

6.

**EDUCATION -
GRANTS TO UNIVERSITIES****BACKGROUND**

6.1 The Nova Scotia Council on Higher Education (NSCHE) was established in 1989 by an Order in Council as an advisory body to the Minister of Advanced Education and Job Training. At the time we performed the audit, the Council, which was composed of public members drawn from a wide range of backgrounds, was supported by staff in the Department of Education (DOE). NSCHE's mandate included making recommendations regarding total operating and capital funding to universities and the allocation of that funding, determining whether university programs were delivered in a cost-effective manner and reviewing financial information from universities. NSCHE was accountable to the Minister of Education.

6.2 In August 2000, NSCHE was replaced by the Nova Scotia Advisory Board on Colleges and Universities (Advisory Board). The Advisory Board was established by an Order in Council to be "...an advisory body on publicly funded post-secondary education to the Minister of Education." The existing members of the NSCHE "lay" council became members of the Nova Scotia Advisory Board on Colleges and Universities with other members to be appointed.

6.3 The Advisory Board is responsible for all areas previously under NSCHE as well as community colleges and student financial assistance. We identify certain initiatives as in progress throughout this report. Advisory Board staff informed us that the Board will continue to work in these areas.

6.4 The Maritime Provinces Higher Education Commission (MPHEC) is also responsible for certain aspects of post-secondary education in the Maritimes. The Commission was established in 1974 as an agency of the Council of Maritime Premiers (CMP). Membership includes representatives from all three Maritime provinces and all stakeholder groups - government, students, post-secondary institutions and the public. In 1997, CMP ratified an *Agreement Respecting the Renewal of Arrangements for Regional Cooperation Concerning Post-Secondary Education*. This agreement notes the principal functions of the Commission as quality assurance, data and information, stimulating cooperative action, and administration of regional programs. In the past, MPHEC was responsible for prioritizing capital grant requests from universities. At the time of the audit, NSCHE had recently taken over this function.

6.5 MPHEC has no responsibility for university funding other than regional programs. Regional programs are those that are offered in one of the other two Maritime provinces but not in the home province. Funds are transferred between the provinces to offset the cost of students in these programs. Nearly 470 programs are currently designated as regional.

6.6 Nova Scotia's assistance to universities for 1998-99 amounted to approximately \$181.5 million in operating grants and \$4.8 million in capital grants. Exhibit 6.1 indicates the allocation of the operating grants among the 11 universities in Nova Scotia.

6.7 Base operating grants to universities had been declining in the mid 1990s (see Exhibit 6.2). In 1997-98, NSCHE made a number of recommendations pertaining to university funding in an effort to address concerns regarding funding reductions and establish some predictability of future

funding levels. A funding formula was developed based on enrolment in the various institutions over a three-year period (1994-95 to 1996-97). The formula provided for increases in annual operating grants to universities from \$175 million to \$198.8 million over a three-year period ending in 2000-01. The Provincial Budget, released April 11, 2000, estimated assistance to universities for 2000-01 at \$196.4 million, slightly below the amount targeted in the funding formula calculation.

6.8 The 2000-01 Provincial Budget included estimated expenditures of \$441,000 for NSCHE, a reduction of \$500,000 from the prior year. This reduced budget has now been transferred to the Advisory Board for its operation.

6.9 Government's plan, *The Course Ahead*, tabled March 30, 2000 in the House of Assembly notes "... we will be asking our Atlantic Canada partners to work with us in reshaping the Maritime Provinces Higher Education Commission (MPHEC) to better meet the needs of today. Much of the rationale behind the creation of the council is no longer valid, and it is time to assess the return on investment that our province receives for its contribution." MPHEC is funded primarily through the Council of Maritime Premiers. Additional funding for special projects, such as the graduate survey, came from NSCHE. Nova Scotia's budgeted contribution to MPHEC through CMP for 2000-01 is \$562,000 (an increase of 8% from the prior year). NSCHE's budgeted contribution to MPHEC special projects for 2000-01 is \$25,000 (a decrease of approximately 83% from the prior year).

6.10 This audit was conducted during the first half of 2000. Prior to this audit, our most recent assignment in the university sector was a 1996 study of board governance (see page 63 of 1996 Report of the Auditor General).

RESULTS IN BRIEF

6.11 The following are the principal observations from this audit.

- The introduction of a new Provincial funding formula for universities has been a positive development over the past few years. The major benefit of the formula is that it has rationalized the allocation of Provincial funds among the universities.
- In 1996, when we last reported on universities, there were certain initiatives in progress which appeared to hold promise for improving the accountability and value-for-money of expenditures in the university sector. They included the potential cost savings identified in the Business Plan for the Metro Halifax Universities, studies on performance indicators and comparable financial information, and work on quality assurance. MPHEC and the universities have made some progress in the quality assurance area, but there has been little progress on the other initiatives.
- The accountability relationship between NSCHE and universities was not well defined. We recommended that the Nova Scotia Advisory Board on Colleges and Universities work in conjunction with the universities to develop an accountability framework that includes descriptions of roles and responsibilities, objectives, outcome and performance measures and a reporting framework. An accountability framework would help ensure that the Province obtains maximum value from its expenditure on universities.
- The university funding formula is based on enrolment figures. We reviewed documentation of NSCHE audits of university enrolment submissions and found deficiencies in the audit work performed. In addition, our review of the calculation

of the unrestricted operating grants for three universities indicated that NSCHE had incomplete documentation to support the history of the grant calculation.

- Recent studies have suggested that Nova Scotia's university infrastructure requires a large investment of funds to address the universities' capital needs and deferred maintenance backlog. Capital funding provided to the universities has been inadequate to meet the identified needs. In light of the seriousness of this problem, it is important that funding be targeted to projects that provide the most value.
- The university capital projects funded by the Province over the past few years have all been ranked as the highest priority based on a comprehensive set of criteria used by MPHEC. The amount of capital funding has been insufficient to meet the total needs identified by the university community. NSCHE had taken over responsibility from MPHEC for the capital grants process. The Advisory Board will continue in this role and will be developing its own criteria to evaluate such requests.
- Due to the significance of regional funding recoveries from the other Maritime provinces, the Nova Scotia Advisory Board on Colleges and Universities should ensure more rigorous monitoring of the accuracy and completeness of recoveries received through MPHEC.

AUDIT SCOPE

6.12 The purpose of this audit was to examine certain aspects of the Nova Scotia Council on Higher Education's management of assistance to universities. We did not visit the various universities in the Province during the audit.

6.13 The objectives of this assignment were to:

- review and assess the accountability relationship between Universities and the Minister and NSCHE;
- review and assess planning for the Nova Scotia university system;
- determine the roles of NSCHE and MPHEC;
- review and assess:
 - whether grants to universities have been calculated in compliance with the University Funding Formula, and
 - the adequacy and appropriateness of internal audit work performed to verify the institutions' enrolment submissions;
- review the controls over certain aspects of capital grants; and
- review and assess monitoring procedures performed by NSCHE with respect to regional recoveries through MPHEC.

6.14 The audit criteria were taken from recognized sources including the Canadian Institute of Chartered Accountants Criteria of Control Board's *Guidance on Control*, Institute of Internal Auditors' *IIA Standards*, Office of the Auditor General of Canada's *Discussion Paper on Alternative*

Service Delivery Arrangements and Financial Management Control Model, Canadian Association of University Business Officers' *Financial Reporting Guide* and the Organization for Economic Cooperation and Development's *Best Practice for Charging for Government Services*.

6.15 The general criteria used in our review are summarized as follows:

- The roles and responsibilities of the parties in the accountability relationship should be well understood and agreed upon.
- Objectives and related plans should include measurable performance targets and indicators.
- Performance against targets and indicators should be reported and monitored.
- Grants should be calculated in compliance with the university funding formula.
- There should be controls over the payment of grants including the performance of enrolment audits.
- Responsibility, accountability, and authority for the capital grant process should be established.
- There should be an adequate process to prioritize and critically review capital grant submissions.
- NSCHE should monitor regional recoveries to ensure that the amounts received and paid are appropriate.

PRINCIPAL FINDINGS

Accountability

6.16 In 1996, this Office undertook a study of Board governance at Nova Scotia universities. Our report included the following:

“A number of [survey] respondents [board members] were unsure of their accountability relationships to the Province and to the Nova Scotia Council on Higher Education (NSCHE). Many board members expressed a lack of clarity with respect to the role of the NSCHE. We recommend that the NSCHE, in conjunction with the universities, develop an accountability framework for universities including descriptions of roles and responsibilities (including those of NSCHE, the Maritime Provinces Higher Education Commission, and the universities), objectives, outcome measures and standards, and a reporting framework.”
(Page 64, 1996 Report of the Auditor General)

6.17 A similar recommendation was also included in our 1990 Annual Report.

6.18 Since those recommendations were made, there has been little change in this area. An accountability framework for the universities and NSCHE has not been developed so we are again urging the Province to implement our previous recommendations in this area.

6.19 Universities provide audited financial information to NSCHE but there is no requirement for the provision of copies of annual plans or performance objectives. There is also no requirement for

reporting of performance information. The Executive Director of NSCHE meets periodically with the Council of Nova Scotia University Presidents (CONSUP) and individual presidents to discuss current issues and exchange information. NSCHE may try to encourage universities in a particular direction, however government does not generally provide specific direction on what universities can and cannot do. Implementation of an appropriate accountability framework would ensure that there are agreed-upon performance objectives and outcome measures for the Province's financial contribution.

6.20 Although the Province provides operating grants to the institutions (see Exhibit 6.1), these funds are spent largely at the discretion of the individual university. Annual audited financial statements are provided by the universities to NSCHE. Certain grants for alterations and renovations require that the universities file audit certificates indicating the funds were spent as intended. Other information may be requested from time to time. One recent example of this was the collection of enrolment data from all institutions to be used in calculating the funding formula.

6.21 Outcome measures with established targets are an important aspect of accountability. They provide stakeholders with a yard stick against which to measure reported results. There are no standard agreed-upon outcomes for the Nova Scotia university system to allow comparisons between universities or with predefined targets. NSCHE informed us that some of the universities use performance indicators internally. These are not reported to NSCHE. DOE has some outcome measures on their web site. Examples include: value of national research grants awarded to Nova Scotia universities, success of graduates in finding employment related to their field of study, and number of international students studying at Nova Scotia universities. There are no measurable targets for these outcomes. Consequently, it is not possible to determine whether performance in these areas is meeting expectations. Management informed us that the development of an accountability framework with appropriate performance indicators has not been achieved to the satisfaction of any Canadian provincial jurisdiction and its universities.

6.22 The newly formed Nova Scotia Advisory Board on Colleges and Universities is working with the Council of Ministers of Education of Canada and Statistics Canada to develop national performance indicators for the university system.

6.23 NSCHE recently produced its first annual report. The report provides information on the allocation of university assistance in recent years, research funding, enrolment data and other statistics. It does not include information on objectives, progress on achievement of objectives or performance indicators. NSCHE did not table their annual report with the House of Assembly. A copy of the report was sent to all members of the House of Assembly.

6.24 We recommended that the Advisory Board work in conjunction with universities to develop an accountability framework. This framework should include descriptions of roles and responsibilities, objectives, outcome measures and standards, and reporting requirements. An accountability framework would help to ensure that the Province obtains maximum value from its expenditure on universities.

The Role of MPHEC

6.25 The roles and responsibilities of MPHEC were defined in *An Agreement Respecting the Renewal of Arrangements for Regional Cooperation Concerning Post-Secondary Education* which was signed by the Ministers of the three provinces in June 1997. This agreement notes the principal functions of the Commission as quality assurance, data and information, stimulating cooperative action, and administration of regional programs.

6.26 MPHEC is accountable to CMP and to the Ministers responsible for higher education in the Maritime provinces. MPHEC is not directly accountable to the new Advisory Board; however the Executive Director of the Advisory Board is a member of MPHEC and receives budget data, annual financial statements and other information by virtue of that membership.

6.27 MPHEC is required to submit an annual report to the CMP. The Commission released a multi-year business plan in 1999 for 2000-01 to 2002-03 outlining planned activities, expected results and resources required. MPHEC is aware of Nova Scotia government priorities through government membership on the Commission. During the business planning process, MPHEC met with Ministers and Deputy Ministers. This would also help ensure MPHEC plans are consistent with those of the provinces.

6.28 *Program approval and quality assurance* - MPHEC released *A Policy on Quality Assurance* in 1999 dealing with the program approval process and quality assurance policies and practices.

6.29 Universities submit program proposals to MPHEC for approval of new or significantly modified programs. In our review of MPHEC minutes, we noted concerns where institutions operationalized programs before MPHEC approval.

6.30 Program proposals are subjected to a review which involves examination of whether programs are academically sound and whether the university has the necessary resources - financial, faculty, and other. MPHEC has made changes to this process, as outlined in *A Policy on Quality Assurance*, to allow more proposals to be reviewed annually. If a proposal meets certain predefined criteria, it goes through a cursory review process that takes about four weeks. Otherwise, an in-depth review (eight to ten weeks) is completed by the Association of Atlantic Universities - MPHEC Academic Advisory Committee. An in-depth review may also be necessary if there are outstanding issues or concerns with respect to the proposal. In 1999, 81% of New Brunswick and 89% of Prince Edward Island proposals were approved through the cursory review process. For the same period, only 50% of Nova Scotia proposals were approved through cursory review. The remaining proposals required an in-depth review due to concerns around funding and collaboration among institutions.

6.31 MPHEC has a draft document which attempts to clarify the roles and responsibilities of the Commission and the individual provinces in the program approval process. MPHEC notes that each province is responsible for determining what it is willing to support through increased operating grants, bursaries, etc. Although the Commission considers whether a university has the financial resources for a new or modified program, lack of resources will not necessarily prevent approval. In one recent program approval, MPHEC noted that funding for the program remains an issue for the Nova Scotia government to determine. Under the current funding formula there are established enrolment corridors. If enrolment exceeds these corridors, as it might with a new program, the university is responsible for funding this excess. NSCHE staff informed us that since the inception of the funding formula, no additional funding has been provided to universities for new programs approved by MPHEC.

6.32 As a regional body, MPHEC is responsible for quality assurance in Maritime universities. As noted above, the Commission released a policy on quality assurance in 1999. The policy includes two major activities:

- reviewing program proposals prior to implementation; and
- monitoring institutional quality assurance policies and procedures.

6.33 MPHEC staff have informed us that all Nova Scotia universities have some form of program quality review in place or are planning to introduce such a system.

6.34 MPHEC is in the process of setting up a Quality Assurance Committee (QAC) to review institutional quality assurance policies and practices. MPHEC staff have informed us they hope to have this committee in place by early 2000-01. The QAC will be responsible for ensuring the Commission has the most recent version of each institution's policy and for reviewing the application of the policy for adequacy.

Planning

6.35 NSCHE released a report to the Minister of Education titled *Shared Responsibilities in Higher Education* in December 1995. This document set out a vision and goals for the university system and made a number of recommendations regarding post-secondary education in Nova Scotia. In our 1996 Report, we indicated that the *Shared Responsibilities* document called on government to confirm policy in certain areas and underscored the importance of using public funds to achieve public policy goals. There is still a lack of clarity with respect to government policy in some of these areas.

6.36 Some of the more significant recommendations from *Shared Responsibilities in Higher Education* that have been addressed include: the Dalhousie-TUNS merger, three-year outlooks for university funding, and a research and development policy that is near completion. However, no progress has been made on other key recommendations including:

- Government has not endorsed a set of goals and vision for the university system.
- No action has been taken to create a joint business school in the Metro area.
- System wide performance expectations have not been developed.

6.37 As in our 1996 Report, we recommended that Government articulate their vision for the university system in Nova Scotia and review the remaining recommendations in the *Shared Responsibilities* document to determine whether action is warranted.

Review of Financial Statements

6.38 We reviewed the audited financial statements for ten universities in Nova Scotia. All institutions had unqualified audit opinions for 1998-99. The financial statements for nine of ten universities were prepared according to generally accepted accounting principles (GAAP). The one remaining institution's financial statements were prepared on a disclosed basis of accounting which differs from GAAP. In that case expenses are recorded in the period in which funds are committed regardless of when the goods are received. Exhibit 6.3 provides a three-year summary of the operating surplus or deficit of universities in receipt of Provincial funding. We did not review the financial statements for the Nova Scotia Agricultural College (NSAC). This institution operates differently from the other universities in that it is part of the Department of Agriculture and Marketing. NSCHE does not receive audited financial statements for NSAC. The policy with respect to receipt of financial statements from NSAC should be revisited.

6.39 *CAUBO recommendations* - The Canadian Association of University Business Officers (CAUBO) has a *Financial Reporting Guide* that provides recommendations for use in the audited financial statements of Canadian universities. The Guide follows GAAP as set out in the Canadian Institute of Chartered Accountants (CICA) Handbook. In cases where the CICA Handbook has alternative reporting options, a "*CAUBO preferred approach*" is noted. This recommendation is

intended to encourage consistency between universities, thereby enhancing comparability of results. At the time of the audit, NSCHE informed us that Council supported a standard reporting format to facilitate comparisons between institutions.

6.40 Some of the universities are complying with CAUBO guidelines while others are not. We reviewed selected CAUBO recommendations for compliance and found that there are few instances where all universities are in compliance with a given recommendation. This leads to problems when trying to compare results from one institution to another. Some examples of differences in the financial statement presentation include: classification and presentation of expenses, and amortization policies.

6.41 None of the universities include budget information on their financial statements. Comparison of actual and budget amounts provides useful information about the effectiveness of the financial management process to the user of financial statements in the public sector.

6.42 Again, as in our 1996 report, we recommended that all universities incorporate the “*CAUBO preferred approaches*” when making choices among alternate accounting principles. This would enhance comparability among institutions and make the financial statements more useful to stakeholders.

Joint Initiatives

6.43 *Metro Consortium* - In 1995, the seven Metro area universities (Dalhousie, Technical University of Nova Scotia, Saint Mary’s, Mount Saint Vincent, Nova Scotia College of Art and Design, King’s College and Atlantic School of Theology) formed the Metro Consortium. A Business Plan was developed for the Consortium that suggested ways to absorb an anticipated reduction in funding of \$17 million. “*The Consortium proposes to achieve the necessary cost savings from: (1) shared systems and services, and (2) academic partnering including attrition and early retirements.*” (From *Business Plan Metro Halifax Universities*, December 1, 1995)

6.44 During our 1996 audit, the Business Plan was discussed as the universities’ approach to achieving cost savings without having to implement some of the cost saving options brought forward in *Shared Responsibilities*.

6.45 The Metro Consortium has issued two annual reports (1996-97 and 1999) since its inception. Examples of progress noted in these reports include: improving student mobility between universities through implementation of common start dates for terms, some sharing of faculty between institutions and collaboration in research. Although the Consortium reports cite progress made on a number of planned initiatives, they do not clearly demonstrate that the Consortium has achieved the savings laid out in the Business Plan. DOE advised us that over a three-year period from 1995 to 1998, operating grants to Nova Scotia universities decreased by \$17.7 million. Over the same period, tuition fees increased by \$15.7 million.

6.46 NSCHE prepared letters responding to both Consortium reports. The first letter, dated October 23, 1998 said “*The current Council [NSCHE] and Minister believe that there is a commitment by the Consortium to implement the Business Plan, a commitment which has not been honoured.*” The most recent letter, dated March 3, 2000, notes “*...Council recognized that some of the circumstances which led to the creation of the Consortium... have now changed. It is evident from this and the previous year’s report, that the initiatives originally envisaged for the Consortium have not transpired.*” (From March 3, 2000 letter from NSCHE Chair to the Presidents of the Consortium universities) The letter also indicates that NSCHE continues to encourage collaboration between the institutions and any future joint initiatives. We support NSCHE’s efforts to encourage more joint initiatives among the universities.

6.47 *Interuniversity Services* - The universities have pursued joint procurement activities for a number of years. All Nova Scotia universities are members of Interuniversity Services Inc (ISI) which provides services to 17 institutions across the Atlantic Provinces. This non-profit organization contracts for goods and services on behalf of its member institutions. In other areas, universities take advantage of CAUBO agreements in place for credit cards, car rentals, courier services and others. Where appropriate, ISI works with CAUBO in contracting services.

Enrolment Audits

6.48 The funding formula used to calculate both the unrestricted operating grant and some restricted grants is primarily an enrolment-driven formula. Each institution submitted yearly student enrolments to NSCHE for the three-year funding corridor beginning in 1994-95 and ending in 1996-97. (See Exhibit 6.4 for enrolment by institution in 1997-98.) The student enrolment details provided by each institution were entered into the funding formula and the funding level for the respective institutions was determined. NSCHE recognized that in order to ensure accuracy of the funding formula results, audit of the enrolment submissions provided by the institutions was essential. The Grants and Audit Division of the Department of Education agreed to perform the audits for NSCHE. The Grants and Audit Division currently consists of three staff members including the acting Director.

6.49 The Grants and Audit Division conducted audits, during the period from August 1998 to May 1999, on the enrolment submissions of all 11 institutions receiving funding through the funding formula. The purpose of the audits was to verify the validity and accuracy of the enrolment submissions. In order to conduct the audits, Grants and Audit Division staff obtained an electronic file of the raw data from nine institutions. A statistical sample was selected for detailed testing from this electronic file. For the two institutions where there was no electronic file, the enrolment submissions were audited 100%. The sample items selected were reconciled to documentary evidence at each university.

6.50 The purpose of our review was to evaluate the adequacy and appropriateness of the internal audit work performed in the verification of the universities' enrolment submissions. The audit procedures performed were evaluated against the best practice criteria established by the Institute of Internal Auditors. All 11 university enrolment audit files were examined during our review.

6.51 Based on the review of the 11 enrolment audit files, we noted that the audits were well planned. However, we could not determine whether certain audit procedures had been properly completed due to inadequate documentation. These audit procedures included:

- follow up of potential errors discovered during testing;
- proper indexing and cross referencing of audit files;
- reconciliation of raw data electronic files to enrolment submissions to ensure completeness;
- use of a consistent sample selection methodology;
- documentation of the results of audit procedures performed; and
- adequate audit file review.

6.52 File documentation for some of the institution enrollment submissions was incomplete. As a result, the audit findings in this regard were inconclusive. There is no documentation that these

audit findings were followed up to determine if there were actual errors in the submissions, and no estimate of the potential errors has been quantified. The 1994-95 to 1996-97 enrolment audits were conducted from August 1998 to May 1999. Therefore, due to the passage of time, we acknowledge that it would have been difficult for DOE and the universities to follow up on the discrepancies discovered during the enrolment audits.

6.53 At the time of our audit, the Grants and Audit Division did not have a formal audit policy and procedures manual. Although specific audit procedures had been developed for the enrolment audits, a comprehensive auditing manual should be developed to be used by audit staff as a reference when completing assigned tasks. We recommended improvements to audit procedures and related file documentation including follow up of discrepancies and file review. NSCHE has indicated that they are considering the option of having the universities' external auditors express opinions on the accuracy of enrolment submissions in the future. This may be a possible solution to the problems indicated above.

Operating Grant Calculation

6.54 The university funding formula, which determines the allocation of unrestricted operating grants to universities, consists of three major components: a weighted enrolment grant (WEG), a research grant and four extra-formula grants. Total base funding for Nova Scotia universities for 1998-99 was \$181.5 million. (Exhibit 6.1 shows the allocation of this funding among institutions.) The weighted enrolment grant, applicable to specific disciplines, accounts for about 91% of the base funding. The research grant provides support to cover the indirect costs of research funded by the federal granting councils. Extra-formula grants recognize the existence of additional costs that are associated with location, small size, service to part-time students, and operation in the French language. Additional elements of the university funding system include restricted operating grants intended to support alterations and renovations, and non-space (library and equipment) needs, targeted funding and capital funding.

6.55 Our review included the detailed examination of the grant calculation for 3 of the 11 universities. Based on the documentation provided, we found discrepancies between this documentation and the figures included in the formula for certain aspects of the calculation. Management indicated that Council and university staff engaged in discussions where the audited figures differed from an institution's original submission. These discussions resulted in agreed upon enrolment figures for inclusion in the funding formula calculations. Where enrolment figures were changed, these changes were communicated to all institutions. We recommended that sufficient documentation be retained in the future so that funding calculations can be verified.

Capital Grants and Deferred Maintenance

6.56 DOE provides specific funding for capital construction and alterations and renovations. In 1998-99 the Department provided \$3.6 million in alterations and renovations grants and \$4.8 million in capital grants. Non-space (library and equipment) funding in 1998-99 was \$3.5 million. Available funding for the alterations and renovations grants is allocated to universities by NSCHE using the same percentage as the base operating grant to the total operating grant. September 1998 capital grant prioritization was the responsibility of MPHEC. As of the 1999-2000 year NSCHE has taken over total responsibility for the capital grant process.

6.57 MPHEC, prior to the 1999-2000 year, would evaluate requests for capital grant funding against a comprehensive set of funding criteria. Effective for the 1999-2000 year, NSCHE assumed responsibility for the evaluation process. Due to existing capital grant commitments to Dalhousie, Saint Mary's and St Francis Xavier University, available funding has been predetermined until at least the end of 2000-01. As a result, NSCHE management had not yet developed the criteria which

will be used to evaluate capital requests. At the time of this audit, NSCHE, in conjunction with the university presidents, were in the process of developing a policy for capital grant funding. This policy is estimated to be completed in the next few months. NSCHE decided to include the presidents in the policy development process with the expectation of obtaining agreement on the criteria which will be used to evaluate potential projects. The Advisory Board will continue to work with university presidents to develop criteria.

6.58 Due to the limited amount of available capital funds, not all projects rated as a high priority have been approved for funding. Universities have received payments for approved projects over two or three years based on their cash flow requirements. The policy of providing payments based on cash flow requirements allows some funding to be available for smaller projects on a year-to-year basis.

6.59 We prepared a comparison of projects receiving funding against MPHEC's list of priority projects provided to the Department over the last five years. Based on the results of this comparison, except for those projects which received priority due to the rationalization of the teacher education program, all other approved projects were consistent with MPHEC's prioritization of projects.

6.60 To ensure that the universities are held accountable for the spending of the alterations and renovations grant funding received, each university is required to provide an audit report stating that the funds were spent in accordance with NSCHE's policy. For the 1998-99 year all audit reports were received except for NSAC (see paragraph 6.38).

6.61 In February 1999, NSCHE and the Council of Nova Scotia University Presidents (CONSUP) created a joint working group to conduct a study on deferred maintenance, facilities renewal and university capital needs. In November 1999, a report was released by this working group which identified the need for a significant investment in the Nova Scotia university infrastructure. The report estimates the total deferred maintenance and renewal backlog to be \$302 million. The recommended level of annual renewal funding noted in this report is \$29.2 million (based on 2% of current replacement value). In April 2000, a similar study was released by the Canadian Association of University Business Officers which supports the findings in the NSCHE/CONSUP report. For the 1998-99 year, funding provided by the Province, restricted to infrastructure, was \$4.8 million for capital construction (Exhibit 6.5) and \$3.6 million for alterations and renovations. NSCHE management stated that universities' expenditures above the funding provided by the Province for alterations and renovations would, in most cases, be paid out of their operating grants. Many institutions have embarked on special fund raising partnerships and capital campaigns with the private sector in an attempt to address their specific capital needs.

6.62 Although it appears, based on the details of the reports described above, that a large investment of funds is required to address the universities' capital needs and deferred maintenance backlog, the capital grant process itself has been well managed. The projects receiving funding have all been ranked as the highest priority based on a comprehensive set of criteria. With respect to alterations and renovations funding, NSCHE has decided to allow the universities to assess their own critical needs and select projects based on that assessment. In light of the seriousness of the deferred maintenance problem at the universities, it is important that the funding that is provided be targeted to the projects that provide the most value.

6.63 A recent government document supporting the 2000-01 budget called *A Course Ahead* discusses the Province's desire to move away from funding capital expenditures at the universities and have fundraising pick up this responsibility.

Regional Program Recoveries

6.64 Regional program recoveries are calculated and administered by MPHEC on behalf of all the Maritime Provinces. In June 1997, the Ministers of Education in New Brunswick, Nova Scotia and Prince Edward Island signed the *Agreement Respecting the Renewal of Arrangements for Regional Cooperation Concerning Post Secondary Education*. Under this agreement, MPHEC continued to develop and administer funding transfers among provinces for regional programs. The concept of regional program transfers recognizes the responsibility of the provinces to contribute funding toward students enrolled in programs outside the province, but within the region, if the programs are not offered within the home province. For the 1999-2000 fiscal year there were 468 designated regional programs currently being offered in the Maritime Provinces.

6.65 Regional transfers to Nova Scotia for 1999-2000 were \$6.7 million. Exhibit 6.6 provides a five-year summary of regional recoveries by Nova Scotia. The transferred funds are accounted for as recoveries on the Province's financial statements. The individual universities receive the same grant from the Province for both regional and Nova Scotian students.

6.66 The formula used for calculation of the transfer is as follows:

$T = S \times W \times (G / D)$ where:

- T - \$ amount to be transferred from Province A to Province B for a particular program
- S - the # of students from Province A enrolled in the regional program in Province B
- W - MPHEC weight assigned to the program
- G - size (\$) of Province B's approved unrestricted grants to all its universities
- D - Province B's total weighted full time equivalents (S x W)

6.67 The size of the transfer is based on the number of students from the paying Province, the weight of the program determined by MPHEC and the amount of the recipient province's unrestricted grants to its universities. In other words, Nova Scotia should recover approximately the same amount that it paid to its universities to fund the students, provided that the assigned weight of the program for which the Province is receiving a recovery is consistent between NSCHE's funding formula and MPHEC's formula for regional program recoveries.

6.68 Regional funding transfers calculated by MPHEC staff in any given year are based on the enrolments of Maritime residents in regional programs two years earlier and on unrestricted operating grants for the same period. As a result, the 1999-2000 transfer was calculated using 1997-98 enrolment and grant figures.

6.69 MPHEC provided us with information regarding the authority, procedures and processes used in calculating regional program recoveries. The focus of our review in this area was to assess the reasonableness of the monitoring procedures performed by NSCHE to ensure that the recoveries received were calculated appropriately and accurately.

6.70 NSCHE management currently monitors recoveries by comparing current year recoveries to prior periods and soliciting explanations from MPHEC for significant differences.

6.71 Due to the significance of regional funding recoveries, as well as the fact that Nova Scotia offers a high percentage of the regional programs in the Maritime Provinces, we recommended that the Advisory Board perform more rigorous monitoring of the accuracy and completeness of recoveries received.

International Students

6.72 Prior to the implementation of the funding formula, institutions were required to charge a differential fee of \$1,700 to international students. This fee was remitted to NSCHE for redistribution among all Nova Scotia institutions as part of university operating grants.

6.73 Under the current structure, each institution sets international student tuition and retains any fees collected from these students. International students will be publicly funded up to 10% of undergraduate and 30% of graduate enrolment at any given institution. Specific programs may exceed established limits without any loss in public funding for the institution provided the ratio of international to domestic students does not exceed the limit for the institution as a whole. Universities are free to enroll international students beyond the established thresholds; however they will not receive public funding for these enrolments. NSCHE may review programs in which international enrolment is greater than 50% to determine if it is still in the public interest to provide government funding for such programs.

6.74 See Exhibit 6.7 for a summary of enrolments by residence of origin. This exhibit shows that the number of international students falls below the established thresholds.

CONCLUDING REMARKS

6.75 The introduction of a new Provincial funding formula for universities has been a positive development over the past few years. The major benefit of the formula is that it has rationalized the allocation of Provincial funds among the universities.

6.76 During the 1990's our audit work in the university sector resulted in recommendations for improvements in accountability, including the need for government and universities to develop and confirm a vision for the system, objectives and outcome measures, and to incorporate those in an appropriate accountability framework. Our most recent audit indicates that there has been little progress on those recommendations.

6.77 In 1996, when we last reported on universities, there were certain initiatives in progress which appeared to hold promise for improving the accountability and value-for-money of expenditures in the university sector. They included the potential cost savings identified in the *Business Plan Metro Halifax Universities*, studies on performance indicators and comparable financial information, and work on quality assurance. MPHEC and the universities have made some progress in the quality assurance area, but there has been little progress on the other initiatives.

6.78 In addition, our recent audit work identifies the need to improve monitoring of certain basic information such as enrolments which are an important component of the funding formulae and regional recoveries. In a time of scarce fiscal resources, it is important to ensure that each dollar is spent wisely.

6.79 With a new funding formula in place, we believe that there is a need for the Province to make necessary improvements in other aspects of the accountability framework and financial management of the university system.

Exhibit 6.1

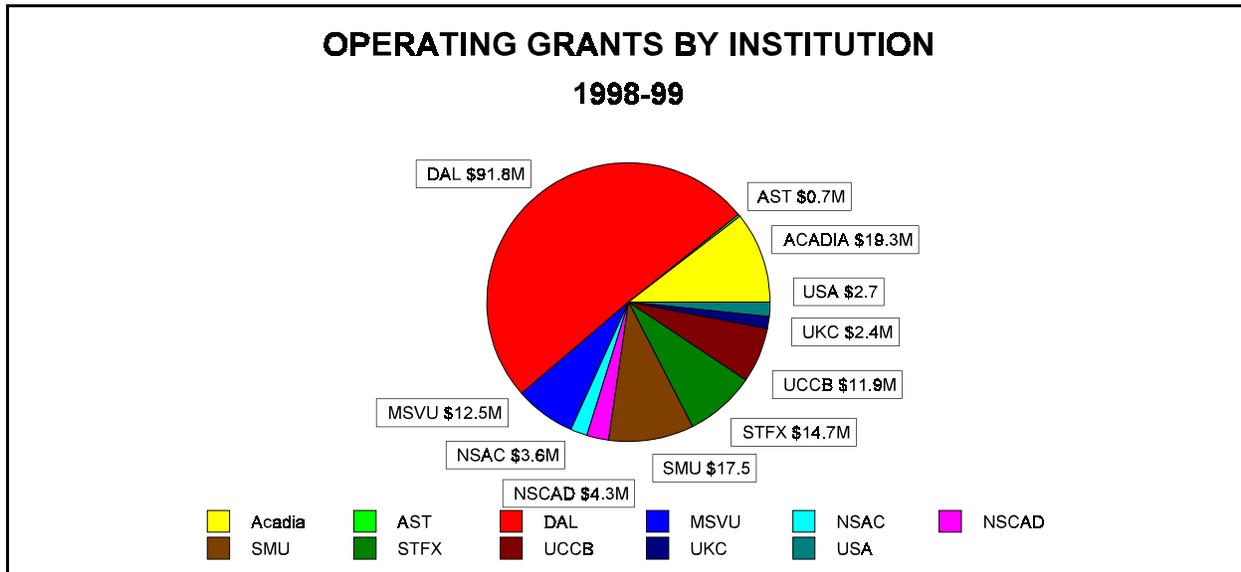
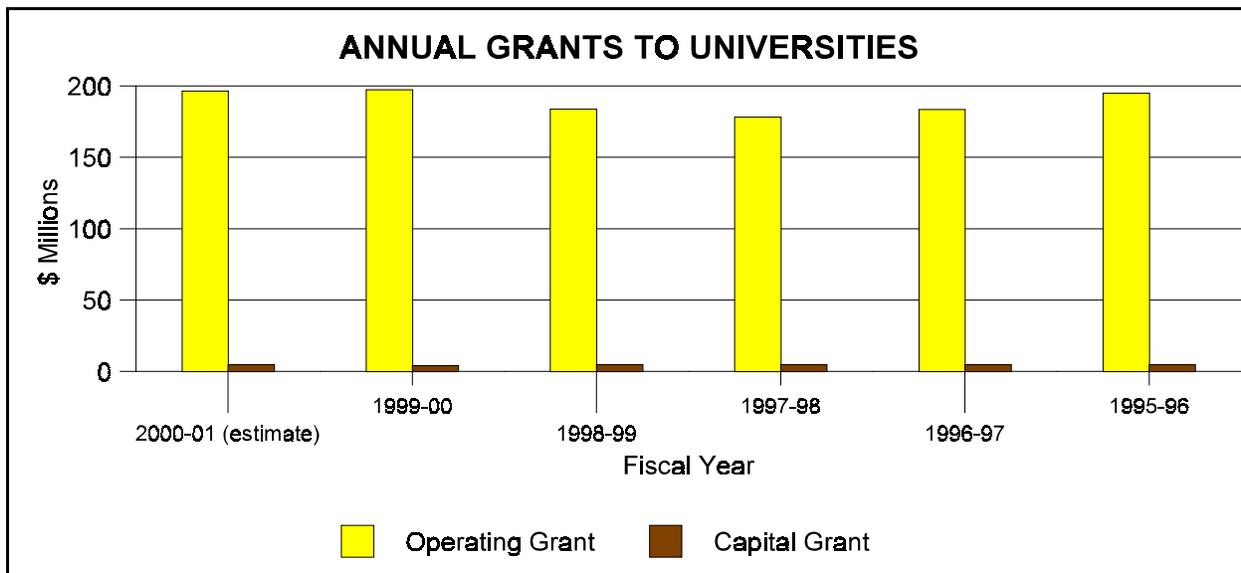
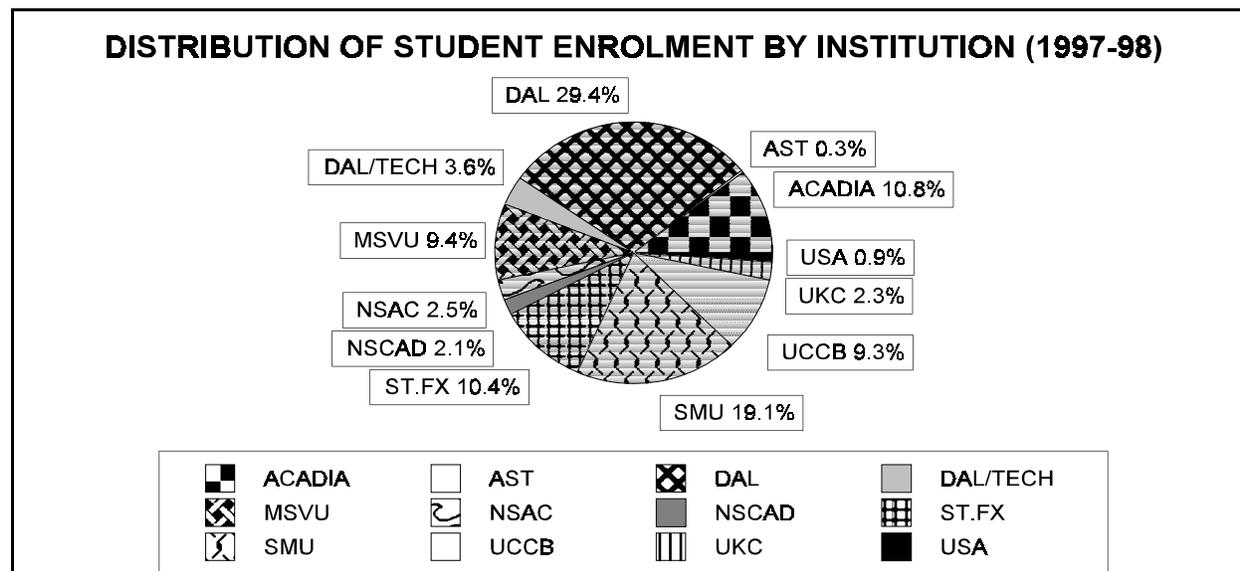


Exhibit 6.2



*Exhibit 6.3***UNIVERSITIES-ANNUAL OPERATING SURPLUS (DEFICIT)**

University	1998-99	1997-98
Dalhousie(including TUNS)	\$11,261,000	\$4,137,000
Saint Mary's	1,054,292	1,378,326
Acadia	(670,000)	(122,000)
Saint Francis Xavier	666,082	982,688
Mount Saint Vincent	(749,967)	(471,965)
University College of Cape Breton	148,300	(120,358)
Kings College	401,345	(149,772)
Sainte-Anne	246,714	249,281
Atlantic School of Theology	(157,789)	(4,959)
Nova Scotia College of Art & Design	328,381	308,458

Exhibit 6.4

Source: NSCHE Annual Report 1999

Note: Total 1997-98 enrolment for all institutions was 37,908.

Exhibit 6.5

UNIVERSITY CAPITAL FUNDING SUMMARY

Institution	1998-99	1999-00	2000-01 - Estimate
Dalhousie University	\$1,864,379	\$4,147,497	\$ 891,097
Saint Mary's University	1,577,197	-	-
Saint Francis Xavier University	-	-	3,927,903
University College of Cape Breton	250,000	-	-
Total	\$3,693,574	\$4,147,497	\$4,819,000

Note: The original capital funding for 1998-99 was \$4.8 million. Subsequently, \$1.14 million was transferred to alterations & renovations funding.

Exhibit 6.6

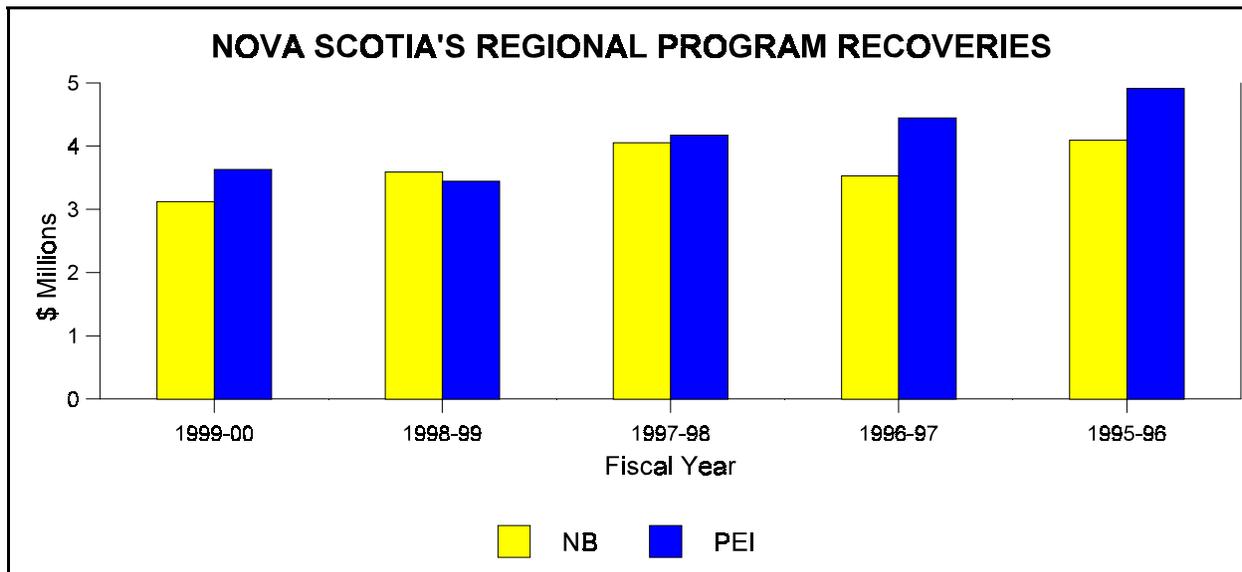
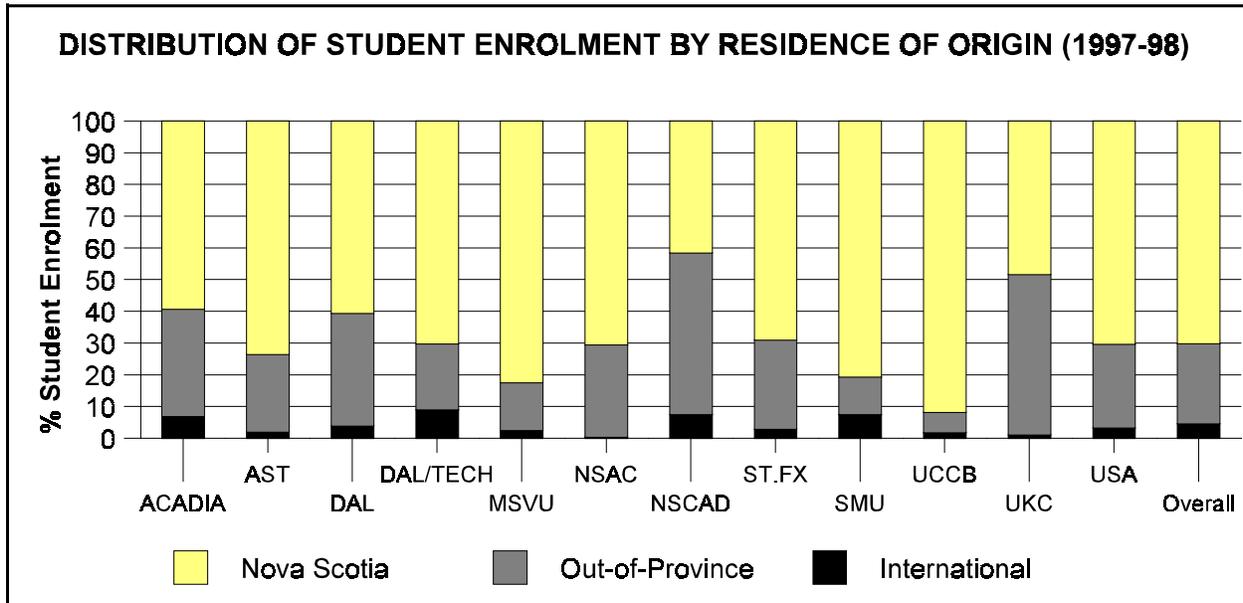


Exhibit 6.7



Source: NSCHE Annual Report 1999