



Financial Management in Ontario Universities

2022 Value-for-Money Audit

Why we did this audit

- To assess whether any of the operational, financial or oversight issues that contributed to Laurentian University's financial decline may be affecting other comparable Ontario universities.
- The universities selected for this audit were Algoma University, Nipissing University, Ontario Tech University and the University of Windsor. These universities were selected because they all performed below the 2020/21 provincial average in four of seven financial health indicators established by the Ministry of Colleges and Universities and they are all small to medium-sized institutions for comparative purposes.

Why it matters

- The four universities audited, offer undergraduate and graduate degrees to about 32,400 students in a wide variety of fields, and employ about 1,240 full-time faculty members and academic support staff. Collectively, they receive about \$220 million in provincial funding each year.

What we found

Ministry Lacks Clear Strategy and Long-Term Vision for the Post-Secondary Sector

- The impact of the reduction and freeze on domestic tuition in Ontario has resulted in universities increasing their focus on revenue from international students for their sustainability and competition with one another. This competition is evident in the opening of additional campuses outside a university's main area of operation. For example, Algoma University, located in Sault Ste. Marie, has a campus in Brampton.
- Some colleges offer degree programs and some universities offer certificate programs to generate more revenue; over time the originally intended purposes of Ontario's post-secondary institutions have blurred and now overlap, creating confusion in differentiating between these two types of institutions.
- The Ministry does not have the legislative authority to intervene in the operation of publicly funded universities even if it is aware of an institution's worsening financial condition, and does not have financial conditions in its funding agreements with universities.

RECOMMENDATION 16-21

Practices Important for Maintaining Financial Sustainability Not Followed

- Each of the four universities had an accumulated surplus at the end of 2020/21. However, Nipissing experienced deficits in four of five fiscal years from 2016/17 – 2020/21, causing it to draw down its net assets by \$9.4 million. During the same period, two other universities, Ontario Tech and Windsor, experienced deficits in 2019/20. Only Algoma had surpluses each year.
- Neither Ontario Tech University nor the University of Windsor had formal debt management policies, despite having the highest and third-highest debt to student ratio, respectively, among 19 Ontario universities. Nipissing University and Algoma University established debt policies in 2021, but limits would have been exceeded prior to 2020/21 if the new debt policies were applied retroactively.
- Only two universities reviewed or monitored the profitability of the ancillary services they provided. Algoma and Nipissing did not do this.

- All four universities managed and maintained endowment funds and externally restricted funds using separate ledgers, but Algoma, Nipissing, and Windsor commingled the funds with cash from operations.
- Only two universities prepared a separate capital budget and presented it to the Board. Nipissing and Ontario Tech did not do this.
- Only one of the universities prepared and presented to its Board the impact of the university's projected cash flows from operations, financing and capital purchasing activities to inform the Board of the extent to which each contributes to or draws on the university's resources.

RECOMMENDATION 5-7

Increased Reliance on International Students Despite Inherent Risk

- The impact of the reduction and tuition freeze on domestic tuition in Ontario has resulted in universities increasing their focus on revenue from international student tuition.
- Rapidly increasing international enrolment raises the risk of a steep drop in revenues should political or socio-economic changes occur, particularly when those students come from few geographic regions. In 2021/22, the geographic composition of international students for the four universities was significantly reliant on India, representing 85% of international students at Algoma University and about 60% of international students at the University of Windsor.
- None of the universities had data or information on international students after graduation to see if they remained in their region and contributed to the economy.
- All four universities compensated international student recruiters based upon a percentage of the base tuition and/or through fixed fees. This compensation structure may incentivize agents to push for quantity, with students satisfying only minimum admission requirements, but may be missing an opportunity to apply contractual incentives to motivate recruiting agents to not only meet but exceed admission requirements in their pursuit of prospects.

RECOMMENDATION 4-7

Academic Offerings Seldom Adjusted When Programs Unprofitable

- Universities performed analyses of financial contributions from their faculties, but none completed an analysis of academic profitability at the program or course level.
- We found that Nipissing was losing money overall on its academic programming prior to the pandemic, but had not adjusted its program offerings.

RECOMMENDATION 8

Financial Feasibility of Major Capital Projects Not Always Assessed Before Proceeding with Them

- Many major capital projects undertaken between 2016/17 and 2021/22, did not include comprehensive business cases presented to the universities' respective Boards to help them determine whether the projects warranted the financial investment.

RECOMMENDATION 9

Board Governance Not Aligned with Best Practices in Some Areas

- Universities' Board size, composition and term limits are not aligned with best practices.
- Members of the universities' Boards did not possess sufficient competencies in some critical areas to provide effective governance.
- University Boards were not adequately conducting succession planning for the position of president.
- Key internal oversight functions for effective governance, such as risk management and compliance and internal audit, were absent.

RECOMMENDATION 10-14

Conclusions

- Ontario universities have faced several challenges over the past five years, including a Province-imposed 10% tuition reduction and freeze beginning in 2019, and disruptions from the COVID-19 pandemic.
- Only one, Algoma, had a consistent annual surplus for the five years from 2016/17 to 2020/21, but all four universities had positive net assets as of the end of the 2020/21 fiscal year. Although the universities were in a positive financial position at the time of our audit, if left unaddressed, weaknesses in universities' financial management practices could put the future financial sustainability of the universities at risk. These include:
 - not establishing or adhering to policies limiting external borrowing and debt servicing costs, despite carrying significant long-term debt;
 - not preparing budgets and cash flows that are complete and accurate to control spending and make better financial decisions;
 - not analyzing the profitability of academic programming and adjusting offerings where appropriate to improve financial sustainability; and
 - failing to assess the financial feasibility of major capital projects before proceeding with them.
- The impact of the domestic student tuition reduction and freeze in Ontario has resulted in universities increasing their focus on international student tuition. In most cases, enrolment is dependent on students from one or two countries. Over-reliance on a few countries increases the risk that external factors, such as a global economic downturn or foreign policy shift, could significantly impact a university's financial health if enrolment from these countries drops.
- The effectiveness of governance practices at the universities could also be improved as the Boards are too large, requiring authority for decision-making to be granted to executive committees, rather than the Board as a whole. Members of the Board also did not possess critical competencies required to provide effective governance.
- The Ministry has not established a formal process that fully utilizes information that it collects on the financial health indicators to monitor the financial condition of universities each year. The Ministry also does not have the legislated authority to intervene in the operation of publicly assisted universities, even if it is aware of a university's poor or worsening financial condition.

Read the report at www.auditor.on.ca