and universities to meet annually to review financial reports. We asked the Department for copies of the financial reports and meeting minutes which documented these discussions. While the Department indicated they had regular discussions with universities, they were unable to provide any evidence annual reviews were occurring.
- 1.102 The Department and universities agreed in the MOU that accountability and transparency are hallmarks of an efficient, effective, and sustainable sector. The annual reviews offer a critical checkpoint where the Department can ensure universities are on track and discuss the indicators of financial health and sustainability.

Recommendation 1.9

We recommend the Department of Advanced Education add accountabilities for financial performance as a condition of operating grants.

Department of Advanced Education Response: The Department will include financial reporting requirements and specific accountabilities impacting financial performance as a condition of receiving an operating grant. Target Date: April 2025

Recommendation 1.10

We recommend the Department of Advanced Education improve transparency, comparability, and accountability with the financial reporting and review process. This includes defining reporting requirements and developing a standardized financial report to improve transparency and comparability of financial results; and regularly meeting with universities to review financial results and the indicators of financial health and sustainability.

Department of Advanced Education Response: The Department currently requires universities to provide financial information in a standardized financial template and will work with the universities to review and revise the template as needed, to improve transparency and comparability.

The Department meets with universities frequently throughout the year on various topics. Starting in 2025-26, the Department will schedule at least annual meetings with universities to specifically discuss financial results, including the university financial metrics and benchmarks. Target Date April 2026

More universities participating in alternative payment arrangements

- 1.103 Operating grants are usually paid to universities in twelve equal monthly instalments. However, under the Post-Secondary Operating Grant Payment Policy, an alternative payment arrangement is permitted. An alternative payment arrangement is generally one upfront lump sum payment at the beginning of the fiscal year. Alternative payment arrangements are subject to a time-value discount.

- 1.104 To participate in an alternative payment arrangement, universities must make a request demonstrating the alternative arrangement is required to fund day-to-day operations. Without an alternative arrangement, the university is forecasting to require external financing to manage its shortfall in cash flow.
- 1.105 We examined 14 instances where an alternative payment arrangement was requested between April 2019 and March 2024 and found the appropriate time value discount was applied by the Department in each scenario. However, under the Policy, requests for an alternative payment arrangement must be made by universities prior to February each year. In three of the 14 samples, the February deadline was not met, but in each case, the universities were approved for an alternative payment arrangement.
- 1.106 We are concerned the universities are not required to submit a plan to rectify their cash flow challenges or demonstrate financial sustainability when applying for an alternative payment arrangement. Since April 2019, there have been 38 alternative payment arrangements. This suggests a recurring pattern of cash flow challenges for universities.

Recommendation 1.11

We recommend the Department of Advanced Education require a plan from universities that request an alternative payment arrangement to rectify their cash flow challenges and demonstrate financial sustainability.

Department of Advanced Education Response: Cashflow management will be reflected as part of the metrics identified in recommendation 1.8 and the accountabilities for financial performance in recommendation 1.9. Target Date: November 2025

Reasonable Assurance Engagement Description and Conclusions

We completed an independent assurance report of Funding to Universities at the Department of Advanced Education. The purpose of this performance audit was to determine whether the Department of Advanced Education is effectively funding, monitoring, and holding universities accountable for public funds.

It is our role to independently express a conclusion whether funding to universities complies in all significant respects with the applicable criteria. Management at the Department of Advanced Education have acknowledged their responsibility for funding to universities.

This audit was performed to a reasonable level of assurance in accordance with the Canadian Standard on Assurance Engagements (CSAE) 3001 — Direct Engagements set out by the Chartered Professional Accountants of Canada (CPA Canada) in the CPA Canada Handbook — Assurance; and sections 18 and 21 of the *Auditor General Act*.

We apply the Canadian Standard on Quality Management 1 (CSQM 1), and we have complied with the independence and other ethical requirements of the Code of Professional Conduct of the Chartered Professional Accountants of Nova Scotia.

The objectives and criteria used in the audit are below:

Objective:

To determine whether the Department of Advanced Education is effectively funding, monitoring, and holding universities accountable for public funds.

Criteria:

1. Agreements with universities receiving public funding include adequate terms and conditions, performance measures, and accountability mechanisms to safeguard public funds.
2. Agreements with universities receiving public funding include adequate accountabilities for financial performance as a condition of operating grants.
3. Agreements for targeted and special purpose grants to universities ensure funds are spent for the intended purpose.
4. The financial health and sustainability of universities receiving public funding is regularly assessed by the Department of Advanced Education.
5. Public funding decisions to universities adequately addresses provincial healthcare priorities.

Generally accepted criteria consistent with the objectives of the audit did not exist. Audit criteria were developed specifically for this engagement. Criteria were accepted as appropriate by senior management at the Department of Advanced Education.

Our audit approach included review of relevant legislation, policies, procedures, and processes; interviews at the Department of Advanced Education; and examination of agreements, disbursements, reports and information provided to the Department of Advanced Education by universities, audited financial statements, and other relevant documentation. Our audit period was from April 1, 2022 to September 30, 2024. We examined information outside of that period as necessary.

We believe the evidence we have obtained is sufficient and appropriate to provide the basis for our conclusions. Our report is dated February 19, 2025 in Halifax, Nova Scotia.

Based on the reasonable assurance procedures performed and evidence obtained we have formed the following conclusions:

- The Department of Advanced Education is not effectively funding, monitoring, or holding universities accountable for public funds; although the new 2024-25 bilateral agreements, if followed, should improve accountability.



- i. The financial health and sustainability of universities is not defined or regularly assessed by the Department
- ii. Department has spent \$1.9 billion in public funds on unrestricted operating grants over five years based on an unsupported arbitrary allocation
- iii. Funding agreement terms and conditions not adequate to protect public funds
- iv. Department highlighted concern with the long-term financial sustainability of certain universities, but places no financial performance accountability to protect public funds
- v. \$276.9 million in health education spending over five years; however, the Department has no plan to assess if it will achieve intended healthcare priorities

Results of the November 2015 Report of the Auditor General

Funding to Universities: Labour and Advanced Education

Recommendation	Department Response	OAG Assessment
<p>Recommendation 4.1: The Department of Labour and Advanced Education, in consultation with stakeholders, should put in place a strategic direction for Nova Scotia's university system which addresses its sustainability concerns.</p>	<p>The Department agrees with and intends to implement this recommendation. A strategic direction statement will be developed by March 31, 2016. The Higher Education Branch internal vision paper, as well as a report from the stakeholder consultations in 2014, will inform the core direction for universities – financial sustainability and linkage to the economic development priorities of the province. Through the new <i>Universities Accountability and Sustainability Act</i> and a standardized public financial reporting process, a new level of financial accountability is being put in place to allow government to monitor the financial health of the universities. Through the work of the Innovation Team and its five subcommittees, the universities are making significant progress in supporting provincial economic development priorities and the goals of the oneNS report. The 2015-2019 MOU and the 2016 bilateral agreements with each university will further set direction for the universities.</p>	<p>April 2018</p> <p>Follow-up of 2014 and 2015 Recommendations:</p> <p>Complete</p>
<p>Recommendation 4.2: The Department of Labour and Advanced Education should put in place specific, measurable, achievable, relevant, and time-bound goals for improvements in efficiency and financial sustainability of the university system.</p>	<p>The Department agrees with and intends to implement this recommendation. SMART goals will be included in the 2015-2019 MOU and in the new bilateral agreements to be developed for 2016. With the statement that there will be no new emergency funding for universities as of April 1, 2015, a very clearly defined goal has been set for the universities to become sustainable. The new <i>Universities Accountability and Sustainability Act</i> calls for the universities to be held accountable to specific outcome measures supporting key policy directions of the province. These will be incorporated into the 2016-2019 bilateral agreements. By achieving these outcomes, universities will be in balanced budget positions and will be promoting the economic development of the province.</p>	<p>April 2018</p> <p>Follow-up of 2014 and 2015 Recommendations:</p> <p>Complete</p>
<p>Recommendation 4.3: The Department of Labour and Advanced Education should, in consultation with partners, develop financial health and performance measures for universities. Results and trends should be analyzed in an effective and timely manner, with appropriate action taken when necessary.</p>	<p>The Department agrees with and intends to implement this recommendation. This will be implemented through the standardized public financial reporting initiative under the 2012-15 MOU. Universities are currently inputting information in to this template. A five year history of data will be collected to begin the process, then annual data on a go forward basis. Additionally, multi-year projections of expenditures, revenues and enrolments will be collected. The process is underway to establish a financial analyst position within the Universities and Colleges Division to help evaluate and analyze the data to enable the Department to react to any concerns identified.</p>	<p>April 2018</p> <p>Follow-up of 2014 and 2015 Recommendations:</p> <p>Complete</p>

Recommendation	Department Response	OAG Assessment
<p>Recommendation 4.4: The Department of Labour and Advanced Education should include reporting requirements in special-purpose funding agreements. Monitoring should be completed to ensure the objectives of these agreements are met.</p>	<p>The Department agrees with and intends to implement this recommendation. In 2014-15, accountability requirements were set for special nursing education funding. In 2015-16, accountability requirements will be tied to any other special funding that is released.</p>	<p>April 2018</p> <p>Follow-up of 2014 and 2015 Recommendations:</p> <p>Complete</p>
<p>Recommendation 4.5: The Department of Labour and Advanced Education should develop and implement a new funding allocation method without further delay.</p>	<p>The Department agrees with this recommendation. Changes to the allocation mechanism will result in some universities receiving more funding and others receiving less. The implications for those universities receiving less funding are very serious. The universities have asked for the new allocation formula to be implemented in 2017-18 to allow time to deal with structural issues before the added complication of dealing with a forced change in operating grant. Implementation of the recommendation is underway.</p>	<p>May 2020</p> <p>Follow-up of 2015, 2016, and 2017 Performance Audit Recommendations:</p> <p>Complete</p>
<p>Recommendation 4.6: The Department of Labour and Advanced Education should establish reasonable expectations for future memorandum of understanding working groups and ensure goals are specific, measurable, attainable, realistic, and time-bound.</p>	<p>The Department agrees with and intends to implement this recommendation. The 2015-2019 MOU, the 2016 bilateral agreements, deliverables for the Innovation Committees and any other agreements and MOUs will contain SMART goals to ensure absolute clarity around the deliverables.</p>	<p>April 2018</p> <p>Follow-up of 2014 and 2015 Recommendations:</p> <p>Complete</p>
<p>Recommendation 4.7: The Department of Labour and Advanced Education should identify specific outcomes, including timeframes and reporting processes, in future agreements with universities.</p>	<p>The Department agrees with and intends to implement this recommendation. Currently, staff monitors progress on bilateral initiatives through frequent interaction with the universities, including meetings between the Presidents and the Minister, Deputy Minister and the Senior Executive Director of Higher Education. The next version of bilateral agreements, due in April 2016, will contain specific outcome measures that link to the university's academic goals, the commitment to sustainability, and that support the social and economic priorities of the province. The Department will ensure these measures have specific timeframes and reporting outcomes.</p>	<p>April 2018</p> <p>Follow-up of 2014 and 2015 Recommendations:</p> <p>Complete</p>

• • • **Office of the Auditor General** • • •

5161 George Street, Royal Centre, Suite 400
Halifax, Nova Scotia
B3J 1M7

www.oag-ns.ca

