

**BACKGROUND**

- 6.1** In response to suspected fraud at Collège de l'Acadie (see paragraph 6.9 below), in May 2002 the Minister of Education requested the Office of the Auditor General to conduct an audit of the general audit and control environments at the universities and community colleges. Specifically, the Minister wanted “assurances that the audit procedures and control mechanisms in place are adequate and appropriate to protect tax dollars.” We considered the request and agreed to conduct an audit of certain universities under Section 15 of the Auditor General Act. We were unable to conduct an audit of the Nova Scotia Community College in the current year but are planning one for our next Annual Report.
- 6.2** Universities receive funding from government but are not part of the government financial reporting entity as they are not directly controlled by government. Government does not unilaterally appoint or remove a majority of the members of the Board of Governors; it does not establish or amend the mission or mandate of the universities; and it does not establish organizational policies for the universities. Universities are governed by Boards of Governors appointed through respective enabling legislation. Appointees may be representatives of faculty, students, alumni, sponsoring or founding organizations such as churches, or appointed through the board nomination process of Executive Council.
- 6.3** The Universities Assistance Act allows for the Minister of Education to provide grants to universities to assist in defraying operating expenditures. The Minister has the authority to require universities to report on those expenditures. The grants can be applied to any area of university operations, including funding of deficits on ancillary operations and athletic departments. The Department of Education could give us no examples of items that would be ineligible expenditures.
- 6.4** In 2002-03, the Province budgeted and paid out \$188.7 million in unrestricted operating grants to universities in Nova Scotia (see Exhibit 6.1). An additional \$6.03 million (not included in the 2002-03 Estimates) was paid out in March 2003. In November 2003, the Province clawed back \$1 million of the 2003-04 university grants.
- 6.5** The Province’s contribution towards operating expenditures is, for most universities, less than 50% of total operating revenues (Canadian Association of University Business Officers). Funding is higher for programs that have a higher cost of delivery (e.g., medicine). Dalhousie delivers the majority of the higher cost programs, so Dalhousie has a higher percentage of operating funds received from the Province (49%) than most other universities (see Exhibit 6.1).

- 6.6** Universities report annually to the Maritime Provinces Higher Education Commission (MPHEC - an agency of the Council of Maritime Premiers) on enrolment, financial and faculty data. MPHEC is a stakeholder-neutral source of data and a conduit for the information provided to Statistics Canada. The principal functions of MPHEC are quality assurance, data and information, stimulating cooperative action, and administration of regional programs.
- 6.7** MPHEC uses enrolment data in administering the Regional Transfer Arrangement. This Arrangement requires that each of the three Maritime provinces provide annual funding to the other two provinces for any students enrolled in programs not offered in the home province. MPHEC determines the net regional transfer amount to be paid to each province. In 2002-03, Nova Scotia received slightly more than \$8.2 million from MPHEC through this Arrangement.
- 6.8** On November 28, 2002, the Université Sainte-Anne - Collège de l'Acadie Act received Royal Assent. It was proclaimed effective January 23, 2003. The Act merges the two Francophone post-secondary institutions. Canada and Nova Scotia signed an agreement on February 21, 2003 regarding funding of the merger costs. Nova Scotia has agreed to contribute \$7.9 million to the costs of the merger over a five-year period to 2006-07, and Canada has agreed to contribute up to \$7 million in matching funds.
- 6.9** The March 31, 2002 and January 23, 2003 audited financial statements of Collège de l'Acadie include a note discussing an irregularity. The former Director of Finance is accused of misappropriating assets of the institution totaling \$1,024,742. Of that amount, \$602,590 has been recovered from insurance and other sources.
- 6.10** We last reviewed universities in detail in 1990 when the financial management processes at seven universities were examined. In 1996, we conducted a study of university governance and in 2000 we conducted an audit of grants to universities which are administered by the Department of Education's Higher Education Branch and the Nova Scotia Advisory Board on Colleges and Universities.

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## RESULTS IN BRIEF

- 6.11** The following are the principal observations from this audit.
- Our audit of the internal control environment over the revenue/receipts and purchases/payment cycles at four universities identified no significant control weaknesses, although we made recommendations for enhancements in some areas, including the need for improved cash controls at the Collège de l'Acadie sites.
  - Universities have one of two types of pension plans - defined benefit or defined contribution. Five universities have defined benefit plans and three of those five plans have unfunded liabilities. We are concerned with the

existence of significant pension deficits at three universities. In addition, one university has a significant operating deficit.

- There is a need at all universities to enhance business planning processes by preparing annual operational or business plans.
- Audited financial statements could be improved if comparisons of actual expenditures to budget were included. Generally accepted accounting principles (GAAP) permit the universities to choose from alternative policies which make it difficult to compare results among institutions. Although all university financial statements currently comply with GAAP, comparability between institutions could be improved if universities implemented common accounting policies. In some cases, unaudited financial information in universities' annual reports requires improvement to enhance understandability.
- Only one of the universities we visited had an adequate inventory system to provide control over computers and related equipment.
- Generally, procurement transactions tested were in compliance with applicable procurement policies although a few instances of non-compliance were noted at all universities. The majority of these instances were exceptions to the policy where the rationale should have been documented more clearly and properly approved.
- Processes and procedures for the collection and reporting of enrolment data are generally good although we believe that the process for identification of non-Canadians and charging of foreign differential fees requires improvement at some universities.

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## AUDIT SCOPE

**6.12** The objectives of this assignment were to determine whether:

- the university has adequate systems to provide for budgeting, internal financial reporting and monitoring;
- management and the Board are receiving sufficient, appropriate information from management and the auditor to fulfill their stewardship responsibilities;
- the university has adequate internal controls over operating revenues and expenditures;
- the university has adequate policies and systems to control its inventory of personal computers and related equipment;
- the university complies with the government's procurement policy; and

- the university has adequate systems and practices to collect and report reliable enrolment data to the Province, MPHEC and Statistics Canada.

- 6.13** In January 2003, the assignment objectives and summary audit plan were discussed with the Council of Nova Scotia University Presidents (CONSUP). Due to resource limitations, we could not conduct detailed fieldwork at all ten universities. Our audit approach included a review of the financial statement auditors' working paper files for all ten universities and detailed on-site fieldwork at four universities - Dalhousie University, Saint Mary's University, University College of Cape Breton (UCCB) and Université Sainte-Anne.
- 6.14** The scope of our audit was limited to the universities' operating funds as those are the expenditures funded by the Province. We did not examine controls over research, endowment, ancillary operations or other funds which do not receive revenue from the Province.
- 6.15** Audit criteria were developed and discussed with the four universities at which detailed on-site fieldwork was to be conducted. The audit criteria were taken from recognized sources including the Auditor General of Canada's *Financial Management Capability Model*, the Canadian Institute of Chartered Accountants' *Public Sector Accounting Handbook* and *Professional Engagement Manual* and the Province of Nova Scotia's *Policy on Government Procurement*.
- 6.16** Detailed on-site fieldwork was conducted at various times from March 2003 to early October 2003. It included detailed testing of revenue/receipt and purchases/payments controls and transactions; examination of policies and procedures, reports and any other documents deemed to be relevant; and interviews with management and staff.

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## PRINCIPAL FINDINGS

### Internal Controls

- 6.17** [Revenue/receipt and purchases/payments cycles](#) - Based on our review of financial statement auditors' files, discussions with management and testing of key controls, we noted no significant control weaknesses at Dalhousie, Saint Mary's or the University College of Cape Breton. Both Dalhousie and Saint Mary's have engaged external consultants to review controls over certain aspects of operations, providing evidence that internal controls are viewed as a priority. We suggest that Saint Mary's put in place a more formal process to monitor actions taken by management to address weaknesses identified during such reviews.
- 6.18** Université Sainte-Anne possesses adequate internal controls over operating revenues and expenditures with two exceptions. There are weaknesses over cash collection at Collège de l'Acadie and a lack of segregation of duties in the accounts receivable area. These findings have been reported to the Université for action.

- 6.19** **Student receivables** - Tuition fees paid by students are a significant portion of the total operating revenue for all universities. All universities visited had well-documented policies regarding the collection and payment of tuition fees. We noted that management and the Boards of all universities are concerned with the level of student account receivables.
- 6.20** Universities' tuition payment policies generally require payment of first semester tuition by the end of the first month of the academic term. Students with accounts in arrears are charged interest and late payment fees and, at least one university, certain privileges are suspended (e.g., athletic facility, library). Management has indicated that a rigid tuition collection policy is somewhat inconsistent with a mission of providing accessibility to higher education, therefore flexibility is required.
- 6.21** We believe that management should continue to monitor student account balances closely and take appropriate collection efforts as required.
- 6.22** In 2002, Dalhousie's financial statement auditors raised an issue for discussion with Dalhousie management regarding the adverse effect that the current collection policy had on the university's cash flow. This concern was not included in the auditor's management letter addressed to the Board of Governors. Dalhousie management advised us that the issue was not raised again in 2003.

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### **Recommendation 6.1**

**We recommend that the universities carefully monitor student accounts receivable balances, and take action where fees are not paid by the end of the semester.**

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- 6.23** **Computer inventories** - None of the universities we visited had formal organization-wide policies outlining required procedures for the physical safeguarding of computers and similar assets. University management indicated that although formal policies do not exist, the universities strive to create secure environments for students and staff. Measures taken include security guards hired to monitor the university on a regular basis, restricted access to certain areas after normal working hours, card access to computer labs, etc.
- 6.24** We noted that responsibility for inventorying and monitoring computers and similar equipment is decentralized at the department or faculty level at Dalhousie. At Saint Mary's and the University College of Cape Breton, this responsibility is more centralized with information technology departments. Université Sainte-Anne does not have policies or systems to control computer equipment. Although the Université is very small and does not have significant amounts of computer equipment, the Collège is a leader in distance education using technology and the equipment should be appropriately controlled. Saint Mary's has decided, supported by a cost-benefit analysis, to lease computers rather than purchase them. As Saint Mary's is required to return the computers at the end of the lease,

the University has developed a very effective system to inventory and monitor the physical location of the computers. At Dalhousie, some departments or faculties had inventory systems in place where others did not. The University College of Cape Breton has a process to record the initial purchase on an inventory list but does not perform any test counts or monitoring to ensure the University still has possession of the computer. We conducted detailing testing at all universities visited and noted that one computer listed on the inventory provided to us by UCCB could not be located although management indicated that the computer was likely transferred to the library when the previous user received a new one. No other errors were noted.

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### Recommendation 6.2

We recommend that all universities have inventory systems for capital assets, including computers and related equipment. These should be maintained and periodically verified through test counts. The universities should also have formal policies to govern the use and safekeeping of these assets.

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## Procurement

- 6.25** The procurement activities of universities must comply with the Province of Nova Scotia's *Government Procurement Process - ASH Sector*. These guidelines require that individual university procurement practices and policies be open and fair and provide the highest degree of competition and value. The guidelines also require that procurements of goods over \$25,000, services over \$50,000, and construction over \$100,000 all be publicly tendered. Procurements under these thresholds are subject to the tendering policy of the specific university, provided the policy complies with the general requirements of being open, fair and providing best value.
- 6.26** We examined the documented procurement policies of all universities visited and concluded that the policies were consistent with the ASH sector guidelines. At some of the universities, we suggested policies be updated and enhanced to ensure they are current and complete. We suggested some improvements to the purchasing practices of Université Sainte-Anne including better documentation of receipt of goods, to reduce the risk of paying for goods that have not been received.
- 6.27** We tested procurement transactions to ensure compliance with the university's policy and that the best value had been obtained. In order to obtain assurance that the best value was obtained, we needed to review documentation relating to quotes obtained in a competitive procurement process. Although the majority of the transactions we tested were in compliance we did note a few instances at all the universities where procurement policies were not followed and, therefore, the best value to the university could not be demonstrated. These were transactions which were sole-sourced or not properly approved.

- 6.28** Investigation of instances of apparent non-compliance revealed that many of the purchases were deemed to be exempt from the universities' purchasing policy (e.g., emergency purchases, sole-sourced, etc.). In some cases, the reason the purchase was exempt from the policy was not evident from the documentation.

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### **Recommendation 6.3**

We recommend that universities document the rationale exempting specific purchases from compliance with policy and that all exceptions be formally approved by the person responsible for procurement.

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- 6.29** All the universities visited participate in the joint procurement of goods and services through Interuniversity Services Inc. (ISI). ISI tenders for certain common goods and services and participating universities are able to purchase these items at the negotiated price. In addition, each of the universities we visited (except Université Sainte-Anne) had either fully implemented or were in the process of implementing a purchase card system for low dollar value transactions. Purchase card systems are designed to reduce the administrative resources needed to process such transactions. We support these cost-savings initiatives and encourage the university sector to continue exploring such initiatives in the future.

## **Business Planning and Budgeting Processes**

- 6.30** **Establishment of goals and objectives** - A strategic plan sets an organization's priorities and long-term direction. A business or operational plan annualizes and provides detail of the more specific goals, priorities, resource requirements and activities to be undertaken to support achievement of the strategic plan. In our review of the universities' budget documents, we found some activities and priorities with a financial impact are described in the budget and planning documents, but other annual priorities - without a financial impact - are not articulated. These priorities and plans need to be formally documented and approved to provide guidance to all university management and staff.
- 6.31** Under the Universities Assistance Act, the Minister of Education may require grant recipients to report to the Minister. Other than audited financial statements, the Minister has not requested any additional reporting. The decision to prepare strategic and operational plans rests with the university. The universities visited are in various stages of developing strategic plans, but none prepare annual business or operational plans. Université Sainte-Anne does not have a strategic plan but intends to begin a strategic planning process in late 2003.
- 6.32** We recognize that it is difficult to prepare annual and longer-term plans with any certainty prior to knowing the amount of Provincial funding. Provincial funding is a key assumption in the development of any university budget. Traditionally, universities are notified of Provincial funding following approval of the Provincial budget which is normally after the start of the budget year. Notification to

universities of 2002-03 funding was dated June 18, 2002 and notification of 2003-04 funding was dated May 15, 2003. In both years, there were subsequent adjustments to the funding. An additional \$6.03 million was paid in March 2003 and, in November 2003, 2003-04 funding was reduced by \$1 million.

- 6.33** In March 2003, the Minister of Education announced that the Province would be seeking multi-year funding agreements with universities. Planning discussions are anticipated to begin in January 2004. Universities are to provide data on the future direction of the university system. The Department will consider the discussion points and analyze the data to determine the future funding requirements.

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#### **Recommendation 6.4**

We recommend that universities prepare annual business plans which are linked to strategic plans. Business plans should set out operational priorities for the year and related financial information. These plans should be approved by senior management and/or the Board (depending on the governance model in effect).

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#### **Recommendation 6.5**

We recommend that the Department of Education formally notify universities of its annual funding contribution prior to the beginning of the fiscal year and that the Department strive to establish a longer-term funding commitment.

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- 6.34** **Policies and practices for planning and budgeting** - The universities visited have well-documented and established practices for developing operating budgets. The larger universities make use of Budget Advisory Committees. Although these Committees have different responsibilities and membership, they typically make suggestions to senior management and/or the President on how to balance the budget. The budgets of all universities visited were approved by the respective Board of Governors.
- 6.35** We examined the 2002-03 budgets of Dalhousie, Saint Mary's and the University College of Cape Breton and the 2003-04 budget of Université Sainte-Anne. Of the three universities where we examined 2002-03 budgets, Saint Mary's was the only one to have its budget approved prior to the start of the budget year. The budget was approved on March 28, 2002. The University College of Cape Breton planned to have an approved budget prior to the start of the fiscal year, but the budget tabled at the March 15, 2002 Board meeting was subsequently defeated. A revised budget was approved on May 14, 2002. Dalhousie's budget was discussed in the February-March period. At that time, tuition and other fees for the upcoming year along with a motion granting interim spending authority were approved. Dalhousie presented and approved its budget at its June 25, 2002 Board of Governors meeting. Université Sainte-Anne approved its 2003-04 budget on May

2, 2003. All four universities approved balanced budgets or budgets with small surpluses.

- 6.36** [Documentary support and review of budgets](#) - In our examination of the university budgets we expected to find appropriate and documented assumptions supporting the budget lines selected for testing and evidence of an appropriate level of review and analysis of the budget.
- 6.37** Projected enrolment is one of the key assumptions underlying a university's tuition revenue budget. The tuition rate must also be considered. Tuition rates and other revenue items such as room and meal prices are approved by the University Boards. Tuition revenue is very sensitive to enrolment fluctuations. We recognize that enrolment is difficult to project, but accurate estimates are an important component of realistic budgets. Our testing of the documentation and calculations supporting the universities' enrolment projections revealed that universities considered historical enrolment trends and projections of future enrolments. Dalhousie budgeted for a stable enrolment for 2002-03, but at year end tuition revenues exceeded budget by \$5.1 million (8.2%). Saint Mary's budgeted for a 2.7% enrolment increase and at year end tuition revenues exceeded budget by \$2.9 million (8.0%). The University College of Cape Breton assumed a 2% enrolment decline and at year end had a favorable tuition revenue variance of \$38,681 (0.3%). The Universities generally used conservative enrolment projections when preparing budgets.
- 6.38** We reviewed support for budgeted expenditures and other line items. Based on discussions with management and documentary evidence, there was appropriate support and an appropriate level of review and analysis of the budgets at each university.

## Financial Management

- 6.39** [Monitoring and reporting to management and the board](#) - All universities visited had formal reporting processes in place where monthly financial reports were distributed by finance department staff to respective cost centre and senior level management. Typically, this information included comparisons of actual to budgeted expenditures. More summarized financial information is provided to university senior management and the President. The Boards of Governors meet on a regular basis and have good processes for reviewing financial information provided.
- 6.40** Overall, except for the limitations noted in paragraph 6.41, we found that good quality financial information was provided to Boards and management. We suggested various enhancements to individual universities including more formal variance analysis, preparation of monthly balance sheets, and monthly forecasts of results to year end.
- 6.41** [Audited financial statements and annual financial reports](#) - All universities visited prepare financial statements in accordance with GAAP. In some situations, GAAP

permits a choice between alternative policies when preparing financial statements. We noted variations in accounting policies used by the universities. We believe that the use of common policies enables users to make more meaningful comparisons among institutions. We also noted that audited financial statements could be improved as accountability documents if a comparison of actual to budgeted expenditures was included. Saint Mary's 2002-03 financial statements, for the first time, include an audited schedule showing actual expenditures in comparison to the budget.

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#### **Recommendation 6.6**

We recommend that the approved budget for the year be included on the audited statement of revenue and expenditures. This information would be useful to increase accountability for achieving the financial plan for the year.

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- 6.42** Both Dalhousie and Saint Mary's produced annual financial reports for the year ended March 31, 2002 which include both audited and unaudited financial information. Although we encourage the preparation of such reports, we believe that better disclosure and reconciliations between the audited and unaudited information would improve the understandability of the information provided and make these reports more useful to readers. Saint Mary's changed the format of its March 31, 2003 report which greatly improved the understandability of the information.

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#### **Recommendation 6.7**

We recommend that universities in Nova Scotia strive to implement common accounting policies. This would increase the comparability of financial information.

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- 6.43** Dalhousie and Université Sainte-Anne have accounting policies which allow academic cost centre management to carry forward any unspent budget dollars for use in future years. Conversely, the policy also requires that cost centre deficits be repaid. Management at both universities indicated that this policy helps promote better fiscal management as they believe it eliminates the possibility of inappropriate spending at year end. However, there are some issues related to the policy.

- In internal financial reports, individual cost centres show actual expenditures which are exactly equal to budget and any variances between planned and actual expenditures for the year are not easily identified. In our view, this obscures the accountability for staying within the year's budgeted expenditures.

- Schedules of academic department operating results include expenditures and revenues which are actually amounts transferred to/from other years. Audit opinions have not been qualified for this matter because the amounts are either not material or the summarized financial statements show the transfers properly.
- The unspent amounts are appropriated to restricted funds (Dalhousie) or included in deferred revenue (Université Sainte-Anne) on the audited financial statements. Because the audited statements are highly summarized, it is not possible to tell how much of the total restricted funds or deferred revenue relates to accumulated unspent budget allocations.

**6.44** **Accumulated deficits** - The March 31, 2003 audited financial statements of the University College of Cape Breton indicate that a serious accumulated deficit exists in the operating fund (\$5.1 million). The seriousness of the situation has been recognized by management and the Board and a deficit reduction strategy has been developed to address the issue. The deficit is to be reduced over a maximum of eight years.

**6.45** Université Sainte-Anne had an operating deficit of \$659,624 as at March 31, 2002 but the merger with the Collège de l'Acadie has somewhat alleviated the problem. The financial statements for the period ended January 23, 2003 showed an operating surplus of \$252,240 and those for the period from January 24, 2003 to March 31, 2003 show an additional surplus of \$142,942. Université Sainte-Anne will need to increase enrolments or cut costs if it hopes to avoid future deficits, and there is no long-term plan which clearly lays out the Université's strategy for dealing with its financial problems.

## Pension Plans

**6.46** Nova Scotia universities participate in two basic types of pension plans.

- A **defined contribution plan** is a benefit plan that specifies how an entity's contributions to the plan are determined rather than the benefits to be received by an employee or the method of determining those benefits. The plan also allocates the entity's contributions to specific individuals. The future benefit for each employee is the accumulated amount of the contributions made by the entity on that employee's behalf together with the accumulated amount of any contributions made by the employee and the investment earnings on the contributions. By its nature, a defined contribution pension plan cannot have a funding deficit.
- A **defined benefit plan** is a benefit plan that specifies either the benefits to be received by an employee, or the method of determining those benefits.

**6.47** Defined benefit plans are subject to periodic actuarial valuations. An actuarial valuation is an assessment of the financial status of a pension plan. It consists of the valuation of assets held by the fund and the calculation of the actuarial present

value of benefits to be paid under the terms of the plan. If the benefits to be paid are greater than the assets, the plan will have a funding deficit. Events such as poor market performance on plan assets can result in projected plan deficits requiring additional funding from sponsors.

**6.48** Of the five universities that have defined benefit plans, March 31, 2003 audited financial statements for three (Acadia, Dalhousie and Université Sainte-Anne) show funding deficits. Dalhousie's plan deficit is \$115.5 million, Acadia is \$9.1 million and Université Sainte-Anne shows a deficit of \$2.7 million. The Pension Regulation Division of the Department of Environment and Labour supervises these registered pension plans to ensure the plans are well managed and adequately funded in order to meet obligations to pension plan members.

**6.49** The following are significant points related to the pension deficits at the universities we visited.

- Dalhousie's actuarial valuation of June 30, 2001 (projected) showed an actuarial pension surplus of \$15.3 million. By March 31, 2003 the plan was in a deficit position. The \$115.5 million net deficit position for accounting purposes as reported in the audited financial statements is based on the market value of assets at March 31, 2003. An actuarial valuation of plan assets, which took into account longer-term market trends, resulted in a significantly lower plan deficit of \$58.4 million. Dalhousie plans to contribute an additional \$6.1 million per year to the plan to fund the deficit into the foreseeable future.
- Université Sainte-Anne's pension plan had a surplus of \$599,000 when an actuarial valuation was performed in June 2000. In 1995 and 1999, the Université had taken a one-sided pension contribution holiday (employer missed contributions of approximately \$150,000 and \$400,000). At the time, the Université was in a deficit position and, by taking the pension contribution holiday, was able to reduce expenses. The contribution holiday was approved by the employees. In order to gain employee approval, the Université indicated that there would be a benefit enhancement in 2000. In July 2000, the pension benefit was enhanced. The actuaries indicated that there was sufficient surplus to take the holiday and make the enhancement, however the subsequent downturn in economic markets led to an actuarial deficit of \$2.7 million (December 31, 2002 actuarial valuation - note that the plan has only 113 participants). It is important to note that the benefits under the Université Sainte-Anne pension plan, even with the enhancements, are not as generous as other public sector plans such as the Nova Scotia Public Service Superannuation plan. The Université also indicated that internally restricted funds of approximately \$600,000 (restricted by the Board for CÉCANE - research into Acadian culture) may be available to apply towards the deficit. The Université is required to make total employer pension contributions of \$1.3 million for each of the next three years which is equal to 491% of the employee contributions. The entire deficit will be amortized over 15 years.

- 6.50** We are concerned with the existence of significant pension plan deficits, as described above, at three Nova Scotia universities. These deficits will impact the future resource allocations of these universities and the funds available for operations.

### Enrolment Data

- 6.51** Universities' enrolment data is the primary information source used by MPHEC to determine inter-provincial transfers under the Regional Transfer Arrangement. MPHEC submits enrolment data provided by the universities to Statistics Canada. This data is also an important source of information used by university management in planning processes.
- 6.52** Controls should exist in the universities' enrolment systems to provide assurance that the enrolment information is complete, accurate, authorized, consistent and timely. We conducted detailed testing of enrolment data at the four universities visited. Based on our testing we concluded that the enrolment systems and related controls are generally adequate. However, we noted some areas for improvement as described in the following paragraphs.
- 6.53** Under the current MPHEC reporting framework, all Provincial universities are responsible for the data submitted to MPHEC. Upon submission of the data, MPHEC produces Submission Status Reports in which data inconsistencies and potential errors are identified. These reports are provided to the university which is then required to 'clean up' the data for re-submission. Once the data has been received by MPHEC in an acceptable format, a final status report is prepared and provided to each university detailing remaining data inconsistencies. The universities we visited did not have processes in place to analyze and indicate resolution of the final data inconsistencies noted in the reports. We believe that these reports provide evidence of potential problem areas which should be investigated and resolved as appropriate.

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#### Recommendation 6.8

We recommend that all universities establish a formal process to analyze and take appropriate action on all data inconsistencies identified by MPHEC.

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- 6.54** One of the more significant data inconsistencies identified on MPHEC's final Submission Status Report, for all universities visited, related to cases where an enrolled student claimed to be a Canadian citizen but has a permanent address outside Canada. Discussions with university staff and management indicated that universities do not question the residency status of students who claim Canadian citizenship but either live or submit high school or post-secondary transcripts from institutions outside Canada. By not confirming the citizenship status of these students, universities may not be collecting international differential fees as required.

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**Recommendation 6.9**

We recommend that universities enhance systems for the identification of foreign students and verify citizenship status of students claiming Canadian citizenship but living outside Canada or submitting transcripts from abroad.

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**CONCLUDING REMARKS**

- 6.55** Overall, our testing and other audit procedures, including review of external auditors' working paper files, did not reveal any significant weaknesses in the financial management and internal controls at the universities. We communicated any specific suggestions for enhancements to the individual universities.
- 6.56** Each of the four universities visited has a strategic plan to guide it into the future or has plans to enter into a strategic planning process. This process should be further developed with the preparation of an annual business or operational plan with linkages to the longer-term strategic plan.
- 6.57** The existence of significant pension and accumulated operating deficits at some universities will impact future resource allocations and, therefore, needs to be monitored closely.
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## Provincial Funding by University

	Unrestricted Provincial Funding (\$ millions)	Provincial Funding as % of Operating Fund Revenue <sup>(2)</sup>
	2002-03 <sup>(3)</sup>	2001-02 <sup>(1)</sup>
Acadia University	\$20.2	42.9%
Atlantic School of Theology	- <sup>(5)</sup>	41.7%
Dalhousie University	96.0	48.8%
Mount Saint Vincent University	12.1	44.1%
Nova Scotia College of Art and Design	4.4	62.1%
St. Francis Xavier University	16.7	44.1%
Saint Mary's University	19.9	35.7%
Université Sainte-Anne <sup>(4)</sup>	2.9	48.0%
University College of Cape Breton	13.6	54.4%
University of Kings College	2.9	33.8%
	\$188.7	

(1) CAUBO - Canadian Association of University Business Officers

(2) Operating Fund revenue as reported by CAUBO excludes revenue from sources such as research, trust funds, ancillary operations, capital and endowment funds.

(3) Department of Education

(4) Prior to merger with Collège de l'Acadie

(5) Funding combined with Saint Mary's University

## Operating Fund Expenditures and Enrolment Statistics by Institution

	<b>General Operating Fund - Total Expenditures (\$ millions) 2001-02 <sup>(2)</sup></b>	<b>Full-Time Enrolment October 1, 2002 <sup>(1)</sup></b>	<b>Part-Time Enrolment October 1, 2002 <sup>(1)</sup></b>
Acadia University	\$49.3	3,924	320
Atlantic School of Theology	1.9	58	59
Dalhousie University	206.5	12,462	2,247
Mount Saint Vincent University	28.4	2,171	1,884
Nova Scotia College of Art and Design	10.7	789	129
St. Francis Xavier University	41.5	3,957	667
Saint Mary's University	56.2	5,963	1,827
Université Sainte-Anne	6.8	308	118
University College of Cape Breton	27.9	2,672	772
University of Kings College	8.3	941	22
	<b>\$437.5</b>	<b>33,245</b>	<b>8,045</b>

(1) AAU - Association of Atlantic Universities

(2) CAUBO - Canadian Association of University Business Officers

## DALHOUSIE UNIVERSITY'S RESPONSE

Thank you for the opportunity to record our comments on the findings of your Office's audit of Nova Scotia universities, and of Dalhousie University in particular. The staff from your Office were knowledgeable and efficient in carrying out their audit, and we appreciated their candor and professionalism.

In your final report there are many observations and suggestions with which we concur. In fact, we truly appreciated the many positive comments made about financial management at Dalhousie. Your report recognizes the priority which the University places on sound Internal Controls and on effective Budget Planning (you have commented elsewhere that Dalhousie's Budget Advisory Committee indeed is "a best practice for the university sector"). You have cited our well-documented policies regarding the collection and payment of Tuition Fees, the compliance of our Procurement Policies with the Government's ASH Sector Guidelines, our cost-saving initiatives in the area of purchasing (e.g. the use of a Purchase Card system, bulk buying with other regional universities), and our formal Financial Reporting processes. This feedback is both helpful and encouraging.

Your Recommendation 6.5 urging the Department of Education to provide Nova Scotia universities with timely notification of provincial funding levels and to establish longer-term funding commitments is of crucial importance. Being told well into our fiscal year

what our grants will be, having those grants reduced more than half-way through the fiscal year, and having little idea from year-to-year of government funding plans undermines the best institutional efforts to plan and to manage responsibly. We commend and support this recommendation by the Auditor General's Office.

The University would like to place on the record the following specific comments on certain points raised in your Report.

### **Student Receivables (6.19 – 6.22) and Recommendation 6.1**

Dalhousie continues to monitor student account balances closely, and we make appropriate collection efforts for all delinquent accounts (e.g. interest is charged, privileges are suspended, and older accounts are referred to a collection agency). We carefully manage this process by recognizing that the fall and winter terms are closely integrated, and at this time we believe that deregistering students with delinquent accounts at the end of the fall semester would be both unnecessary and overly harsh.

### **Computer Inventories (6.23 – 6.24)**

Dalhousie follows a decentralized management philosophy, assigning responsibility to Deans and other senior managers to oversee

the implementation of University Policies and Procedures in their units. The Audit Committee of our Board of Governors has reviewed this approach on several occasions as it relates to the issue of lower cost personal computer inventories and has noted its satisfaction with Dalhousie's current practices.

#### **Business Planning (6.30 – 6.33) and Recommendation 6.4**

The Auditor General's insistence on a particular format for reporting of annual business plans is not based on a University model. Our institutions have two senior governing bodies (Board of Governors and Senate), and each of these bodies receives reports and monitors progress on priorities "with no financial impact" in appropriate ways. At Dalhousie there are annual reports on progress towards meeting Strategic Plan goals. As well, there are annual reports on enrolment management (targets and achievements), campus renewal plans, fund raising, marketing, capital projects, etc. The Senate receives regular reports on the annual cycle of performance reviews of Faculties. Our planning and reporting methodologies are robust and appropriate in our opinion.

#### **Financial Reporting (6.41 – 6.43) and Recommendation 6.6**

Dalhousie's Annual Financial Reports to the Board of Governors and the wider community

for many years have included budget-to-actual comparisons and explanations for significant variances (if any). Our Reports do show budget variances by cost centre, contrary to the statement made in your report. Dalhousie's audited financial statements do not include budget appropriations as revenues or expenditures. Budget documents are presented in a format which best suits the University's internal control and management requirements, which in a few areas does not correspond well with the more technical demands of generally accepted accounting principles. Our present approach has been found to be useful for our Board and our community.

#### **Pension Plans (6.46 – 6.50)**

We believe that the Auditor General's reporting on the status of pension assets and liabilities at the five universities with defined benefit plans is incomplete and inaccurate. In Section 6.48 the Report refers to the deficits in 3 of these plans which appear to have been calculated on a totally inconsistent basis. No reference to the use of different methodologies is provided to the reader. Like other plans, Dalhousie's Pension Plan is reviewed and monitored by the Province's Superintendent of Pensions. Not only has Dalhousie "planned to contribute" (Section 6.49) additional funds to its Plan to retire the current liability, we have been making the required additional contributions since July 2002.

**Enrolment Data 6.54 and Recommendation  
6.9**

If a non-Canadian student were mistakenly identified as a Canadian student studying abroad, he/she would not have the proper documentation to obtain a study visa and enter the country. On this basis we do not believe that the collection of any international differential fees is being missed.

Thank you for the opportunity to have our comments circulated with your Report to the Legislative Assembly.

## SAINT MARY'S UNIVERSITY'S RESPONSE

On behalf of the Audit Committee of the Board of Governors of Saint Mary's University, this is our response to your observations regarding your recent audit. At the outset, we want to thank the Office of the Auditor General for your thorough and professional review of our internal control system. We appreciate your suggestions for improvements and the University will act on each recommendation.

Your report to the legislature is quite lengthy and is in respect to all the universities audited. Therefore, core messages regarding your Saint Mary's University audit findings seem somewhat obscure in the overall report. We were pleased to note the main conclusions of the Office of the Auditor General in the following four areas that you reviewed at Saint Mary's:

### **Financial Management, Monitoring and Reporting**

- SMU's budget process is well documented and well understood. The budget documents presented to the Finance Committee and the Board contain sufficient and an appropriate level of detail – key assumptions are explicitly stated and clearly presented. Regular financial reporting to the

Board meets the standards for useful information as established by the CICA.

### **Internal Controls**

- There are adequate internal controls over operating revenues and expenditures – no significant weaknesses were noted. There is evidence that SMU views internal control as a priority. The system in place at SMU to control its inventory of personal computers and related equipment appears very effective and should be considered a best practice for the university sector.

### **Procurement**

- SMU has documented procurement policies which include potential conflict of interest situations. These policies support open and fair procurement. The University policy is consistent with government Procurement Policy. All procurement transactions tested subject to the government's procurement policy were in full compliance.

### **Enrollment Data**

- Testing of a sample of data for 60 enrollments, and discussions with Registrar management, showed that SMU is accurately processing and reporting.

The Saint Mary's University Audit Committee, comprised entirely of independent Board members, is pleased to note that the conclusion of the audit of the Office of the Auditor General is that there is an effective system of internal controls in place at Saint Mary's.

We agree with your observation that there is a need for universities to enhance business planning processes by preparing operational plans, although university resources to address this are scarce. As you know, Saint Mary's produces a rolling three-year budget and is the only university in the province to do so prior to the start of each fiscal year. It would be a great assistance in our planning if the Province would also publish multi-year plans and give the universities financial information on a timely basis, since provincial funding is central to our planning.

At this time, we would also like to express our concern regarding the provincial resources available to Nova Scotia universities. Nova Scotia's base operating funding for universities was \$211 million in 1992/93 and a decade later that funding is \$201 million.

The result is higher tuition costs for students compared to virtually every other Province in Canada. We believe that Nova Scotia must raise the priority of consistent, long-term provincial funding to universities to ensure that our post-secondary education system is competitive and that our students of today will lead the Province tomorrow.

## UNIVERSITY COLLEGE OF CAPE BRETON'S RESPONSE

The University College of Cape Breton (UCCB) Audit Committee welcomes the opportunity to provide comment on the Report of the Auditor General on Universities in Nova Scotia. Our comments are organized in a manner consistent with the specific areas of study which comprised the scope of the Auditor General review. UCCB is appreciative of the professionalism of your staff in the conduct of this review. We also accept, with thanks, the suggestions provided by your office and assure you that we will endeavor to pursue the implementation of your recommendations.

### Internal Controls

The report suggests that UCCB maintains adequate internal control systems for revenue/receipt and purchases/payable cycles. UCCB concurs with this assessment. UCCB has established a policy concerning student receivable management which guides our efforts to manage monies owing the institution. Computer inventories at UCCB are adequately managed but UCCB does agree that the development of a "cradle to grave" policy concerning acquisition, utilization, transfer, and ultimate disposition of computer equipment is a laudable goal for all public sector agencies, including universities.

### Procurement

As noted in the report, procurement policies at UCCB are operating in accordance with the *Province of Nova Scotia's Policy on Government Procurement - ASH Sector Guidelines*. UCCB's procurement practices and policies are open, fair, and provide for value for our institution.

### Business Planning and Budgeting Processes

For the past two years, UCCB has scheduled for the tentative, subject to confirmation of provincial funding levels, approval of its annual budget in advance of the commencement of the new fiscal period. UCCB is therefore able to implement budget mandated activities in a timely manner. UCCB concurs with the recommendation that the Department of Education establish a long term funding commitment for universities as this would better enable universities to engage in multi-year planning. UCCB also notes that such a long term commitment must also address, from a public policy perspective, and provide for adequate provincial funding of the university sector. This in turn will reduce upward pressures on Nova Scotia tuition rates and enable universities to better address regular repairs and maintenance of university buildings to avoid the infrastructure problems which have plagued other sectors.

UCCB has adopted a strategic plan for a period extending to 2005. The Strategic Plan directions influence annual budgetary allocations. Significant budget assumptions are well documented and opportunities for consultation exist. UCCB's tuition revenue was within 0.3% of projected tuition for the 2002/03 period. UCCB does agree that the recommended formal linkage between the business plan and the budget is appropriate.

### **Financial Management**

UCCB's Board of Governors receives timely and complete internal financial reports on a regular basis throughout the year. These reports include comparison of budgeted and actual results of operation. Year-end financial statements are produced in accordance with Generally Accepted Accounting Practices (GAAP). UCCB agrees that the adoption of consistent policies within the GAAP framework would improve comparability of results in the university sector. UCCB believes that the inclusion of budgeted amounts on the year end financial statements may be useful for some external users of the statements, noting that the Board of Governors has access to this information through internal financial reports.

UCCB recognizes the existence of an accumulated operating deficit, a significant

portion of which is related to service awards paid to long service staff upon retirement. UCCB has adopted a deficit retirement strategy which will see the deficit retired over a maximum eight year period. This timeframe is deemed acceptable given that the funding obligation is not immediate. There are no unfunded pension obligations at UCCB.

### **Pension Plans**

UCCB maintains a defined contribution pension plan for its employees. Accordingly, the employee bears the financial risk associated with market performance. There is no unfunded pension liability at UCCB.

### **Enrolment Data**

UCCB works in cooperation with MPHEC in submitting enrolment data requirements mandated by their organization. There is a systematic follow-up to ensure all data supplied by UCCB meets the standards established by MPHEC.

UCCB agrees that system improvements to verify identification of foreign students should be pursued. These improvements must reach beyond the narrow scope of universities and seek a system-wide solution involving federal departments. UCCB is willing to fulfill its role in this regard.