DEPARTMENTAL AUDITS

4.

EDUCATION - NOVA SCOTIA COMMUNITY COLLEGE

BACKGROUND

4.1   An Act Respecting Collège de l'Acadie and the Nova Scotia Community College was assented to January 11, 1996. The Act may be cited as the Community Colleges Act. Prior to this Act being passed, the community college activities were administered through the Department of Education and Culture under the Nova Scotia Community College Act (1990).

4.2   The legislation separates Collège de l'Acadie from the Nova Scotia Community College (NSCC). The legislation provides for separate boards, administration, presidents, annual reports, and annual estimates for each of these two organizations.

4.3   We completed an audit of certain aspects of the Community College in 1993 with follow up in 1994. As with our previous audit, the current audit did not include Collège de l'Acadie.

4.4   Our 1993 audit identified many significant deficiencies in governance and management of the College. Subsequent to that audit, the government took action to address most of our recommendations. Those actions included self-governance under a Board of Governors, and implementation of the results of a major internal program review which led to changes in program offerings and the number of campuses. Exhibit 4.1 on page 56 is a document prepared by NSCC which summarizes progress in the 1994-99 period in addressing the recommendations of the 1993 audit. The 1993 audit and the implementation of the related recommendations illustrate how the government, the NSCC and the Auditor General can work together to achieve positive change in the public sector.

4.5   The total revenue of the College for fiscal 1997-98 amounted to $76.7 million while expenditures were $76.3 million resulting in an excess of revenue over expenditures of $0.4 million. Exhibit 4.3 is a reproduction of the Statement of Revenue and Expenditures for the year ended March 31, 1998.

4.6   NSCC's expenditure budget for the 1998-99 fiscal year amounted to $76.6 million. Staff levels consisted of 520 full-time faculty, 297 extension faculty and 571 non-faculty. There were 6,643 full-time students enrolled at September 30, 1998 and 131 regular part-time students. The numbers of apprentice and customized training students fluctuated throughout the year depending on demand. Last year there were approximately 13,000 in this category.

4.7   The 1999-2000 funding arrangements for the College had not been finalized by the Department of Education and the College at the time of writing this Report. However, in his October 14, 1999 *Budget Address*, the Minister of Finance (when referring to the defeated budget of June 1999) said "*It is fair to say there were some initiatives, such as the increased funding to expand seats at the Nova Scotia Community Colleges, that all parties agreed with. The commitments have been kept on those items.*"

4.8   The NSCC has 2 million square feet of space under administration in 14 sites at 13 campuses in Nova Scotia. Previous to passage of the present Act, there were 19 campuses and efforts have been ongoing to consolidate the campuses.

RESULTS IN BRIEF

4.9 The following are the principal observations from this audit:

- Our 1993 audit identified many significant deficiencies in governance and management of the College. Subsequent to that audit, the government took action to address most of our recommendations. Those actions included self-governance under a Board of Governors, and implementation of the results of a major internal program review which led to changes in program offerings and the number of campuses. The Board acted on virtually all of the remaining recommendations. The 1993 audit and the implementation of the related recommendations illustrate how the government, the NSCC and the Auditor General can work together to achieve positive change in the public sector.

- The Department of Education and the NSCC need to define expected outcomes for the Province's funding to the College including expectations regarding accessibility, enrollment levels and costs to be borne by students. Expected outcomes are essentially public policy decisions dealing with what the government expects to achieve from the funding provided, and agreed-upon outcomes should serve as inputs to the process of determining the amount of funding which the College should receive. A funding methodology for the Province's contribution to NSCC should be established and roles and responsibilities for the budget process should be clarified.

- The Board has established appropriate processes for governance of the College in most areas. The Board has established an evaluation process for the President.

- A strategic plan was approved by the Board in May 1999 and is currently being implemented. The College also has a new mission statement which has been reproduced in Exhibit 4.2.

- Until recently, there has been lack of compliance with the legislation which requires an annual report to be produced by management and tabled in the House. The first Annual Report which covered 1996-97 and 1997-98 was completed in November 1998 and has yet to be tabled in the House of Assembly.

- The College is not able to accept all applicants. Consultants have been engaged to recommend ways to increase capacity. As well, management has issued a request for proposals for a centralized application system.

- The introduction of the Student Information System is a significant improvement since our last Report, however, there is no verification process applied to the demographic information entered and no linkage to the accounting information. Our tests revealed errors in the information recorded. Management has issued a request for proposals for a system to satisfy the College's future needs.

- The definition of expected outcomes and reporting on outcomes achieved needs to be improved. In addition to employment outcomes currently reported, information should be reported on other outcomes such as enrollments, waiting lists, retention rates, drop out rates and graduation placements. The College has recently issued a request for proposals to replace its core administrative information systems. Improvements in these systems should enhance the ability of the College to report on outcomes.

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■ The Y2K plan and identified milestones had not been achieved at the time of our visit. The risk assessment and resulting budget implications have now been completed. Status reporting of Y2K issues to the Board has been informal.

■ A needs assessment has recently been completed, by facilities management staff, on the buildings and equipment of the College. The needs assessment forecasts a total shortfall of $10.4 million in funding for required capital maintenance over the next five years.

■ The financial statements of the College do not include all costs of operating the College. Costs borne by the Province include building maintenance and amount to approximately $1.5 million annually.

AUDIT SCOPE

4.10 The overall objectives of this assignment were to review compliance with the Act, adequacy of the control systems and due regard for economy and efficiencies in certain areas. Our objectives also included examining the governance and accountability framework for the Nova Scotia Community College by reviewing:

– overall governance of the Board and accountability to the Minister and the Legislature, and

– some key aspects of the College's systems to examine the specific accountability framework in effect.

4.11 Key areas reviewed included planning, enrollment, student outcomes, organizing and applying resources, and information systems.

4.12 The audit did not include the Collège de l'Acadie.

4.13 The criteria used for this audit are summarized as follows:

■ There should be clearly defined responsibilities and accountabilities for the NSCC.

■ The reporting system should be adequate to ensure that key results and achievement of objectives are addressed in periodic reporting to the Minister and the House of Assembly.

■ There should be a vision statement and plan that clearly explain the linkages between the legislation established for the NSCC and its vision, values, mission and objectives.

■ There should be performance indicators which help determine whether students have achieved appropriate outcomes.

■ There should be systems in place to provide for obtaining, organizing and administering resources to achieve desired outcomes at a reasonable cost.

4.14 For the audit of governance and accountability we made use of the following sources of criteria:

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–   *Guidance for Directors - Governance Process for Control* - published by the Canadian Institute of Chartered Accountants*;*

–   *Guideline for Improved Corporate Governance in Canada* - published by the Toronto Stock Exchange Committee on Corporate Governance in Canada; and

–   *Reporting on Effectiveness in Colleges and Institutes - A Proposed Accountability Framework for the British Columbia Public System* - published by the Canadian Comprehensive Auditing Foundation.

PRINCIPAL FINDINGS

Governance and Accountability

4.15   *Board of governors* - The Act specifies the composition, function, duties and powers of the Board. The bylaws, approved in January 1997, also set the standing committees and general terms of reference for each.

4.16   The Board composition is in accordance with the Act and includes two students of the College elected by the students of the College, one academic staff member of the College elected by the academic staff members of the College, one administrative staff member of the College elected by the administrative staff members of the College, one support staff member of the College elected by the support staff of the College, not fewer than five and not more than seven persons nominated by the Minister, and not fewer than five and not more than seven persons appointed by the Board.

4.17   An orientation package has been developed for newly appointed Board members. The Board has established a meeting schedule, well in excess of the legislated requirement of a minimum four meetings each year. The Board usually meets bi-monthly.

4.18   Calling of meetings, notice to Board members and the public, conduct of business at meetings, and the conduct of the business and affairs of the College are regulated through the bylaws. The bylaws are open to examination by the public during the normal office hours of the College. Meetings of the Board are open to the public. However, the members of the Board are not prevented from meeting in private to discuss matters such as those related to personnel; the acquisition, sale, lease and security of property; labour relations; and legal opinions.   Several in camera sessions during regular Board meetings have occurred.

4.19   The Board, through the bylaws, has established three standing committees; an Executive Committee, a Programs and Services Committee, and a Finance and Audit Committee. All of these committees have terms of reference broadly defined in the bylaws and all have been active. The terms of reference have been approved by the Board.

4.20   There are also a number of task committees established for various purposes, one of the most significant presently being the steering committee for the strategic planning process.

4.21   The Finance and Audit Committee is primarily responsible for review of the quarterly financial statements, appointment of auditors, review of operating and capital budgets, and receipt of the annual audited financial statements and management letters from the independent auditors.

4.22   Internal audit reports have been addressed to the principal and the President. The minutes of the Finance and Audit Committee do not include any comments or discussion on the various internal

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audit reports completed. These reports should form part of the Committee's responsibility. The internal auditor reports functionally to the Vice-President of Finance but has a direct reporting relationship to the Board through the Finance and Audit Committee. The internal audit position had been vacant since the summer of 1998 and has been recently filled by a professional accountant.

4.23   The Board has established a self evaluation process. A self evaluation questionnaire was developed dealing with the Board's performance in several areas. The questionnaire was circulated to Board members for completion in each of the past two years and the results tabulated.

4.24   The Board is authorized to appoint and determine the terms and conditions of employment of a President, who shall be the Chief Executive Officer of the College. Subject to the direction of the Board, the President is responsible for the general management and direction of the College including:

  –   the policies, programs and services of the College;

  –   the business affairs of the College; and

  –   such other matters as may be delegated by the Board to the President.

4.25   The term of office of the President shall not exceed five years and the President may be re-appointed. The process adopted by the Board for the appointment, review and removal of a President is subject to the approval of the Minister.

4.26   The Executive Committee is responsible for selection, review and termination of the President. The Committee had expressed concern that the Board had not developed a formal evaluation process for the position. The Committee recommended annual adjustments in remuneration of the former President without a formal evaluation process in place. A new President was appointed in October 1998 following the completion of a selection process adopted by the Committee, including the utilization of a consultant. A statement of expectations has been mutually agreed to, and the Board has established a formal evaluation process for the President.

4.27   The College's two Vice-Presidents, Executive Assistant, the Director of Student Services, the Manager of Public Affairs, and the Manager of Human Resources comprise the central office senior management team. All campus Principals report to the Vice-President of Program Services. At the campus level, management is comprised of the principal, department heads, the Manager of Administration and the Community Education and Training Officer (CETO).

4.28   *Relationship with government* - The Act sets out the duties and responsibilities of the Minister of Education, the Board and the President (CEO).

4.29   Section 71(3) of the Act states that the Minister may approve the annual fiscal year estimates of sums required for purposes of the College as submitted by the Board. Section 71(4) states *"or may, after consultation with the Board, amend the estimate and the Board shall adopt the annual estimate as approved or amended by the Minister."*

4.30   The Board is required to submit to the Minister, in the form and at the time determined by the Minister, its annual estimate of all sums that are required for lawful purposes of the College for the fiscal year. Further, this estimate is to be prepared before the beginning of the fiscal year and is to be consistent with the multi-year operating and capital plans of the College. The Board has positioned itself to approve the budget prior to the commencement of the fiscal year, however delays in receiving the Minister's approval have prevented this.

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4.31   Funding for the NSCC from the Province is approved as part of the Estimates approval process and represents part of the vote for the Department of Education (DOE). The 1998-99 funding is reflected in the Estimates under DOE, Training and Financial Assistance.

4.32   The budgeting process for the 1998-99 fiscal year was difficult for both NSCC and the Department. In March 1998, while trying to resolve budget funding difficulties, the Deputy Minister of Education pointed out that the NSCC and DOE should hold discussions to clarify their respective roles in the budgeting process. No meetings have occurred relative to defining the roles and responsibilities and we have recommended that such meetings be held. In April 1998 the Minister indicated his reluctance to go forward with a $400 tuition increase recommended by NSCC until a thorough review by DOE of the College's budget. The Department's role in reviewing the NSCC budget was not clear to NSCC.   In June 1998 the Board approved its budget based on correspondence in late May from the Deputy Minister indicating the Department's financial commitment to the College. The Board-approved budget included a $200 increase in tuition, although this had not yet been approved by Minister nor the Governor in Council as required by Section 63(1)(o). The $200 increase was subsequently approved by order in council. In September 1999, the Governor in Council approved an additional tuition increase of $300 to $1,500.

4.33   The Department and the College have not defined expected outcomes for the Province's funding to the College including expectations regarding accessibility, enrollment levels, and costs to be borne by students. Expected outcomes are essentially public policy decisions dealing with what the government expects to achieve from the funding provided, and agreed-upon outcomes should serve as inputs to the process of determining the amount of funding which the College should receive. The Department of Education has indicated that it has been working with the Council of Ministers of Education (CMEC) on the development of an articulated series of expectations for post-secondary institutions. The Department says that output and outcome measures will be formulated in consultation with the NSCC drawing upon the best practices applied and tested in other jurisdictions. The Department intends to have a substantial part of this work completed for the 2000-01 fiscal year.

4.34   The Department and College have not developed a methodology to be followed in determining the appropriate funding to be provided by the Province to meet the College's requirements. Lack of an appropriate funding methodology causes considerable difficulty for the Minister, the College and the Department in planning financial affairs. Consideration should be given, as recommended in our previous Reports, to improving this situation by developing a funding methodology acceptable to government and the Department, linked to the strategic and operational plans.

4.35   *Annual report* - Section 72 of the Act requires an annual report be presented to the Minister, "*by a date determined by the Minister*." The Minister shall table the annual report in the House of Assembly or, if the House is not sitting then, table the annual report with the Clerk of the Assembly. The annual report contents are defined in the Act to include audited financial statements of the College and any other information the Minister requests.

4.36   The College's first annual report for the years 1996-97 and 1997-98 was completed in November 1998 and has yet to be tabled in the House of Assembly.

4.37   The annual report is the formal reporting document to be provided to the Minister and the House of Assembly. It should be tabled annually on a timely basis (usually within six months of year end) and include the vision, mission, goals, objectives, plans and the achievements of the College. Progress in achieving planned outcomes and targets should be clearly reported.

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Planning

4.38   *Strategic planning* - The Board and the College have been engaged in the development of a strategic plan since May 1997. A revised mission statement along with vision and values statements, as set out in Exhibit 4.2, were developed by the Board and College management as part of a rigorous strategic planning exercise. The original mission statement of 1992 was inherited from the Department of Education. The vision statement was accepted by the Board in November 1997, following several submissions and reviews, and the strategic directions were approved by the Board in February 1998.

4.39   In October 1998, the newly appointed President issued a memorandum to faculty, staff and students outlining the establishment of a steering committee for the strategic planning process. The steering committee composition was defined and included representation from all areas of the College. The plan was developed, presented and accepted by the Board in May 1999.

4.40   As of the fall of 1999, management has indicated that the strategic plan is being implemented. Specific objectives and key performance indicators College-wide or for individual campuses have not yet been developed. The plan has not yet been linked to long-term or annual operating goals and objectives. Indicators and linkages are part of the implementation process.

4.41   The strategic plans should incorporate government's expectations of the College, particularly in terms of student enrollments and student outcomes. As stated in paragraph 4.33 above, expected outcomes should be defined by the College and Department. These expected outcomes should then be incorporated into the strategic planning process.

4.42   *Student enrollment* - Each campus has capacity levels established for each program based on space limits, equipment and safety limits. These levels are based on standard class sizes and the traditional academic year and teaching methods for the program. The College does not know what the expanded capacity could be if new technologies and teaching methods were introduced. The same points were made in our 1993 Report on the Community College.

4.43   The ratio of qualified applicants to total capacity is not known by the College, but for 1998-1999 there were 20,000 applications received from 15,094 applicants, and enrollment at September 30, 1998 was 6,643. The College does not collect any information nor complete any reports about the 8,451 applicants who are not enrolled. In the short term, to increase capacity, management has plans to modify classrooms, class schedules and shifts, and the establishment of the virtual campus, available electronically. In the longer term, the College has engaged a consulting firm to provide recommendations on increasing the College's seating capacity by 50%. The assignment is in progress and the report expected by the end of 1999.

4.44   Students apply to individual campuses using a standard College-wide application form. At the time of our audit, there was no formal process to ensure rejected, but qualified, students were informed of vacancies at other campuses. As suggested in our 1993 Report, the potential for a common centralized application system for the campuses should be examined. The College has recently started producing new enrollment information and sharing more information among campuses. Management has indicated that there is now a process to ensure rejected students are informed of vacancies.

4.45   Prior to January 1998 the College maintained student demographic records manually. The College tested a computer package prior to 1998 but found it did not meet its needs. The Student Information System (SIS) was then developed in-house to allow for computerized data collection and reporting. The SIS is capable of collecting a variety of information on student demographics. This was an area where significant improvement has been noted since our 1993 Report. Management

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has indicated that the system does not adequately satisfy the College's future requirements and there is a plan to replace it.

4.46 Demographic information is entered into the SIS at the campus level, and is not verified for accuracy by either the campus or central office. Data regarding age and gender of students is currently being properly collected. Information regarding home county and prior education of the student is not being completely collected. Enrollment information submitted to central office is partially verified through the preparation of class lists from the SIS. The lists are compared to attendance and discrepancies between the list and those students in the class are examined. This procedure only verifies the number of students in each class; the demographic details about those students are not verified in any way.

4.47 We completed tests on a limited basis tracing demographic information from the student application to the SIS database. Two errors were found with regard to foreign students' status. The students should have been classified as foreign students and should have paid the foreign student tuition of $7,500 not the Canadian tuition of $1,200. Testing and review of student demographic information should be completed by internal audit and, as pointed out by external auditors, reconciliation of tuition fee revenue should be completed. The internal auditor has indicated that these items are included in the scope of a new audit plan.

Student Outcomes

4.48 A key measure of success for community colleges should be whether students have achieved expected outcomes. The NSCC has no policies or procedures outlining what outcome information should be tracked or how information could be collected. The College should decide on appropriate measures of student outcomes and set standards and targets for those indicators. Data should be collected and analysed as necessary to enable reporting on achievement of outcomes.

4.49 The only measure of student outcomes which is produced for the College is the *Graduate Follow up Survey*. This survey is prepared by the Department of Education and the results are given to the College. The survey provides information on the employment rate of graduates approximately one year after graduation. This information is not received by the College until approximately 18 months after the students have graduated. The results of the survey are used in the program review process. The survey results have historically indicated employment rates of graduates in the range of 70%.

4.50 Some campuses also conduct a survey of students prior to graduation to determine employment status. The information collected from these surveys is not submitted to central office. Detailed information is collected by individual programs on employment of graduates. This information is used by the campus in preparation of the *Existing Program Assessment Form* for the program review process but is not forwarded to central office. Central office should investigate to determine which survey provides the most accurate and timely information, and then review whether the other methods need to be continued.

4.51 There is no information reported on retention rates, drop out rates, or graduation placements. Central management indicated that the new SIS will assist in collecting this information. Information on waiting list by program is collected at the campus level. This information is not reported to central office, although central management indicated a general understanding of information contained on waiting lists. Reporting on information collected by the College is limited and needs to be improved. The improvements suggested here and in the section on student enrollment should enable the College to more fully comply with Section 63(1)(s) of the Act. This section requires the Board to publish an annual academic report that includes student information respecting enrollment, attrition, graduation and graduate employment placement and such other information as the Minister requires.

4.52	We believe that the information collected regarding employment should be supplemented with information focussing on factors such as acquisition of skills, attitudes and knowledge since employment is only one of several potential outcomes for the College.

Organizing and Applying Resources

4.53	*Policies and procedures* - Management has developed a draft Financial Management manual. Some sections such as procurement policies and procedures have been completed and distributed to the campuses for implementation. Draft policies and procedures for other areas such as cash handling and banking procedures relative to tuition fees, and customized training and apprentice training have also been developed. Policies and procedures with regard to the implementation of the financial system have also been completed and distributed to the campuses. Areas such as budgeting and fixed asset management have not been formalized for inclusion in the manual.

4.54	*Planning and budgeting* - A new strategic plan was approved by the Board in May 1999. Annual operating plans and budgets have not yet been linked to longer-term and strategic plans.

4.55	The budgeting process is not formalized in the Financial Management manual. Written instructions are issued by senior management, usually in the fall, to the campuses. As part of these instructions campus budgets are to be submitted to central office in a specific format and by a specified date. A meeting of principals and business managers occurs, usually in mid September, at which senior management provides advice on the timing and process to be followed in submitting the annual operating budget. This budget is required to be returned by November which is well in advance of the commencement of the fiscal year.

4.56	The annual operating budgets submitted by the individual campuses are reviewed and challenged by central senior management. Documentation indicated budget negotiations with central office were still occurring in late April, albeit for a small amount relative to the campus budget request. Throughout the year, actual to budget comparisons are made on a campus by campus basis.

4.57	Timeliness of budgeting decisions is a problem for the College. The College cannot complete its budgeting process until it can estimate its revenues which depend primarily on government decisions regarding grants and tuition fees. The Department of Education should inform the College of its approved funding prior to commencement of the fiscal year. The campuses should also be aware of their approved budgets prior to commencement of the fiscal year.

4.58	In addition to funding, the Province supplies additional resources for facilities maintenance which have averaged approximately $1.5 million annually. The level of these costs is negotiated by the College and the Department of Transportation and Public Works.

4.59	*Control over revenues* - The Financial Management manual contains draft policies and procedures to control revenues and related cash and banking policies and procedures.

4.60	Cash registers, invoices, work orders, segregation of duties and written policies and procedures provide the basic internal control framework. Internal audits have been conducted at various campuses and the related reports have been forwarded to the respective principal and business manager for implementation of recommended improvements. Required improvements in cash handling and control of revenue were identified at several campuses.

4.61	The internal audit position which was vacant for some time has recently been filled. Follow-up of recommended improvements has not occurred due to the vacancy but should occur in the future.

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4.62   *Cost comparisons* - A detailed cost comparison of courses and programs has been produced on a campus and program basis for several years. The costs include the direct and indirect costs of the academic programs. Campus administration costs are also compared campus by campus. These reports have been provided to and reviewed by the Board.

4.63   While this type of detailed information is being provided on a course and program basis, we did not see any evidence of comparison to national benchmarks. Management advises that the College is currently participating in a related study sponsored by the Association of Canadian Community Colleges and that no benchmarks currently exist.

4.64   There are several complex public policy issues related to the College that need to be dealt with by government. These include accessibility, the desired level of enrollment, the portion of costs to be borne by students and government, and the role of private institutions versus NSCC in post-secondary education. There are many options for dealing with these issues, and the solutions frequently conflict with each other. For example, tuition fees impact several public policy issues and can be the same for all programs, or reflect differences in program costs or employment prospects. Costing information and benchmarks are necessary inputs for these public policy decisions. Currently, the Department of Education does not have a policy setting out the share of costs a student would be expected to bear. As mentioned in our 1993 Report, the Department of Education indicated a national average of 15% of costs being borne by students through tuition. Exhibits 4.5 to 4.7 set out the trends of Provincial funding, student enrollment and average funding per student from 1991 to 1999.

4.65   In addition, cost comparisons on a campus by campus basis are completed for the maintenance and utilities costs. These range from a low of $2 per square foot to a high of $6 per square foot. Management explained that the differences exist partially because of the types of expenditures each campus classifies as maintenance expenditures. Standardization of accounting classification among campuses should be pursued to ensure that cost comparisons are relevant among campuses. Significant variances should be investigated.

Sale of Customized Training

4.66   Customized training is administered by the principal and the Customized Training and Education Officer (CETO) at the campus level. The CETO liaises with the Coordinator, Customized Training at central office. A marketing plan has recently been developed. Exhibit 4.4 provides a summary of customized training financial information for the fiscal year ended March 31, 1998.

4.67   At mid-November 1998, the coordinator of customized training became directly responsible for all aspects of this area. Revised draft policy and procedures manual sections have been developed. The coordinator has adopted a formula for use in pricing customized training which leads to recovery of direct costs and a small contribution to overhead. The coordinator has indicated that standardization of systems at the campus level is a priority.

4.68   At the time of our review, the College did not have a computerized accounts receivable system and did not record revenue at the time of invoicing. This resulted in inaccurate comparisons of revenues and costs during the fiscal year. At year-end necessary adjustments were completed to provide for a proper matching of revenues and expenses. Control over accounts receivable from customized training rested with the individual campuses. Internal and external auditors have made recommendations for the improvement of internal controls in the area of invoicing and receivables.

4.69   The College has recently acquired and implemented a computerized accounts receivable system. In addition, the Board required the financial statement reporting package to be expanded to include information on the customized training revenues and costs on a campus by campus basis. This was operational for the September 30, 1998 second quarter financial statement report.

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4.70   We note significant amounts are received from purchasers of customized training as reimbursement for expenditures related to building modifications to provide required training facilities. These modifications represent betterments which are included as expenses in the financial statements. These reimbursements had been included in customized training revenue but are now recorded as recoveries which are netted against the expense. Alternatively, these betterments and related reimbursements could be recorded as capital expenditures and amortized over time which would better reflect their cost to the College as the related benefit is consumed. The invoicing to the purchasers of customized training does not differentiate between reimbursement of expenditures and training revenue. Consideration should be given to the accounting policy relative to customized training revenues and expenditures.

Information Systems

4.71   Discussions were held with management regarding the adequacy of the financial information systems currently used throughout the Community College. The College uses the Department of Education SRB system which is used by the school boards in the Province. Overall, NSCC management indicated that the financial system has a very limited ability to produce customized reports. Customized reports can only be produced by the Manager of Information Systems using alternate software programs which require additional effort and resources.

4.72   Management recognized inefficiencies and inadequacies in the information systems. Informal discussions and reviews occurred and recently management decided to formally review its information systems. Consultants were engaged by the College to conduct a feasibility study for the replacement of the core administrative information systems and set out options for dealing with information needs. The core information systems consist of student administration, human resources and financial management systems. The overall conclusion from the consultants was that "*The College needs to improve its administrative information system environment."* The report recommended that the College *"Initiate a project to select, acquire, and implement the 'best' available enterprise package suite."* The College has issued a request for proposals (RFP) for an integrated system. The RFP requirements are for the vendor to propose the system, develop the schedule and complete the implementation. Any additional hardware requirements are anticipated to be in the area of communications to enable the system to function properly.

4.73   Senior management has completed a Y2K plan which assigns responsibility at the campuses to Y2K coordinators. A review of relevant information noted that task milestones as described in the plan had not been achieved. The plan called for detailed lists of affected inventory by August 1998 from all campuses. As of October 1998 no campus inventory listings had been received. By December 1998, four campuses had provided lists of affected inventories and all campuses subsequently complied. Central office has completed its list of affected inventory.

4.74   Delays in receiving the listing of affected inventories caused delays in preparing the risk assessment and quantifying the resulting budget implications. Also, there were delays in verification with vendors of year 2000 compliance of suspect inventory. Recently, risk assessments have been completed and reviewed with each campus and vendor verification of suspect inventory has been performed. Budget implications of risk assessments have been identified.

4.75   The status reports that are received from the campus Y2K coordinators are produced only at the request of management. To date no formal regular reporting schedule has been developed. Management provides informal updates to the Board.

Purchasing

4.76   The College has developed a policies and procedures manual for procurement and public tendering as required by Section 63(j) of the Act. The manual was developed by utilizing the

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Provincial Procurement Policy as a guide with certain modifications peculiar to the College. The policy for purchases under $1,000 requires approval by the Business Manager or Principal of the campus. In practice, the approval for purchases under $1,000 is at the discretion of the Principal who may give approval authority to the department heads. Purchases between $1,000 and $10,000 must be approved by either the Manager of Administration or the Principal of the campus. Purchases over $10,000 must be approved by the Principal and the Vice President. Public tendering, through the central office, is required for purchases of goods over $25,000, services over $50,000 and construction over $100,000. Three written bids are obtained by central office for purchases below these thresholds.

4.77   Procurement activity and exceptions to the policy have not, but should be, reported to senior management on a regular basis. We completed limited tests of purchase transactions and found these to be in compliance with the procurement policies of the College.

4.78   The inventory recorded in the financial statements at March 31, 1998 represents the inventory in the various campus bookstores. All other consumable supplies are expensed at the time of purchase. The physical control over consumable inventories for programs is the responsibility of the individual faculty and monitored by the Manager of Administration at each campus. The quantities of consumable inventories from the various educational programs as well as campus bookstores are recorded on perpetual inventory systems and a year-end physical inventory is completed and agreed to the perpetual records. There is no complete reporting of inventory values College-wide. Internal audit reports, completed to the time the position was vacated, had indicated a lack of physical controls of the book inventory at certain campuses.

Fixed Assets

4.79   At the time of incorporation, the Province transferred title to all furniture, fixtures and equipment to the NSCC. Title to land and buildings was maintained by the Province. The College has responsibility for management of 2 million square feet contained in 14 sites throughout the Province. While ownership of the land and buildings has remained with the Province, no formal agreements on the term and use of these facilities have been established. Without formal agreements, expenditure classifications can be unclear. For example, expenditures by the College to extend the asset life which should be capital in nature, may be classified as an annual expenditure and the costs of annual operations may be overstated in that year. We note that in 1997-98 there are several million dollars classified as repairs expense which we believe are clearly capital in nature. Note 2b of the financial statements deals with significant accounting policies and states that "*because the land and buildings are owned by the province improvements made to the buildings are therefore expensed.*"   The Board should negotiate an agreement with the Province regarding ownership and/or terms and conditions of use.

4.80   The Canadian Institute of Chartered Accountants has recently defined the accounting principles for public sector entities and not-for-profit organizations. The most significant change is the accounting treatment of tangible capital assets which should appear on the balance sheet and be amortized over time. The College has complied with the revised principles relative to certain furniture and equipment acquired after March 31, 1996 but the change has not been applied retroactively as the College believes that the information for retroactive treatment is not readily available. In addition, the College financial statements do not include costs relative to buildings and benefits received from the Province in regards to building maintenance. Inclusion of all costs incurred to operate the College on the financial statements would enhance the value of the financial statements to decision makers.

4.81   Maintenance of the structures forms part of the Department of Transportation and Public Works (DTPW) fiscal and functional responsibility. Annual estimates relative to the building

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envelope for each campus are prioritized and submitted, as requested, to DTPW. These expenditures have been limited to approximately $1.5 million annually, a condition of DTPW budget allocation. Section 66(3) states *"where property is owned by Her Majesty in right of the Province and used by the college for purpose of the College, the Board shall assess the need for new buildings and repairs or alterations to existing buildings and make recommendations to the appropriate Government department."* A full needs assessment on the buildings and the equipment of the College has recently been completed by facilities management staff of the College. The needs assessment forecasts a total shortfall of $10.4 million in funding for required capital maintenance over the next five years. We did not audit the calculation and support for the forecasted shortfall.

4.82 Completion of the needs assessment and the strategic planning process should permit senior management and the Board to more adequately deal with capital budgeting.

4.83 The College continues to use the Inventory Data Base system (IDS), as provided by DTPW to maintain the fixed asset perpetual inventory, and the staff of DTPW assist in reviewing the fixed asset inventories and the internal controls over fixed assets. The College is not charged for the service. A formal agreement has not been established to outline the services to be provided and the compensation to be paid. There are plans to discontinue this arrangement and replace the system with an alternate including an internal audit function.

4.84 Contrary to the Community Colleges Act, DTPW is given the deemed surplus furniture, fixtures and equipment and receive the proceeds on disposal. Management has indicated that these items have little/no value and that there could be costs incurred to dispose of these items. There is no review by the College of the proceeds from surplus disposal and there is no record at the College as to the proceeds received. A cost-benefit analysis has not been performed to determine whether the arrangement is advantageous to the College.

4.85 A report completed in mid-1998 by internal audit at one campus indicated a weakness in internal control as additions, transfers and disposals were unrecorded on the IDS. The items were recorded in the financial SRB system. Two independent systems, such as the SRB and the IDS, require a procedure to ensure that transactions are recorded on both systems. A single integrated system would be more efficient.

CONCLUDING REMARKS

4.86 Virtually all of the more significant recommendations from our 1993 report have been initiated or are being addressed by the NSCC Board and the Department of Education. Our overall conclusion is that the NSCC is well prepared to achieve its newly revised mission.

4.87 Expected outcomes for the College need to be defined and agreed to by government and the College. Public policy decisions regarding what the government expects to achieve from the funding provided should be communicated to NSCC by the government for appropriate inclusion in NSCC plans. These are complex decisions, and the related discussion needs to include such items as tuition fees, enrollment levels, and the role of other providers of post-secondary education. We urge the College, as part of completion of the strategic planning process, to establish related objectives and outcome measures and to submit them to government for approval because government is the major provider of funding to NSCC.

4.88   The accountability of NSCC to the Department of Education is not clear particularly in the area of financial management and budgeting. There is a need to define roles and relationships in these areas.

Exhibit 4.1

PROGRESS IN ADDRESSING RECOMMENDATIONS OF 1993 AUDIT
(DOCUMENT PREPARED BY THE NOVA SCOTIA COMMUNITY COLLEGE)

The Foundation Upon Which NSCC is Building (1994-99)

The Auditor General's Report on the Community College in 1993 provided, in essence, the first Strategic Plan for the NSCC. The situational analysis was highlighted by the stark observation at the conclusion of the Report:

> *At the present time, we believe that management of the Community College is unable to take the required action. Until Government makes key decisions, such as those relating to governance, the report on Program Review and the two unions, or empowers the College to make those decisions, the system is unable to move from the status quo.*

The Auditor General identified seven areas of specific concern:

– Board governance
– Long-range strategic plan
– Central administrative structure
– Improved accountability
– Program renewal
– One union
– Adequate management information systems

The College is pleased by the progress that was made in the ensuing five years.

• *Board governance* was achieved in 1996, and the College is now the beneficiary of leadership from membership that spans Nova Scotia's community and industry sectors.

• The NSCC just completed a new *Strategic Plan* that sets forth directions that are unique to post-secondary institutions in Canada.

• The basic functions for an *administrative structure* are in place, and the College is progressing with the remaining functions of alumni and development, applied research, library services, and student services.

• *Public accountability* has been enhanced through the combined efforts of the Board, College, and Department of Education. The NSCC Strategic Plan contains a commitment to progress further through the development of key performance indicators and a revised Annual Report format.

• The NSCC has completed five years of *program renewal* that has resulted in over 40% new programming linked to Nova Scotia's labour market needs.

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- The College and *unions* completed a process with the Labour Relations Board that resolved the complications of having more than one union representing College bargaining units. Agreements have been signed with the new bargaining agents, which are appropriate to a post-secondary environment.

The One outstanding item is the *management information system.* The Board and management of the College will continue to have difficulties in attaining the levels of reporting and analysis of the finances, human resources, and student information that it requires with the current systems.

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Exhibit 4.2

NOVA SCOTIA COMMUNITY COLLEGE
MISSION, VISION AND VALUES

Mission

Building Nova Scotia's economy and quality of life through education and innovation.

Vision

Our approach to educate will be one that engages Nova Scotians in new ways to apply knowledge and skill. We will integrate our education with community building and economic development. The College experience will inspire confidence, reflection, and self-reliance, challenging people to make use of what they learn, for their own benefit and for the benefit of us all.

Values

Student Success
We support, recognize, and celebrate student success.

Accessibility
We are committed to providing greater access to educational opportunities.

Service
We reach out to people to help connect our programs and services to their needs.

Respect
We develop our working and learning relationships from a foundation of mutual trust and respect.

Collaboration
We reward collaboration, diversity of expression, and decisiveness.

Diversity
We believe that diversity in the College community is a strength that must be cultivated.

Innovation
We value innovative ideas and actions that engage students, employers, and communities in learning and development.

Public Accountability
We are responsible and accountable for the public's trust.

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Exhibit 4.3

NOVA SCOTIA COMMUNITY COLLEGE
STATEMENT OF REVENUE AND EXPENDITURES
FOR THE YEAR ENDED MARCH 31, 1998

Revenue
Province of Nova Scotia	$ 44,971,000
Government of Canada	6,638,863
Tuition and fees	7,419,844
Customized training	9,761,049
Amortization of deferred revenue related to capital assets	667,000
Other	7,222,109
	76,679,865

Expenses
Salaries and benefits	47,511,706
Operating supplies and services	14,453,830
Equipment, rentals, other	6,366,183
Utilities and maintenance	5,638,512
Early retirement incentive program	1,248,100
Amortization	1,088,792
	76,307,123

Excess of revenue over expenditures $ 372,742

Note: Revenue - Province of Nova Scotia above differs from Total Provincial Funding on Exhibit 4.5 as the Revenue above is presented on the accrual basis of accounting while the information on Exhibit 4.5 is presented on a cash basis.

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Exhibit 4.4

NOVA SCOTIA COMMUNITYCOLLEGE
CUSTOMIZED TRAINING AND CONTINUING EDUCATION
SUMMARY FINANCIAL INFORMATION
FOR THE YEAR ENDED MARCH 31, 1998

Revenue
Customized Training and Continuing Education $ 9,761,049

Direct Costs
Customized Training   6,641,495
Continuing Education   1,059,039
Community Economic Training   670,301
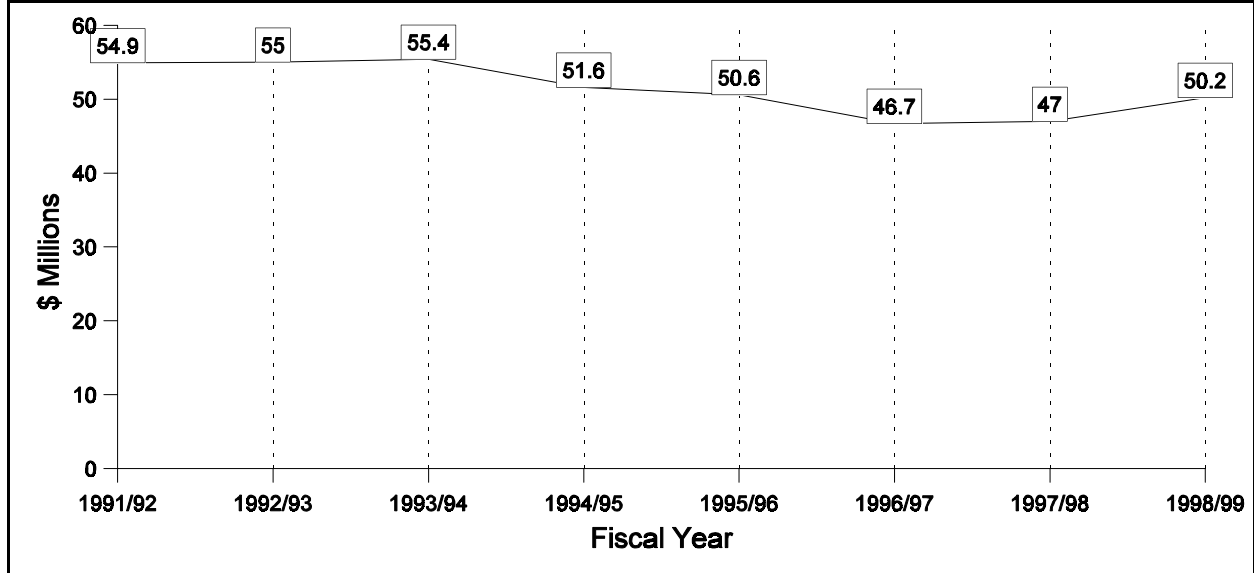   8,370,835

Contribution $ 1,390,214

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Exhibit 4.5

NOVA SCOTIA COMMUNITY COLLEGE
TOTAL PROVINCIAL FUNDING

Exhibit 4.6

NOVA SCOTIA COMMUNITY COLLEGE
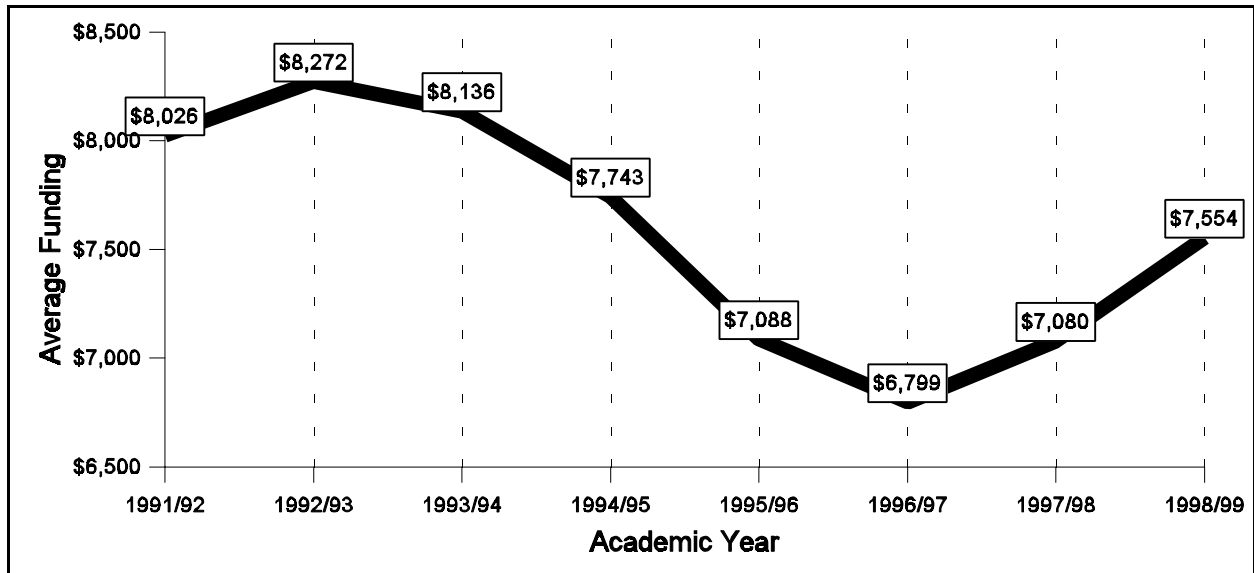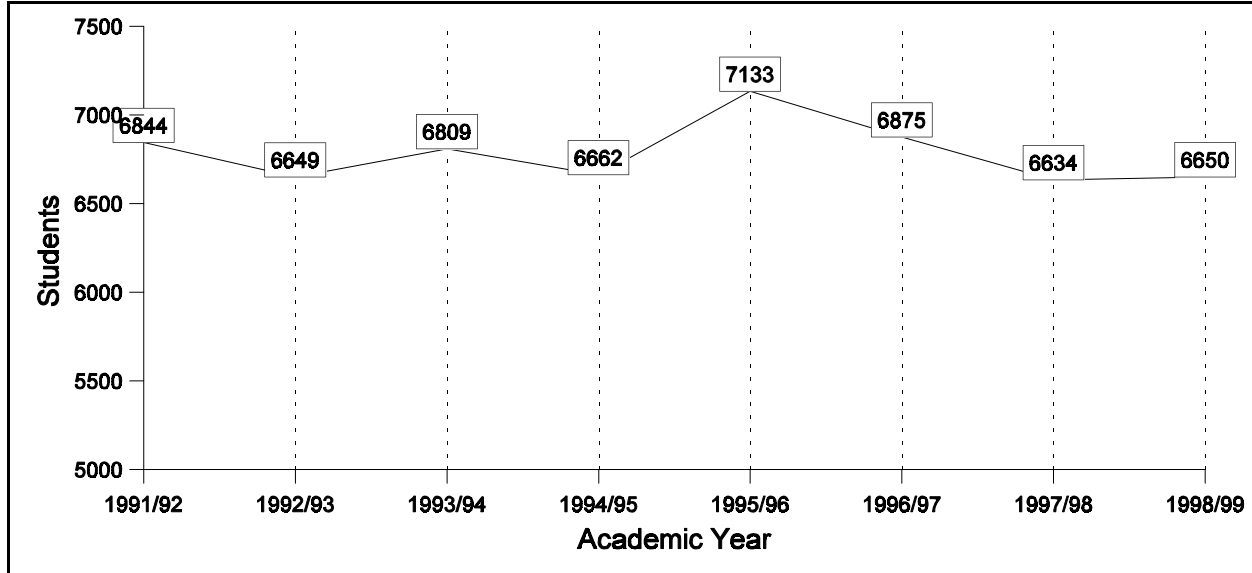## AVERAGE PROVINCIAL FUNDING PER STUDENT

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Exhibit 4.7

**NOVA SCOTIA COMMUNITY COLLEGE
STUDENT ENROLLMENT**

NOVA SCOTIA COMMUNITY COLLEGE'S RESPONSE

The Office of the Auditor General has played a significant role in supporting the development of the Nova Scotia Community College. The 1993 Auditor General report prompted the proclamation of the Community Colleges Act that transferred the responsibilities of governance to the NSCC Board of Governors. This independence has allowed the College to follow up on the other recommendations of the 1993 report, re-vitalizing its operations in the process.

This 1999 report is a thorough and fair assessment of the achievements of the Board of Nova Scotia's English-speaking public college. In the past five years, the recommendations of the 1993 report have been implemented, the programming has been renewed, and the enrolment has increased. To assist in the next five years, the College and the Department of Education have established an effective foundation for collaboration, and the NSCC Board has approved a bold Strategic Plan that envisions the expansion of opportunities for Nova Scotians to participate in post-secondary education.

This report highlights some of the key issues that the College and the Department of Education will need to address as we set forth. Foremost among them is the need to inculcate Nova Scotians with an understanding of the benefits of a college education in the evolving knowledge-based economy. The NSCC Board fully understands and is committed to this role, and anticipates that its future work with the Department of Education will foster confidence in our contributions to economic and social development, as well as demonstrate the value of the College to the province by:

- *Establishing a level of funding appropriation that more accurately reflects the national norm.*
- *Expanding the capacity of the College to enroll and educate students.*
- *Incorporating information systems that support the goal of enhanced public accountability.*
- *Creating closer working relationships between the College and the Department of Education, Economic Development, and Community Services to ensure that programming is tightly linked to economic and social development policy.*
- *Establishing closer links with the private sector to maintain the relevancy of College programs, as well as improve the applied research, business incubation , and technology transfer functions of the College.*

The Office of the Auditor General, through this report and the report of 1993, continues to provide Nova Scotians with a better understanding of the College and the role it should play in the life of this province. In so doing, the Nova Scotia Community College, the Office of the Auditor General, and the Department of Education have combined to set another milestone in the path toward a stronger College for the students, communities, and employers of Nova Scotia.

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