

## Chapter 2

# Department of Post-Secondary Education, Training and Labour – Provincial Funding to Universities and Maritime College of Forest Technology

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# Provincial Funding to Universities and Maritime College of Forest Technology :

## Dept. of Post-Secondary Education, Training and Labour

### Report of the Auditor General – Volume II Chapter 2 - December 2019

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#### Why Is This Important?

- NB's public universities play an important role in the economic and social development of the Province.
- Over the last decade, universities and MCFT received more than \$2.0 billion in operating grants.
- In 2017/18 alone, close to \$250 million was paid to NB's four publicly funded universities and the Maritime College of Forest Technology from all government departments and Crown Agencies.
- Provincial funding provided to universities represented approximately 30% to 50% of university revenue in 2017/18.

#### Overall Conclusions

- PETL is not holding universities and the Maritime College of Forest Technology accountable for funding provided. PETL is not monitoring the use of the majority of funds provided to universities, over \$210 million (91% of funds) in 2017/18. Monitoring was limited to the use of funding under specific agreements, close to \$20 million in 2017/18. However, for the nursing program expansion agreements, the Department did not take corrective action when performance targets were not met.
- For the most part, funding was provided to universities in accordance with agreements. However, the allocation of over \$210 million operating grant to universities was not in accordance with the funding formula, which provides for an objective allocation of funding amongst the universities.

## What We Found

#### Lack of Accountability

- Province has MOU with universities which sets accountability requirements. However, almost none of expected outcomes have been achieved
- PETL is not reporting publicly on outcomes of funding provided to universities
- Maritime College of Forest Technology is not transparent

#### Funding Formula Not Used for Several Years

- Funding formula has not been used since 2015/16 as it would have disadvantaged some universities
- Funding formula should be revisited to ensure it continues to be relevant

#### More Monitoring Needed

- PETL has "hands-off" approach to university funding
- PETL does not require any reporting from universities on use of operating funds (referred to as "unrestricted grant" by PETL)
- Operating grant has restrictions on use of funds, but PETL has not communicated this to universities
- Province invested close to \$100 million for unsuccessful nursing program expansion:
  - Targets for UdeM were never met and UNB did not meet recent targets
  - PETL did not take corrective action on lack of performance

## Key Findings and Observations Table

## Provincial funding to Universities and MCFT

### Department of Post-Secondary Education, Training and Labour

Paragraph	Key Findings and Observations
	<b>Lack of Accountability</b>
2.23	<i>Memorandum includes accountability mechanisms</i>
2.24	<i>MOU improved accountability outcomes have not been achieved</i>
2.27	<i>Mandate letter intended annual appearance before legislative committee</i>
2.31	<i>Increased accountability in other jurisdictions</i>
2.33	<i>No accountability mechanisms for MCFT</i>
2.34	<i>Statistics on NB universities reported by MPHEC</i>
2.36	<i>Department is not reporting on outcomes of funding to universities and MCFT</i>
2.39	<i>Universities are transparent</i>
2.41	<i>Review of university and MCFT financial statements showed key differences between institutions</i>
2.43	<i>MCFT was not transparent</i>
	<b>More Monitoring Needed</b>
2.45	<i>Department has “hands-off” approach to university funding of \$2 billion over the past decade</i>
2.46	<i>Operating grant has restrictions on use</i>
2.47	<i>Department did not communicate the restrictions on the use of the operating grant to universities</i>
2.48	<i>Restrictions include capital assets, but some universities have used operating income for capital asset investments</i>
2.49	<i>Department does not require any reporting from universities on use of over \$210 million in operating funds in 2017/18</i>
2.52	<i>Review of funding provided for expansion of nursing program</i>
2.54	<i>Clawback calculation differed in previous agreements</i>

*Key Findings and Observations Table (continued)*

<b>Paragraph</b>	<b>Key Findings and Observations</b>
	<b>More Monitoring Needed (continued)</b>
2.55	<i>Clawback calculation in 2017/18 was same for both universities</i>
2.57	<i>Funding for nursing program was provided in accordance with agreement and clawback was calculated correctly in 2017/18</i>
2.59	<i>Province invested close to \$100 million for unsuccessful nursing program expansion</i>
2.60	<i>Targets for nursing program enrolment at UdeM were never met and UNB did not meet targets in recent years</i>
2.62	<i>Department continued to pay despite targets not being met</i>
2.63	<i>Department did not take corrective action on lack of performance</i>
2.66	<i>Review of funding provided in “restricted” operating grant</i>
2.67	<i>Restricted assistance policy allows a 1-year carry forward of unspent restricted operating grant</i>
2.68	<i>One university had carry-forward from over 5 years on restricted operating grant</i>
	<b>Funding Formula Not Used For Several Years</b>
2.70	<i>In 2017/18, over \$230 million in funding was provided to universities</i>
2.72	<i>Funding formula designed for objective allocation of funds</i>
2.80	<i>Funding provided to universities in 2017/18 was not allocated based on the funding formula established in 1979</i>
2.83	<i>Amounts paid in 2017/18 were in accordance with recent MOU and agreements</i>
2.84	<i>St. Thomas University did not sign the funding MOU until July 2019, while other universities signed in early 2018</i>
2.85	<i>Use of funding formula would disadvantage some universities</i>
2.86	<i>MOU froze funding formula</i>
2.87	<i>Funding formula should be revisited to ensure it continues to be relevant</i>

## Recommendations and Responses

Recommendation	Department's response	Target date for implementation
<p><b>2.28 We recommend the Legislative Assembly select a standing committee, such as the Public Accounts Committee, to hold funding recipients such as universities accountable for funds received and performance achieved and require annual appearances before the committee, or as the committee determines appropriate.</b></p>	<p><i>The Department supports the recommendation and will work with Government to identify the appropriate committee.</i></p>	<p><i>Immediate</i></p>
<p><b>2.30 We recommend the Department develop and execute a workplan to fulfill the accountability mechanisms included in the 2017/18 to 2020/21 MOU.</b></p>	<p><i>The Department agrees with this recommendation and will develop a project charter with a work plan by December 31, 2019.</i></p>	<p><i>December 31, 2019</i></p>
<p><b>2.32 We recommend the Department, as a minimum, implement the following accountability mechanisms for university funding:</b></p> <ul style="list-style-type: none"> <li>• <b>Establish measurable outcomes;</b></li> <li>• <b>For initiatives or areas of interest, establish working committees who report annually to the Minister on progress and achievement of objectives;</b></li> <li>• <b>Use key performance indicators;</b></li> <li>• <b>Require annual reporting to the Minister using a standard template; and</b></li> <li>• <b>Require executive compensation contracts be publicly available.</b></li> </ul>	<p><i>The Department agrees with this recommendation and will work with stakeholders to develop the recommended accountability mechanisms and have them in place prior to the development of the next funding arrangement</i></p>	<p><i>March 31st, 2021</i></p>

*Recommendations and Responses (continued)*

Recommendation	Department's response	Target date for implementation
<b>2.38 We recommend the Department report publicly on the outcomes achieved from the funding provided to universities and MCFT.</b>	<i>The Department agrees with this recommendation and will work with the MCFT to develop these outcomes.</i>	<i>March 31st, 2021</i>
<b>2.44 We recommend the Department require MCFT make available online its current and past (five years minimum) audited financial statements, as well as an annual report of its activities, to ensure it is publicly accountable for the funding it receives from the Province.</b>	<i>The Department agrees with this recommendation and will require, starting in the next fiscal year, the MCFT to publish its current and past financial statements, as well as an annual report.</i>	<i>March 31st, 2020</i>
<b>2.50 We recommend the Department communicate the restrictions on the use of funding in the annual funding letter to universities.</b>	<i>The Department agrees with this recommendation and will communicate the restrictions on this funding in the annual funding letter.</i>	<i>April 1, 2020</i>
<b>2.51 We recommend the Department obtain assurances from the universities that the restrictions or conditions on the use of unrestricted funds have been complied with. For example, this could be achieved by requiring a certification from the head of the institution and a senior financial representative or by requesting a compliance opinion from the universities' auditors.</b>	<i>The Department agrees with this recommendation and will require institutions to report that they are in compliance with the conditions on the use of unrestricted funds.</i>	<i>April 1, 2020</i>

*Recommendations and Responses (continued)*

Recommendation	Department's response	Target date for implementation
<b>2.58</b> To achieve better performance on desired outcomes, we recommend the Department provide funding for program expansion, or other agreements, only after desired outcomes or targets have been achieved.	<i>The Department agrees with this recommendation will adopt this practice.</i>	<i>Immediate</i>
<b>2.65</b> We recommend the Department take corrective action in a timely manner when expected performance targets have not been achieved.	<i>The Department agrees with this recommendation and will adopt this practice.</i>	<i>Immediate</i>
<b>2.69</b> We recommend the policy for restricted operating grants be followed, or the Department reconsider the appropriateness of the 1-year carry forward limit and amend the policy accordingly.	<i>The Department agrees with this recommendation and will review this policy and take appropriate actions based on finding.</i>	<i>March 31, 2020</i>
<b>2.88</b> We recommend the Department, in consultation with the universities, re-examine the relevance of the current funding formula and its components, such as the weighting of the various programs, to ensure it continues to be the most suitable choice to allocate funding to universities and to motivate the achievement of funding objectives.	<i>The Department agrees with this recommendation and will examine the future funding framework in advance of the next funding arrangement.</i>	<i>March 31, 2021</i>

## Audit Introduction

### *Why we examined funding to these 5 institutions*

- 2.1** New Brunswick’s provincial universities play an important role in the economic and social development of the Province. Universities also impact their local communities by providing employment to workers and through spending by their student population.
- 2.2** The Department of Post-Secondary Education, Training and Labour (the Department) provides funding for educational programs to universities and the Maritime College of Forest Technology (MCFT). The Maritime Province’s Higher Education Commission (MPHEC) administers this provincial funding for the universities and the MCFT on behalf of the Department.
- 2.3** Section 17 of MPHEC’s Act states the “*determination of public funding levels for institutions is the sole responsibility of the Provinces*”. It goes on to say the Commission, when requested to do so, shall provide advice or services to the Minister for determining post-secondary education funding policies and allocations. The Regulation under the MPHEC Act identifies the prescribed institutions for the purposes of the Act. The New Brunswick institutions listed are:
- University of New Brunswick;
  - St. Thomas University;
  - Mount Allison University;
  - Université de Moncton; and
  - Maritime College of Forest Technology.

### *Why we did this audit*

- 2.4** In 2017/18, close to \$245 million was paid to the four publicly funded universities and MCFT from all government departments and Crown agencies. Of this amount, approximately \$230 million was provided by the Department. Given the significant funding provided to universities and MCFT, we decided to conduct an audit of funding provided to these entities, including the Department’s monitoring and reporting on the use of this provincial funding.

**Objective**

**2.5** The objective of our audit was:

***To determine if the Department of Post-Secondary Education, Training and Labour:***

- ***Provides funding to universities and the Maritime College of Forest Technology in accordance with policies and agreements;***
- ***Monitors the use of provincial funds by universities and the Maritime College of Forest Technology to ensure funds are being spent in accordance with provincial requirements and outcomes; and***
- ***Holds universities and the Maritime College of Forest Technology accountable for the funds received.***

**Scope and Approach**

**2.6** Our audit focused on the Department of Post-Secondary Education, Training and Labour. We examined the Department's administration and allocation of funding provided to universities and the Maritime College of Forest Technology. We also examined how the Department monitors the use of funds and holds the universities and MCFT accountable for the funds received, as well as associated performance results.

**2.7** Our audit approach included interviews with staff at both the Department of Post-Secondary Education, Training and Labour (the Department), and the Maritime Provinces Higher Education Commission (MPHEC). We reviewed documentation and conducted analytical procedures and testing on information provided by the two entities.

**2.8** Our specific audit testing covered the fiscal year 2017/18. This is the period to which our audit conclusion applies. However, to gain a more complete understanding of the subject matter, our analysis covered certain matters that preceded this period and included a broader time frame.

**2.9** For more information about the scope, approach and period of our audit, see Appendix I. The criteria we used can be found in Appendix II.

## Conclusions

### 2.10 We concluded:

- The Department is not holding universities and MCFT accountable for funding provided;
- The Department did not monitor the use of the majority of funding provided to universities, over \$210 million (91% of funding) in 2017/18. Monitoring was limited to the use of funds under certain agreements. However, for one of these agreements (expansion of nursing program), we found the Department did not take corrective action when performance targets were not achieved;
- For the most part, funding was provided in accordance with agreements. However, accountability mechanisms in MOU were not met and funding for the expansion of the nursing program did not achieve the intended objective; and
- The allocation of the operating grant to universities was not in accordance with the funding formula. As a result, factors like enrolment and the cost of programs offered were not considered in allocating funding to the four universities.

## Background Information

**2.11** The Department of Post-Secondary Education, Training and Labour provides annual funding to universities and the Maritime College of Forest Technology in the form of operating grants and funding under specific agreements targeted at certain activities and programs. Universities also receive funds from other government entities for other purposes such as research and services rendered.

**2.12** Exhibit 2.1 shows the total amount paid to universities and MCFT by departments and Crown agencies in 2017/18. Provincial expenditures from all streams of funding provided to universities totaled close to \$245 million for 2017/18. This included contributions and grants, personal services, contracts and projects, material and supplies, and other services.

Exhibit 2.1 - Amount paid to universities and MCFT by departments and Crown agencies in 2017/18 (rounded)

<b>Amount paid to universities and MCFT, by primary, by departments and Crown agencies in 2017/18 (rounded)</b>						
Department or Agency	Expenditures by Primary					Total
	Contributions and Grants	Other Services	Materials and Supplies	Personal Services	Contracts and Projects	
Agriculture, Aquaculture and Fisheries	\$112,600	\$1,300	-	-	-	\$ 113,900
Collège communautaire du Nouveau-Brunswick	57,300	119,400	2,700	-	-	179,400
Natural Resources and Energy Development	243,200	53,800	-	6,200	-	303,200
Education and Early Childhood Development	270,300	663,000	39,200	17,700	4,600	994,800
Environment and Local Government	454,000	2,100	-	-	-	456,100
Executive Council Office	81,000	8,400	1,200	-	-	90,600
Finance and Treasury Board	20,000	25,300	-	-	-	45,300
General Government	-	7,000	2,000	-	-	9,000
Health	2,168,500	61,200	-	7,500	-	2,237,200
Legislative Assembly	-	15,900	-	200	-	16,100
New Brunswick Community College	300	173,800	12,500	-	-	186,600
Opportunities New Brunswick	27,300	32,000	-	-	-	59,300
Post-Secondary Education, Training and Labour	236,965,700	43,900	3,600	300	-	237,013,500
Public Safety	1,300	65,600	400	-	-	67,300
Service New Brunswick	-	647,900	-	-	-	647,900
Social Development	98,000	83,700	-	1,100	-	182,800
Tourism, Heritage and Culture	35,000	5,100	1,200	-	-	41,300
Transportation and Infrastructure	-	2,277,500	36,000	-	-	2,313,500
<b>Total</b>	<b>\$ 240,534,500</b>	<b>\$ 4,286,900</b>	<b>\$ 98,800</b>	<b>\$ 33,000</b>	<b>\$ 4,600</b>	<b>\$ 244,957,800</b>

Source: Table created by AGNB based on information extracted from the GNB financial reporting system (Oracle) for the period of April 1, 2017 to March 31, 2018

**2.13** Of the total payments shown in Exhibit 2.1, approximately \$230 million represents annual operating grants to the four publicly funded universities and the MCFT. Over the last decade, operating grants to universities and MCFT totalled more than \$2.2 billion, as shown in Exhibit 2.2. This does not include provincial funding for student financial assistance.

*Exhibit 2.2 - Total operating grants to universities and MCFT over 10 years, from 2008/09 to 2017/18 (in millions)*

<b>Total operating grants to universities and MCFT over 10 years, from 2008/09 to 2017/18 (in millions)</b>											
	<b>2008/ 09</b>	<b>2009/ 10</b>	<b>2010/ 11</b>	<b>2011/ 12</b>	<b>2012/ 13</b>	<b>2013/ 14</b>	<b>2014/ 15</b>	<b>2015/ 16</b>	<b>2016/ 17</b>	<b>2017/ 18</b>	<b>Total</b>
University of New Brunswick	\$ 104.8	\$ 108.4	\$ 121.4	\$ 118.1	\$ 121.2	\$ 120.6	\$ 123.0	\$ 121.8	\$ 121.5	\$ 119.8	\$1,180.6
Université de Moncton	62.0	65.6	67.9	76.1	77.5	74.0	74.9	73.3	73.9	74.6	719.8
Mount Allison University	17.6	18.2	19.4	20.0	20.6	20.6	21.3	21.3	21.3	21.7	202.0
St. Thomas University	9.7	10.6	11.8	12.7	12.0	12.1	12.5	12.8	12.5	12.4	119.1
Maritime College of Forest Technology	2.1	2.0	2.2	2.1	2.3	2.1	2.2	2.2	2.2	2.2	21.6
<b>Total</b>	<b>\$ 196.2*</b>	<b>\$ 204.8</b>	<b>\$ 222.7</b>	<b>\$ 229.0</b>	<b>\$ 233.6</b>	<b>\$ 229.4</b>	<b>\$ 233.9</b>	<b>\$ 231.4</b>	<b>\$ 231.4</b>	<b>\$ 230.7</b>	<b>\$ 2,243.1</b>

\* Per 2008-09 Main Estimates, the 2008/09 amount was much lower than other years due to a reduction in grants to universities program. There was a corresponding increase in grants in 2007-08 to reflect an additional grant of \$110 M over and above the 2007/08 budget, which was paid March 31, 2008. We are presenting this amount in 2008/09 to present a more accurate reflection of funding paid and its corresponding year.

Source: Schedules of Unrestricted and Restricted Grant Expenditures from MPHEC's financial statements for the years ended March 31, 2009 to March 31, 2018

**2.14** Exhibit 2.2 shows that over the last decade, the University of New Brunswick and Université de Moncton have received a significant portion of this funding; \$1.2 billion (53%) and \$720 million (32%) respectively. We can also calculate that overall funding has increased by 18% over 10 years, despite a decline in enrolment of 12%<sup>1</sup> during the same period. The Department noted this calculation does not consider inflation.

<sup>1</sup> As per enrolment presented in Exhibit 2.6

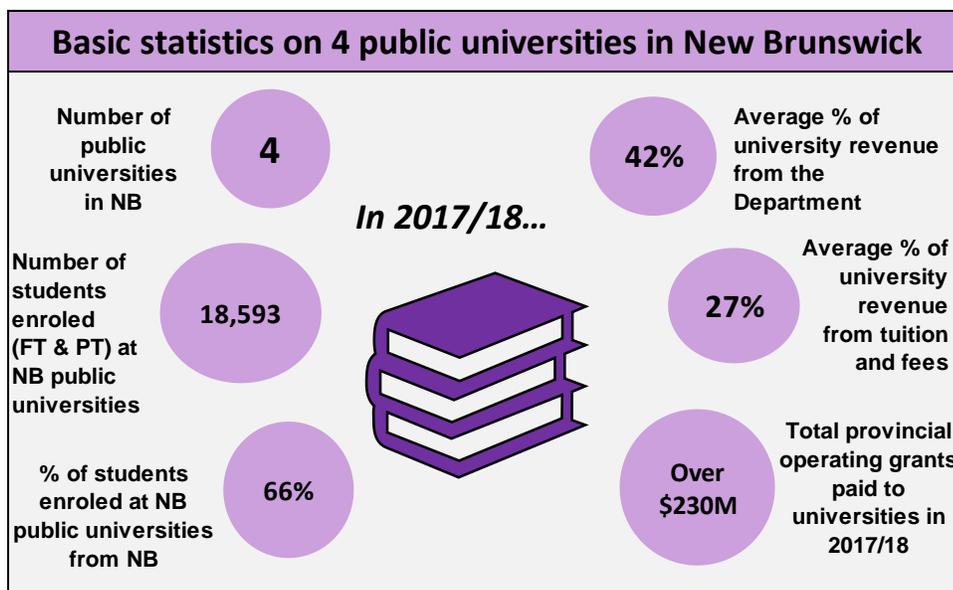
**2.15 The Maritime Provinces Higher Education**

Commission provides financial services to the Department with respect to provincial funding to universities and the Maritime College of Forest Technology. It receives base funding from the provinces of New Brunswick (31%), Nova Scotia (38%) and Prince Edward Island (6%). The key functions of the Commission include:

- Quality assurance of academic programming and or teaching at institutions;
- Data and information collection on institutions and production of reports for the purpose of public accountability;
- Administer funding transfers for regional programs; and
- Provide services to the Provinces as requested.

**2.16 Exhibit 2.3 provides basic statistics on public universities in New Brunswick in 2017/18.**

*Exhibit 2.3 - Basic statistics on public universities in New Brunswick in 2017/18*

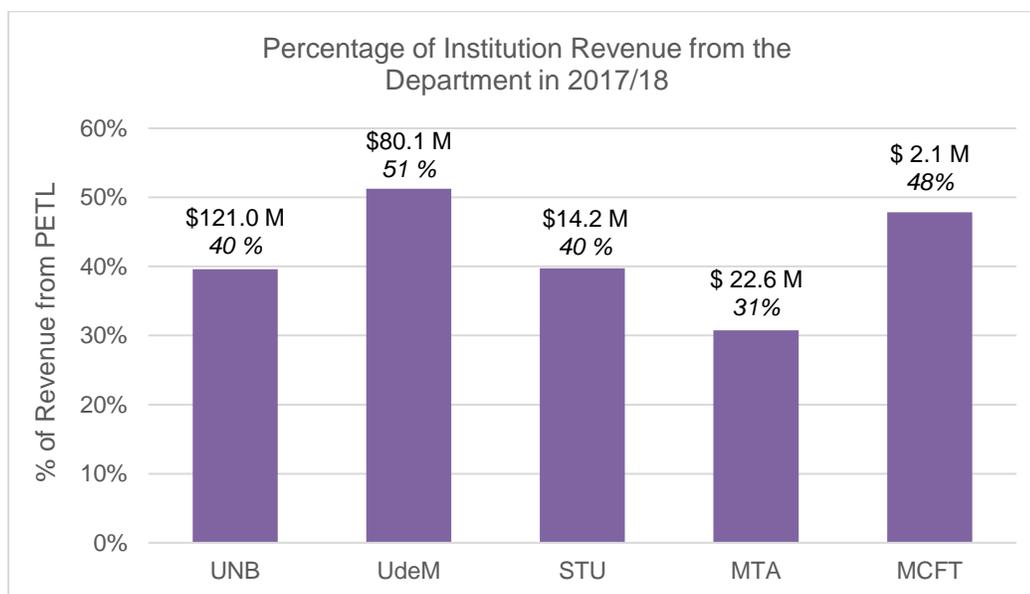


Source: Chart created by AGNB based on information obtained in the audited financial statements of universities for the year ended April 30, 2018; and MPHEC’s online statistics.

**Operating grant from PETL presents 31% to 51% of university revenue**

**2.17** The provincial grant to universities represented between 31% and 51% of university revenue in 2017/18. Exhibit 2.4 shows the provincial grant from the Department represented a high of 51% of the revenue of Université de Moncton in 2017/18, and a low of 31% of the revenue of Mount Allison University. These variances are due to differences in revenue from other sources, such as student fees<sup>2</sup>, research grants, and investment income. For example, revenue from student fees in 2017/18 represented only 19% of Université de Moncton's revenue compared to almost 50% of revenue at St. Thomas University<sup>3</sup>. The Department noted UdeM receives additional funding, unlike the other universities, to cover some of the costs associated with operating a French language university.

Exhibit 2.4 - Percentage of institution revenue from the Department in 2017/18



Source: Chart created by AGNB based on information obtained from the audited financial statements of universities for the year ended April 30, 2018.

<sup>2</sup> Student fees can include tuition and other fees

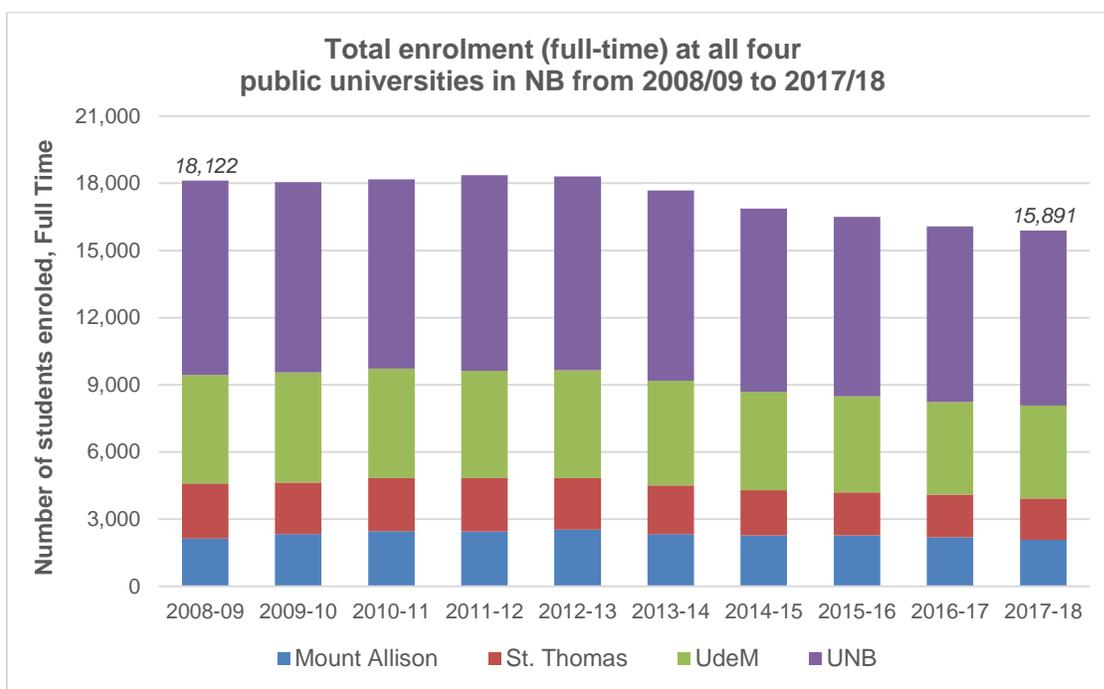
<sup>3</sup> As calculated from information presented in Exhibit 2.9

**2.18** There is no legislation governing any of the funding provided to universities and the Maritime College of Forest Technology. This funding is discretionary and subject to the annual budget process. The amounts provided could be significantly changed or discontinued by the government.

***Enrolment at NB universities is declining***

**2.19** In recent years, enrolment has been declining at all provincial universities, putting financial pressure on the institutions. As shown in Exhibit 2.5, total full-time enrolment in the four provincial universities was 15,891 students in 2017/18, down from 18,122 in 2008-09, a decrease of 12% over 10 years. We calculated Mount Allison had the smallest decline with just 3% over this period while the decline at St. Thomas University was the most significant, with full-time enrolment down 25%.

*Exhibit 2.5 - Total enrolment (full-time) at all four public universities in NB from 2008/09 to 2017/18*



Source: Chart created by AGNB based on MPHEC enrolment statistics (*Total Enrolment by Province, Institution, and Registration Status, 2008-2009 to 2017-2018*)

**2.20** Because 66% of students at the four public universities are from New Brunswick, we examined the Department of Education’s school enrolment for the equivalent cohorts to see if there was a link between declining enrolment at universities and school enrolment. As shown in Exhibit 2.6, the decline in university enrolment is very similar to

the decline in school enrolment, making a link between demographics and declining enrolment.

*Exhibit 2.6 - Comparison of enrolment at NB public universities with cohort enrolment at NB schools*

<b>Comparison of enrolment at NB public universities with cohort enrolment * at NB schools</b>			
<b>School Enrolment</b>		<b>University Full-time Enrolment</b>	
<b>Year</b>	<b># Students</b>	<b>Year</b>	<b># Students</b>
1996-97	133,276	2008-09	18,122
1997-98	131,586	2009-10	18,045
1998-99	129,131	2010-11	18,171
1999-00	127,003	2011-12	18,367
2000-01	124,942	2012-13	18,311
2001-02	122,792	2013-14	17,681
2002-03	120,600	2014-15	16,870
2003-04	118,869	2015-16	16,497
2004-05	117,145	2016-17	16,080
2005-06	114,820	2017-18	15,891
<b>Decline over 10 years</b>	<b>14%</b>	<b>Decline over 10 years</b>	<b>12%</b>

\* Cohort enrolment: a student enrolled in grade 1 in 1996/97 could in theory be enrolled in university in 2008/09  
 Source: Chart prepared by AGNB using MPHEC enrolment statistics (*Total Enrolment by Province, Institution, and Registration Status, 2008-2009 to 2017-2018*) and information from Dept. of Education's 2000/01 and 2007/08 annual reports (*Enrolment by School District and Year*)

***Province has limited role in governance of universities***

**2.21** Though the province is an important funding partner to universities, it has a limited role in the governance of these institutions. Each university is overseen by a Board of Governors and a Senate. In general, the Board is responsible for the business side of the university, making decisions on items such as the annual budget and oversight of the university president. The Senate governs the academic side of the institution and makes decisions regarding items such as courses, teaching, and academic awards. Exhibit 2.7 provides an overview of the governance of the four publicly funded universities in New Brunswick as well as MCFT. It shows the Lieutenant-Governor is involved in 15-22% of appointments to the Board of Governors at two of the four publicly funded universities.

Exhibit 2.7 - Overview of the governance of the four publicly funded universities in New Brunswick and MCFT

<b>Overview of the governance of the four publicly funded universities in New Brunswick and MCFT</b>					
	<b>Université de Moncton<sup>2</sup></b>	<b>University of New Brunswick</b>	<b>Mount Allison University</b>	<b>St. Thomas University<sup>2</sup></b>	<b>Maritime College of Forest Technology</b>
<b>Board of Governors</b>	Yes	Yes	Yes	Yes	Yes
<b>Number of members on Board of Governors</b>	27	46 <sup>2</sup>	24 <sup>2</sup>	25	12 to 15 <sup>1</sup>
<b>Number of members of Board of Governors appointed by Lieutenant-Governor in Council</b>	4	10	none	none	none
<b>% of members of Board of Governors appointed by Lieutenant-Governor in Council</b>	15%	22%	0%	0%	0%
<b>Senate</b>	Yes	Yes	Yes	Yes	No
<b>Number of members of Senate</b>	41	Fredericton: 67 <sup>3</sup> Saint John: 38 <sup>2</sup>	55 <sup>3</sup>	37	n/a

<sup>1</sup>Per the Act there are 12 members, but actual number of members in 2017/18 was 15. The Deputy Minister of the Department of Natural Resources and Energy Development sits on the board.

<sup>2</sup>Membership as at 2019-2020

<sup>3</sup>Membership as at 2018-2019

Source: Chart created by AGNB from information found on university websites and related legislation [for each university](#) and the *Maritime College of Forest Technology Act*

## Lack of Accountability

***Memorandum with universities for multi-year funding***

**2.22** In 2018, the Province and three of its four publicly funded universities signed Memorandums of Understanding (MOU) which provided multi-year funding for universities. Agreements were reached with University of New Brunswick, Université de Moncton and Mount Allison University. The MOU covers the years 2017/18 to 2020/21. An agreement with St. Thomas University was signed in July 2019. The multi-year MOU is intended to provide universities with predictable funding and stable tuition for students by providing increases to the universities' operating grants and tuition increase caps.

***Memorandum includes accountability mechanisms***

**2.23** Notable in the four-year MOU is a section on *Fiscal Responsibility and Accountability* that included a number of accountability mechanisms. Given the significant amount of funding provided to the universities, we viewed these mechanisms as a starting point on which to build an accountability framework to report on the progress and outcomes achieved with provincial funding.

***MOU improved accountability outcomes have not been achieved***

**2.24** The accountability requirements of the MOU are listed in Exhibit 2.8. The exhibit also shows whether these requirements had been met at the time of our audit in 2019.

Exhibit 2.8 - Accountability requirements included in the Memorandum of Understanding between the Province of New Brunswick and three universities, 2017/18 through 2020/21

<b>Accountability requirements included in the Memorandum of Understanding between the Province of New Brunswick and three universities, 2017/18 through 2020/21</b>	
<b>Requirement</b>	<b>Requirement met?</b>
Universities will report publicly on outcomes by <b>appearing before a Legislative Committee in year 1</b> (2017/18) of the MOU.	Yes
During year 1 (2017/18) of the MOU, in consultation with universities, the Province will <b>engage a consultant to conduct a review of accountability mechanisms</b> between universities and PNB. Consultant review will: <ul style="list-style-type: none"> <li>▪ <b>document current accountability mechanisms;</b></li> <li>▪ <b>identify gaps; and</b></li> <li>▪ <b>make recommendations for future mechanisms.</b></li> </ul> If future mechanism requires appearing before a legislative committee, the terms of that appearance will be laid out in the review.	No
Parties will work together to <b>develop and publish provincial and institutional key performance indicators</b> related to mutually agreed-upon subjects which may include quality of education, administrative efficiency, enrolments, graduation rates, labour market outcomes, research and innovation, and other criteria related to the university's specific mandate.	No

Source: Chart prepared by AGNB based on information included in the *Memorandums of Understanding between the Province of New Brunswick and the University of New Brunswick, Mount Allison and Université de Moncton, 2017/2018 through 2020-2021*. These MOUs were signed between January and March 2018. St. Thomas University was excluded because it had not signed the MOU at the time of our audit. In July 2019, we were informed St. Thomas University had signed the MOU.

**2.25** As shown in Exhibit 2.8, only one of the accountability requirements listed in the MOU has been met. The universities did appear before a legislative committee in June 2018. St. Thomas University, who had not yet signed the MOU, also appeared before the committee along with the other three universities. In May 2019, the Minister of PETL made a motion for a select committee to be charged with inviting the universities to appear again, which they did in September 2019. The appearance of the universities before the committee is a positive step towards improved accountability for the public funds they receive.

**2.26** We were surprised an appearance before the legislative committee was a stated requirement in the MOU. In our view, any entity that receives public funds (especially those that receive significant funding, like universities) should

appear, if asked, before a legislative committee in order to be held accountable for their use of public funds.

***Mandate letter intended annual appearance before legislative committee***

**2.27** When we reviewed the September 2017 mandate letter issued to the Minister of Post-Secondary Education, Training and Labour by the then Premier, it indicated the MOUs were intended to require annual appearance by the universities before the legislative committee. We believe regular annual appearances before a legislative committee improves accountability and allows the universities to report publicly on outcomes.

***Recommendation***

**2.28** We recommend the Legislative Assembly select a standing committee, such as the Public Accounts Committee, to hold funding recipients such as universities accountable for funds received and performance achieved and require annual appearances before the committee, or as the committee determines appropriate.

**2.29** Contrary to the requirements in the MOU, we also found there has been no consultant review and no key performance indicators developed or published at the time of our audit in 2019. The Department noted the following factors affecting progress on requirements of the MOU:

- The 2017/18 MOU was only signed by 3 of 4 universities;
- The 2017/18 MOU was only signed in the final quarter of 2017/18;
- There was a change in leadership at the universities; and
- There was a change of government in 2018.

***Recommendation***

**2.30** We recommend the Department develop and execute a workplan to fulfill the accountability mechanisms included in the 2017/18 to 2020/21 MOU.

***Increased accountability in other jurisdictions***

**2.31** We reviewed the developments around increased university accountability in other jurisdictions. From our review, we identified several areas that could benefit New Brunswick's agreements with universities should the Province sign new agreements in the future, including:

- Greater focus on measurable outcomes (to assess performance);

- Establishment of various working committees who report annually to the Minister (assigns responsibility for initiatives and accountability for performance);
- Use of key performance indicators in an MOU workplan;
- Universities provide annual financial reports and projections using a standardized template (this would improve comparability between institutions); and
- Executive compensation contracts are publicly available (to improve transparency).

***Recommendation***

**2.32 We recommend the Department, as a minimum, implement the following accountability mechanisms for university funding:**

- **Establish measurable outcomes;**
- **For initiatives or areas of interest, establish working committees who report annually to the Minister on progress and achievement of objectives;**
- **Use key performance indicators;**
- **Require annual reporting to the Minister using a standard template; and**
- **Require executive compensation contracts be publicly available.**

***No accountability mechanisms for MCFT***

**2.33** The 2017/18 funding letter provided to the Maritime College of Forest Technology did not include any accountability mechanisms.

***Statistics on NB universities reported by MPHEC***

**2.34** We found MPHEC has produced a number of tables and reports on various statistics of maritime universities, including universities in New Brunswick. The following statistics, for multiple years, are available on MPHEC's website:

- Various enrolment statistics;
- Types of credentials granted;
- Arts and science tuition fees and ancillary fees;
- University participation;
- Graduation rates; and

- Time-to-degree.

Though interesting, we cannot use this information to evaluate performance without having objectives related to these statistics.

**2.35** We reviewed the Department’s website and annual report to determine whether there was any performance reporting on the funding provided to universities and MCFT.

*Department is not reporting on outcomes of funding to universities and MCFT*

**2.36** We found the Department is not reporting on the performance of funding provided to universities or MCFT. The only information reported was:

- Signing of the MOUs in 2017/18;
- Total amount “invested” in MCFT and the four universities in 2017/18; and
- Comparison of budget to actual expenditures (in total) for MPHEC.

**2.37** This information is not sufficient to evaluate the outcomes resulting from the funding provided. For example, the Department could have reported on the expansion of the nursing program as performance information was available and used to evaluate the outcomes of the funding provided for that program. Overall, given the significance of the funds provided, there should be public performance reporting on the outcomes achieved.

*Recommendation*

**2.38** We recommend the Department report publicly on the outcomes achieved from the funding provided to universities and MCFT.

*Universities are transparent*

**2.39** Overall, we found universities were transparent with their financial information, though some more than others. For example, we reviewed the universities’ websites and found:

- All four universities provided audited financial statements for multiple years;
- All four universities provided information on salary disclosure by title or profession;
- Two of the four universities (MTA and UNB) provided disclosures on travel expenditures;

- All four universities provided links to its President's contract.

**2.40** The financial statements for the universities were available online but finding them required numerous clicks on the universities' websites. When we spoke with individuals at the Department and MPHEC, we were told they find the financial statements difficult to interpret and compare.

***Review of university and MCFT financial statements showed key differences between institutions***

**2.41** We reviewed the audited financial statements of all four publicly funded universities and MCFT for the year ended April 30, 2018. Our purpose was to assess consistency of financial reporting between the publicly funded institutions. Our findings are summarized in Exhibit 2.9.

Exhibit 2.9 - Summary of comparison of components of April 30, 2018 financial statements of four public universities and MCFT

<b>Summary of comparison of components of April 30, 2018 financial statements of all four public universities and MCFT</b>					
<b>Area compared</b>	<b>University of New Brunswick</b>	<b>Université de Moncton</b>	<b>Mount Allison University</b>	<b>St. Thomas University</b>	<b>Maritime College of Forest Technology</b>
Audited financial statements had unqualified opinion?	Yes	Yes	Yes	Yes	Yes
Audited financial statements included Statement of:					
1. Financial Position	Yes	Yes	Yes	Yes	Yes <sup>2</sup>
2. Operations	Yes	Yes	Yes	Yes	Yes
3. Changes in Net Assets	Yes	Yes	Yes	Yes <sup>1</sup>	Yes
4. Cash Flows	Yes	Yes	Yes	Yes	Yes
Total value of Net Assets	\$ 307.9 M	\$ 47.3 M	\$ 237.2 M	\$ 41.1 M	\$1.4 M
Largest net asset category	\$ 169.0 M endowment	\$ 80.3 M endowment	\$ 177.8 M endowment	\$ 25.9 M capital assets	\$ 0.86 M capital assets
Balance of unrestricted net assets (deficiency)	(\$ 6.6 M)	(\$ 67.7 M)	(\$ 6,200)	\$ 249,177	\$ 323,414
Type of pension plan	Shared risk	Defined benefit	Defined benefit (non academic) Defined contribution (academic)	Defined contribution	Shared risk <sup>3</sup>
Types of Revenues					
PNB Grant	\$ 121.0 M	\$ 80.1 M	\$ 22.6 M	\$ 14.2 M	\$ 2.1 M
Federal Grant	-	14.6 M	3.3 M	-	-
Student fees	79.2 M	29.0 M	29.7 M	17.7 M	1.1 M
Research grants	45.8 M	-	-	-	-
Investment income	8.9 M	4.1 M	7.4 M	0.2 M	-
Ancillaries	16.8 M	8.8 M	2.4 M	0.2 M	0.7 M
Donations	8.9 M	1.1 M	2.1 M	1.5 M	-
Other	<u>25.0 M</u>	<u>18.7 M</u>	<u>5.8 M</u>	<u>1.9 M</u>	<u>0.5 M</u>
Total Revenue	<u>\$ 305.6 M</u>	<u>\$ 156.4 M</u>	<u>\$ 73.3 M</u>	<u>\$ 35.7 M</u>	<u>\$ 4.4 M</u>
Total expenses <sup>4</sup>	\$ 308.5 M	\$ 147.3 M	\$ 70.9 M	\$ 39.5 M	\$ 4.1 M
Excess (deficiency) or revenues over expenses	(\$ 2.9 M)	\$ 9.0 M	\$ 2.4 M	(\$ 3.7 M)	\$121,575

Exhibit 2.9 - Summary of comparison of components of April 30, 2018 of four publicly funded universities and MCFT (continued)

<b>Summary of comparison of components of April 30, 2018 financial statements of all four public universities and MCFT</b>					
<b>Area compared</b>	<b>University of New Brunswick</b>	<b>Université de Moncton</b>	<b>Mount Allison University</b>	<b>St. Thomas University</b>	<b>Maritime College of Forest Technology</b>
Percentage of revenue from PNB	39.6%	51.2%	30.8%	39.7%	47.8%
Percentage of revenue from tuition and student fees	25.9%	18.5%	40.6%	49.4%	25.2%
Cash balance at April 30, 2018	\$ 57.2 M	\$ 19.1 M	\$ 6.2 M	\$ 0	\$ 0.7 M
Investments at April 30, 2018	\$ 364.5 M	\$ 95.1 M	\$ 188 M	\$ 21.7 M	\$ 0

<sup>1</sup> Statement of Changes in Fund Balances

<sup>2</sup> Statement of Net Assets

<sup>3</sup> This information was not provided in the financial statements

<sup>4</sup> Expenses presented in total only due to varying presentations by the institutions which did not allow a meaningful comparison

Source: Chart prepared by AGNB based on information included in the audited financial statements for the year ended April 30, 2018

**2.42** Exhibit 2.9 shows there are significant variances in the value of net assets, from over \$300 million at UNB to \$41 million at STU. We were also surprised to see the differences in pension plans amongst the institutions, as these can vary in costs for the non-profit institutions. For example, UdeM and MTA (non academic) have defined benefit pension plans while others have defined contribution or shared risk plans.

***MCFT was not transparent***

**2.43** We reviewed MCFT's website and found it is not transparent with its financial information. There were no financial statements available online, and it does not produce an annual report. We were told the institution plans to produce an annual report in 2019/20.

***Recommendation***

**2.44** We recommend the Department require MCFT make available online its current and past (five years minimum) audited financial statements, as well as an annual report of its activities, to ensure it is publicly accountable for the funding it receives from the Province.

## More Monitoring Needed

***Department has “hands-off” approach to university funding of \$2 billion over the past decade***

**2.45** When asked about its approach to monitoring the use of funding to universities, we were told the Department takes a hands-off approach on the use of the operating grant provided to universities referred to as “unrestricted grant” by PETL. We were surprised at the lack of monitoring given the significant amount this funding represents. As shown in Exhibit 2.13, over \$210 million was provided in operating grants<sup>4</sup> to universities in 2017/18; it represents over 90% of total operating assistance to NB’s four public universities. Over the past decade<sup>5</sup>, the four public universities received operating grants totalling over \$2 billion, with no direct oversight by the Department.

***Operating grant has restrictions on use***

**2.46** When we reviewed MPHEC’s Unrestricted Operating Assistance Policy, we noted there are indeed restrictions on use of the grant. As per the policy, the “*Unrestricted Operating Assistance is provided for activities related to the delivery of approved programmes of instruction. These activities include teaching, research, laboratory, maintenance and administrative activities and, generally, do not include the support of services provided on a cost recovery basis such as residences and bookstores, scholarships, intercollegiate athletics, contract research, or the purchase of capital assets*<sup>6</sup>.” It is our understanding that the policy is MPHEC’s but is used exclusively by the Department.

***Department did not communicate the restrictions on the use of the operating grant to universities***

**2.47** When we reviewed the funding letters issued by the Department to the three universities who signed the MOU in 2017/18, we noted there was no mention of the restrictions on the use of funding in the letter. There was no letter issued to STU during that year as it had not signed the MOU, so we were unable to determine if the restrictions were communicated to STU.

<sup>4</sup> Referred to as “unrestricted operating grant” by PETL

<sup>5</sup> Period of 2008/09 to 2017/18

<sup>6</sup> *Implementation of the Maritime Provinces Higher Education Commission’s Unrestricted Operating Assistance Policy for Universities in the Province of New Brunswick*, MPHEC, July 2007

*Restrictions include capital assets, but some universities have used operating income for capital asset investments*

**2.48** When we reviewed the audited financial statements of the four universities for the year 2017/18 and earlier, we found indications that some universities had transferred funds (between \$1.1 million and \$4.4 million) from operating funds to capital funds. In some cases, it was difficult to distinguish the purpose or source of the fund given the description provided in the financial statement.

*Department does not require any reporting from universities on use of over \$210 million in operating funds in 2017/18*

**2.49** We found the Department does not require any reports from the universities on the use of over \$210 million in operating funds in 2017/18. Though the universities' operating funds are not solely made up of funding from the Province, it is nonetheless an important component of university funding. As shown in Exhibit 2.4, provincial funding represented between 31% and 51% of total university revenue in 2017/18. In our opinion, given the operating grant is not supposed to be used for the purchase of capital assets, its transfer from an operating fund to a capital fund for the purpose of investing in capital assets would be inappropriate.

*Recommendations*

**2.50** We recommend the Department communicate the restrictions on the use of funding in the annual funding letter to universities.

**2.51** We recommend the Department obtain assurances from the universities that the restrictions or conditions on the use of unrestricted funds have been complied with. For example, this could be achieved by requiring a certification from the head of the institution and a senior financial representative or by requesting a compliance opinion from the universities' auditors.

*Review of funding provided for expansion of nursing program*

**2.52** During our testing, we also reviewed several other funding agreements and the Department's monitoring of funded activities. For the most part, we found few issues with the exception of the agreement for the expansion of the nursing program and the related funding provided to Université de Moncton (UdeM) and University of New Brunswick (UNB).

**2.53** The objective of this program was to increase the number of Bachelor of Nursing and Masters of Nursing seats at UdeM and UNB. The agreements provided funding for a target number of new seats, in addition to

funding clinical<sup>7</sup> training for pre-existing seats. The Department included funding clawbacks in the agreements when the target number of seats was not achieved.

***Clawback calculation differed in previous agreements***

**2.54** From 2005-06 to 2009-10, any funding for seats that had not been filled was deducted from the next academic year's funding. However, for the period of 2011-12 to 2016-17, the agreements with the two universities differed. When targets weren't met, UNB's agreement clawback was 50% of the amount for new seats and the entire amount (clinical) for existing seats, rather than 100% of both as had previously been the case. UdeM did not benefit from this change.

***Clawback calculation in 2017/18 was same for both universities***

**2.55** In the 2017-18 agreement, the clawback calculation and percentage was the same for both universities:

- Funding (clinical training) for pre-existing seats in Bachelor program is clawed back at 100% when target is not met;
- Funding for new seats in Bachelor program is clawed back at 50% when target is not met; and
- Funding for new seats in Masters program is clawed back at 100% when target is not met.

**2.56** Despite the multiple agreements to expand the nursing program over the years, beginning in 2005/06, the targeted increase in the number of seats in the nursing programs remained consistent, as shown in Exhibit 2.10. The agreement expired at the end of 2018/19.

***Funding for nursing program was provided in accordance with agreement and clawback was calculated correctly in 2017/18***

**2.57** We found that funding was provided in accordance with the agreement for 2017/18 (our test year) and the clawback was calculated correctly. Clawbacks are calculated and deducted from the following year's payment when the targeted number of seats is not met. There is a 2-year delay between payment and clawback for a particular year. We question why a 2-year delay is necessary given the enrolment numbers should be known much sooner.

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<sup>7</sup> Clinical training refers to practical experience and instruction in providing care to patients in a health care institution.

***Recommendation***

**2.58 To achieve better performance on desired outcomes, we recommend the Department provide funding for program expansion, or other agreements, only after desired outcomes or targets have been achieved.**

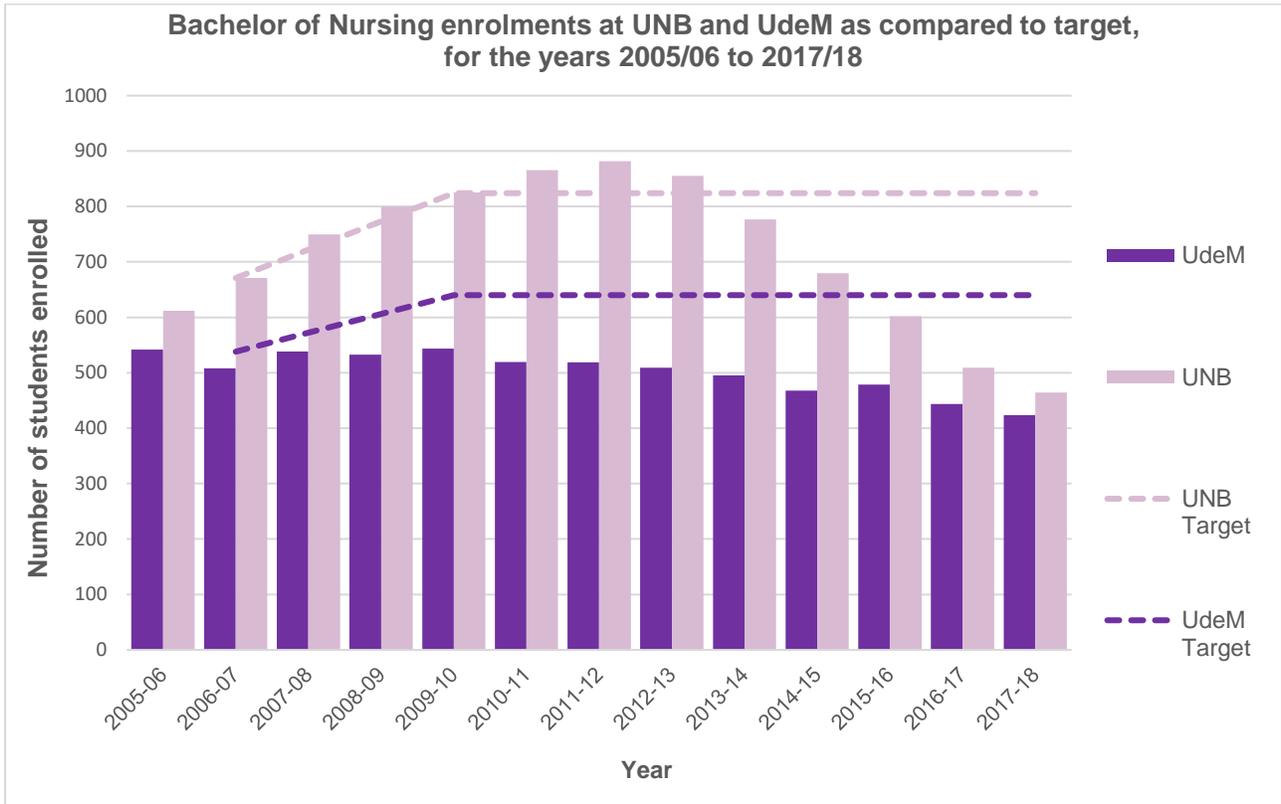
***Province invested close to \$100 million for unsuccessful nursing program expansion***

**2.59** Between 2005/06 and 2018/19, the entire period there were agreements in place with UNB and UdeM for the expansion of the nursing program, the Province paid over \$96 million, net of clawbacks, for the expansion nursing program seats at these institutions. This agreement effectively funded clinical training of existing nursing students but did not achieve the intended expansion of seats.

***Targets for nursing program enrolment at UdeM were never met and UNB did not meet targets in recent years***

**2.60** Despite this program being in place for 14 years, UdeM never met the targeted number of seats for the Bachelor of Nursing program, as shown in Exhibit 2.10. UNB on its part met the targets for several years in the beginning but failed to achieve the desired levels for the past five years, from 2013/14 to 2017/18. In fact, UNB's number of nursing seats decreased by 40% during this period to 464.50, well below its target of 824 seats in Bachelor of Nursing Program. According to the Department, UNB has had a waitlist for nursing program seats for several years.

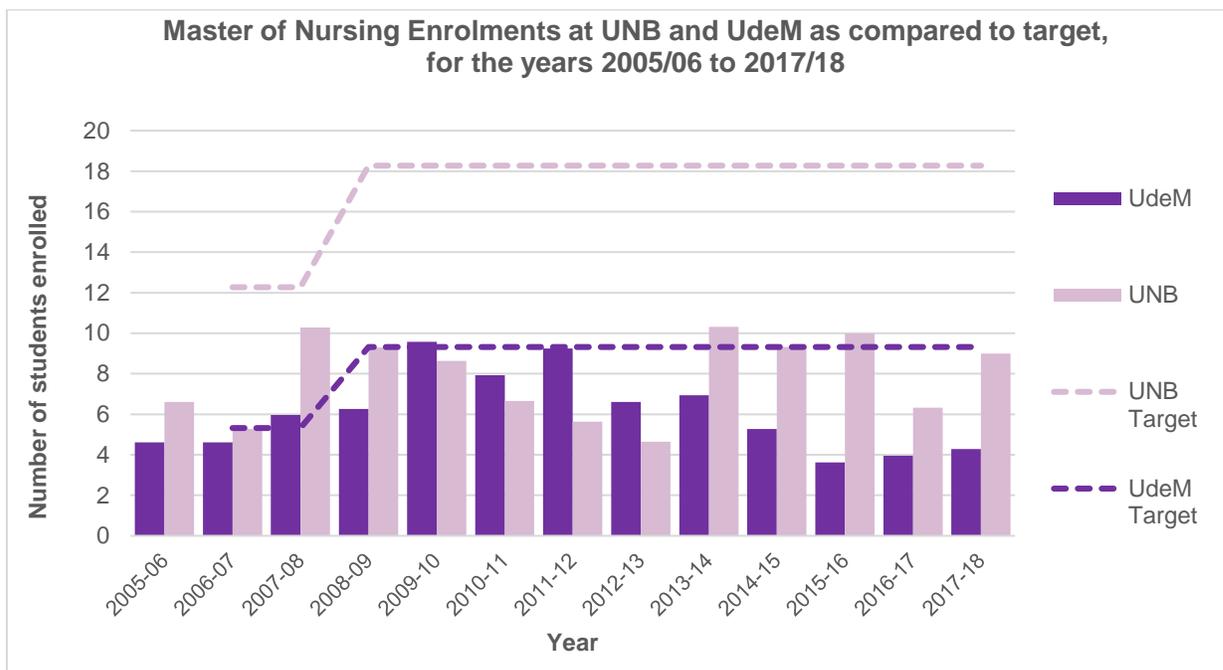
Exhibit 2.10 - Bachelor of Nursing enrolments at UNB and UdeM as compared to target, for the years 2005/06 to 2017/18



Source: Chart prepared by AGNB based on enrolment data provided by MPHEC

**2.61** The Masters of Nursing program expansion was not successful. UdeM met the targeted number of seats on only two occasions during the period we examined, while UNB never met the target, as shown in Exhibit 2.11.

Exhibit 2.11 - Master of Nursing Enrolments at UNB and UdeM as compared to target, for the years 2005/06 to 2017/18



Source: Chart prepared by AGNB based on enrolment data provided by MPHEC

**Department continued to pay despite targets not being met**

**2.62** During the years the nursing expansion program was not successful, the Province paid out close to \$64 million to the universities; \$29.3 million to UNB (for period of 2013/14 to 2018/19) and \$34.6 million to UdeM (for period of 2005/06 to 2018/19). Although the Department attempted to use the clawback as an incentive for the universities to meet the intended targets, it is clear this was not effective. The Department should have identified the reasons for the lack of success and made changes to the program, or cancelled the program earlier, as it was not achieving the intended outcome. Exhibit 2.12 shows the clawback taken from payments to universities for the period of 2013/14 to 2018/19, when both universities were not meeting the targeted number of nursing seats. As a result, this agreement only provided funding for clinical training of existing nursing students, without expanding the number of new seats.

Exhibit 2.12 - Amounts paid to universities for the expansion of the nursing program, 2013/14 to 2018/19

Amounts paid to universities for the expansion of the nursing program, 2013/14 to 2018/19						
Year	Amount received		Amount of clawback		Net amount Received	
	UNB	UdeM	UNB	UdeM	UNB	UdeM
2013/14	\$ 6,010,682	\$ 4,296,024	\$ 342,720	\$ 1,872,099	\$ 5,667,962	\$ 2,423,925
2014/15	6,130,896	4,381,488	349,574	2,300,839	5,781,322	2,080,649
2015/16	6,253,514	4,469,265	665,589	2,552,293	5,587,925	1,916,851
2016/17	6,253,514	4,469,265	1,600,754	2,742,846	4,652,760	1,726,298
2017/18	6,253,514	4,469,144	2,716,106 <sub>1</sub>	1,699,068 <sub>1</sub>	3,537,408	2,770,076
2018/19	6,253,514	4,469,144	2,787,098 <sub>1</sub>	1,662,767 <sub>1</sub>	3,466,416	2,806,377
<b>Total</b>	<b>\$ 37,155,634</b>	<b>\$ 26,554,330</b>	<b>\$ 8,461,841</b>	<b>\$ 12,829,912</b>	<b>\$28,693,793</b>	<b>\$13,724,418</b>

Source: Chart prepared by AGNB based on information provided by the MPHEC

<sub>1</sub> These amounts were invoiced by the Department to the University but had not been collected as at the date of our audit.

***Department did not take corrective action on lack of performance***

**2.63** Overall, we found the Department was monitoring the enrolment associated with the program. As a result, the Department was aware the targeted seats were not being met but did not take corrective action in a timely manner. UdeM and UNB were not achieving their targets for many years yet the Department continued offering the same program. The Department explained the agreement was renewed as an interim measure as new solutions to address the nursing shortage were contemplated.

**2.64** We were also surprised that this program provided funding for clinical training for existing nursing students. If existing funding is not sufficient to meet the needs of a program, the Department must re-examine how it distributes funding to universities. This issue is addressed in a recommendation in the next section of this chapter, concerning the weighting of programs in the funding formula.

***Recommendation***

**2.65** We recommend the Department take corrective action in a timely manner when expected performance targets have not been achieved.

***Review of funding provided in “restricted” operating grant***

**2.66** Restricted operating assistance is provided by the Province to universities to “ensure minimum levels of expenditure are devoted to maintaining physical facilities

and acquiring equipment and library volumes<sup>8</sup>.” In recent years, the overall budget for restricted operating assistance for universities and MCFT has been about \$9.6 million annually.

*Restricted assistance policy allows a 1-year carry-forward of unspent restricted operating grant*

**2.67** Universities only receive funds from the restricted operating grant once expenditures have been made. To be reimbursed for costs incurred, universities must provide a certified statement of expenditures to MPHEC. According to the policy, any unspent monies can be carried forward, in MPHEC’s accounts, for a maximum of one fiscal year past the year to which the allotment relates.

*One university had carry-forwards from over 5 years on restricted operating grant*

**2.68** We reviewed a sample of expenditures under this policy during 2017/18. We found expenditures claimed by one university in 2017/18 dated back to projects in 2012/13, even though the policy only allows a 1-year carry forward of unused funds. According to MPHEC, challenges to completing major projects on time had caused delays and carry forwards of over \$7.5 million at 31 March 2018. However, MPHEC has also indicated that recent claims in spring 2019 have cleared a backlog of claims related to projects from 2016/17 and older. This is a marked improvement.

*Recommendation*

**2.69** We recommend the policy for restricted operating grants be followed, or the Department reconsider the appropriateness of the 1-year carry forward limit and amend the policy accordingly.

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<sup>8</sup> *Maritime Provinces Higher Education Commission Restricted Operating Assistance Policy*, MPHEC, April 1, 1996

## Funding Formula Not Used for Several Years

***In 2017/18, over \$230 million in funding was provided to universities***

**2.70** The Province provides operating grants to universities through the Maritime Provinces Higher Education Commission (MPHEC). MPHEC uses a funding formula, developed in 1979, for the allocation of the operating grant<sup>9</sup> to the universities. The operating grant to universities was close to \$ 211 million in 2017/18. Exhibit 2.13 lists the total departmental funding to universities and MCFT in 2017/18.

*Exhibit 2.13 - Total funding to universities and Maritime College of Forest Technology in 2017/18 (rounded)*

Total funding to universities and MCFT in 2017/18 (rounded)						
	University of New Brunswick	Université de Moncton	Mount Allison University	St. Thomas University	Maritime College of Forest Technology	Total
Unrestricted operating grant	\$ 113,083,700	\$ 64,987,000	\$ 20,537,100	\$ 12,180,200	\$ 2,090,400	<b>\$ 212,878,400</b>
Restricted operating grant (1)	4,838,100	2,391,000	984,700	259,500	126,100	<b>8,599,400</b>
Program expansion: medical, nursing and other	1,905,500	7,179,500	215,600	-	-	<b>9,300,600</b>
Provincial contribution to Official Languages in Education (2)	-	2,500,000	-	-	-	<b>2,500,000</b>
Ancillary Projects	675,800	846,200	-	-	-	<b>1,522,000</b>
<b>Total</b>	<b>\$ 120,503,100</b>	<b>\$ 77,903,700</b>	<b>\$ 21,737,400</b>	<b>\$ 12,439,700</b>	<b>\$ 2,216,500</b>	<b>\$ 234,800,400</b>

Source: Chart prepared by AGNB based on information provided by MPHEC financial statements for the year ended March 31, 2018

- (1) The restricted operating grant is for the maintenance of physical facilities and acquiring equipment and library volumes.
- (2) The Université de Moncton received \$2.5 million in funding for its role as a French language university.

<sup>9</sup> Referred to as the “unrestricted operating grant” by PETL

**2.71** The operating grant to universities is for activities related to educational programs, and includes teaching, research, laboratory, maintenance and administrative activities. The assistance is not to be used for the support of services provided on a cost recovery basis such as residences and bookstores, scholarships, intercollegiate athletics, contract research, or the purchase of capital assets.<sup>10</sup>

***Funding formula  
designed for objective  
allocation of funds***

**2.72** The funding formula is important because it emphasizes funding stability and is intended to provide an objective allocation of funds to the four universities. The provincial grant is a significant component of university funding. As such, the funding formula plays an important role in ensuring a fair and consistent allocation of the available funds to the universities. When the formula isn't used, factors such as enrolment and the types of programs offered are not considered in the allocation of funds.

***How the funding  
formula works***

**2.73** When using the funding formula, the calculation of the amount of operating grant provided to universities starts with the budgeted amount allotted by PETL, as per Main Estimates. This amount is divided into two portions: 75% for the flat grant and 25% for the enrolment grant.

**2.74** The overall flat grant amount for the current year is compared to prior year amount to determine the percentage increase or decrease in the total flat grant amount. This percentage is then applied to each institution's prior year flat grant amount to determine the current year flat grant value.

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<sup>10</sup> *Implementation of the Maritime Provinces Higher Education Commission's Unrestricted Operating Assistance Policy for Universities in the Province of New Brunswick, MPHEC, July 2007*

**2.75** In addition to the flat grant, the Université de Moncton also receives a supplementary grant in compensation for additional costs incurred in maintaining a French language institution. This amount is determined by multiplying the prior year amount by the percentage increase or decrease in the flat grant as described earlier.

**2.76** The enrolment grant is calculated by taking the total enrolment grant amount and dividing it by the total number of weighted full-time equivalents (WFTE) for all four universities. This gives the unit grant per WFTE. The WFTE is the average full-time enrolment (excluding international undergraduate students) of the previous three years. A 3-year average is used to smooth any sharp fluctuations in enrolment. Each student is assigned a weight depending on the program they are enrolled in. This weighting reflects that some programs have higher costs than others. These higher costs programs are assigned a higher “weight” than other programs. For example:

- an arts student is assigned a weight of 1.5;
- a business student is assigned a weight of 2.0;
- a computer science student is assigned a weight of 3.0;
- a nursing or law student is assigned a weight of 4.0;
- a student enrolled in medicine is assigned a weight of 12.0.

**2.77** The WFTE per institution is multiplied by the unit grant to calculate its enrolment grant.

**2.78** In addition, there are inter-institutional transfers between UNB and STU because of shared services between the institutions. These amounts are based on agreements between the two institutions and adjusted annually by the same percentage as the flat grant.

**2.79** The Maritime College of Forest Technology is not included in the funding formula. The annual allocation to the college is determined independently of the funding

formula by the Province<sup>11</sup>, following a budget approval process. In general, if the Province provides an increase or freeze in funding to universities, the MCFT will receive the same percentage increase or freeze in funding. As shown in Exhibit 2.9, funding from the Department is the largest component of MCFT's revenue, at 48% in 2017/18, followed by student fees which made up 25% of its revenue. We reviewed the budget approval process used for MCFT. We found it was detailed and thorough given the amount of funding provided to MCFT, approximately \$2.2 million in 2017/18.

***Funding provided to universities in 2017/18 was not allocated based on the funding formula established in 1979***

**2.80** Funding provided to universities in 2017/18 was not allocated based on the funding formula because the formula has been frozen since 2015/16. Instead, universities received a 1% increase in funding based on the amount received in 2016/17, as per a Memorandum of Understanding (MOU) between the Province and three of the four universities for the period of 2017/18 to 2020/21<sup>12</sup>. This equates to a flat grant and does not take into account enrolment.

**2.81** The MOU also provides additional annual increases to the operating grant of 1% in 2018/19 and 2019/20, followed by a 2% increase in 2020/21, in addition to new funding of \$2.2 million for pilot projects to be allocated to the universities. The MOU between the Province and the University of New Brunswick, Mount Allison University and Université de Moncton was intended to “ensure predictable funding through a four-year funding commitment.”

**2.82** According to the Department, government chose to freeze the funding formula to ensure all universities were treated equally in terms of year-over-year funding, with all receiving 1% increase in 2017/18, 2018/19 and 2019/20. Had the formula not been frozen, some universities would have received more than 1% and some would have

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<sup>11</sup> *Implementation of the Maritime Provinces Higher Education Commission's Unrestricted Operating Assistance Policy for Universities in the Province of New Brunswick*, MPHEC, July 2007

<sup>12</sup> St. Thomas University had not signed the MOU in 2017/18, the period we examined. In July 2019, we were informed St. Thomas University had agreed to sign the MOU.

received less than 1% due to the enrolment grant portion of the formula.

***Amounts paid in 2017/18 were in accordance with recent MOU and agreements***

**2.83** We reviewed the amounts paid to the universities and the MCFT in 2017/18 and found the amounts were in accordance with the various funding agreements. We also noted the MOUs with the three signing universities were consistent in content.

***St. Thomas University did not sign the funding MOU until July 2019, while other universities signed in early 2018***

**2.84** Because it didn't sign onto the MOU in 2017/18, St. Thomas University received the same amount of funding it received in 2016/17 without the 1% annual increase and had no access to pilot project funding<sup>13</sup>. In a 2018 memorandum to faculty and staff, STU's President and Vice-Chancellor stated "*St. Thomas University and our students are underfunded when compared to other publicly funded universities. (...) This is a public policy issue of simple fairness and equity. Given its importance, our Board of Governors has directed we not sign any agreement with the Provincial Government unless there is progress to correct the inequity in the grant.*"<sup>14</sup> In late July 2019, the university agreed to sign the MOU; as a result, the operating fund increases will be made retroactively for 2017/18 to 2019/20.

***Use of funding formula would disadvantage some universities***

**2.85** According to the Department, when the use of the funding formula to allocate funding will cause a decrease in funding to one or more universities, the Department will elect to freeze the formula to avoid causing financial strain to the universities. This usually occurs when there has been a decrease in enrolment, which negatively affects the enrolment portion of the unrestricted operating grant.

***MOU froze funding formula***

**2.86** We have been told by the Department that the funding formula will be used in 2020/21 to allocate funding for that year. When asked about the approval of the decision to freeze the funding formula, we were told the MOU, as signed by the Minister, is the supporting document with

<sup>13</sup> A total of \$2.2 million was available for pilot projects to increase enrolment and to create research and development opportunities.

<sup>14</sup> *Internal Memorandum from Dawn Russell, President and Vice-Chancellor to Faculty and Staff of St. Thomas University, January 26, 2018*

respect to the funding formula freeze. Per our review of the MOU, its contents did not mention the method to allocate funds or the fact the funding formula will be frozen for 3 of 4 years of the MOU. However, we did note the funding letters sent to the universities in March 2018 did state “as set out in the MOU, the university funding formula will be frozen until 2020-2021”. In addition, the MOU signed by STU in July 2019 states the following in the appendix:

*Funding formula will not be used between 2017-18 and 2019-20. The funding formula will be applied starting in 2020-21.*

***Funding formula should be revisited to ensure it continues to be relevant***

**2.87** From our review, there are indications the funding formula, or its components, should be re-examined by the Department:

- Funding formula has been frozen since 2015/16 as, according to the Department, its application could have caused financial hardship to some universities;
- St. Thomas University’s reluctance to sign the funding MOU until July 2019 and its challenge that it is not properly funded;
- Operational differences between universities that affect costs, such as pension plans;
- Since 2010, appropriations of \$2 to \$3 million per year have been required for Université de Moncton for its role as a French language university, in addition to its operating grant amount;
- Continuing decrease in enrolment due to demographics will continue to affect university enrolment and future sustainability of the province’s universities.

***Recommendation***

**2.88** **We recommend the Department, in consultation with the universities, re-examine the relevance of the current funding formula and its components, such as the weighting of the various programs, to ensure it continues to be the most suitable choice to allocate funding to universities and to motivate the achievement of funding objectives.**

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## Appendix I – About the Audit

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This independent assurance report was prepared by the Office of the Auditor General of New Brunswick on Funding to Universities and Maritime College of Forest Technology. Our responsibility was to provide objective information, advice, and assurance to assist the Legislative Assembly in its scrutiny of Funding to Universities and Maritime College of Forest Technology.

All work in this audit was performed to a reasonable level of assurance in accordance with the Canadian Standard on Assurance Engagements (CSAE) 3001 – Direct Engagements set out by the Chartered Professional Accountants of Canada (CPA Canada) in the CPA Canada Handbook – Assurance.

AGNB applies Canadian Standard on Quality Control 1 and, accordingly, maintains a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

In conducting the audit work, we have complied with the independence and other ethical requirements of the Rules of Professional Conduct of Chartered Professional Accountants of New Brunswick and the Code Professional Conduct of the Office of the Auditor General of New Brunswick. Both the Rules of Professional Conduct and the Code are founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour.

In accordance with our regular audit process, we obtained the following from management:

- confirmation of management’s responsibility for the subject under audit;
- acknowledgement of the suitability of the criteria used in the audit;
- confirmation that all known information that has been requested, or that could affect the findings or audit conclusion, has been provided; and
- confirmation that the findings in this report are factually based.

### **Period covered by the audit:**

The audit covered the period between April 1, 2017 and March 31, 2018. This is the period to which the audit conclusion applies. However, to gain a more complete understanding of the subject matter of the audit, we also examined certain matters that preceded the starting date of the audit period.

### **Date of the report:**

We obtained sufficient and appropriate audit evidence on which to base our conclusion on November 5, 2019 in Fredericton, New Brunswick.

## **Appendix II – Audit Objective and Criteria**

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The objective and criteria for our audit of Funding to Universities and the Maritime College of Forest Technology is presented below. The senior management of the Department of Post-Secondary Education, Training and Labour reviewed and agreed with the objective and associated criteria.

Objective	To determine if the Department of Post-Secondary Education, Training and Labour: <ul style="list-style-type: none"> <li>• Provides funding to universities and the Maritime College of Forest Technology in accordance with policies and agreements;</li> <li>• Monitors the use of provincial funds by universities and the Maritime College of Forest Technology to ensure funds are being spent in accordance with provincial requirements and outcomes; and</li> <li>• Holds universities and the Maritime College of Forest Technology accountable for the funds received.</li> </ul>
Criterion 1	Funding to universities and the Maritime College of Forest Technology should be allocated in accordance with the MOU or relevant agreement.
Criterion 2	Funding to universities and the Maritime College of Forest Technology should be allocated in accordance with the funding formula.
Criterion 3	Department should monitor universities and the Maritime College of Forest Technology to ensure the funding is used in accordance with the applicable agreement and/or funding policy.
Criterion 4	Department should monitor universities and the Maritime College of Forest Technology to ensure funding granted is achieving provincial goals.
Criterion 5	Agreements for funding of universities and the Maritime College of Forest Technology should include accountability mechanisms to ensure universities are accountable for the funding received.
Criterion 6	Department should enforce the accountability mechanisms included in funding agreements.
Criterion 7	Department should publicly report on the funding provided to universities and the Maritime College of Forest Technology.

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**Source of criteria:** Criteria were developed by AGNB using information collected during scoping and planning.

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