

For-profit and Cost Recovery Ventures at Post-secondary Institutions

Advanced Education

Report of the Auditor General
March 2024

**Assessment of
Implementation Report**

**Auditor
General**
OF ALBERTA

The logo for the Auditor General of Alberta, featuring a stylized orange and white graphic element resembling a corner or a bracket.

Outstanding Recommendations

Assessment of Implementation Report

For-profit and Cost Recovery Ventures at Post-secondary Institutions

Advanced Education

(October 2015)

Summary of Recommendations

We completed our assessment of implementation of the recommendations from our October 2015 audit of *For-profit and Cost Recovery Ventures at Post-secondary Institutions*. We found that the department implemented one of two recommendations.

IMPLEMENTED Recommendation:

Document and communicate expectations and guidelines

REPEATED Recommendation:

Improve department's oversight of institutions' risk assessment of ventures

Introduction

Alberta's public post-secondary institutions use for-profit and cost recovery ventures to generate revenue in addition to traditional sources like government grants and student tuition. Examples of these self-generating revenue ventures include bookstores, hotels, and trusts to lease land to developers for residential and commercial developments. These ventures accounted for \$481 million¹ of institutions' total revenue in 2022.

Institutions' boards of governors and management manage the unique financial, reputational, legal, and operational risks that come from the operation of these ventures. Ventures require management and oversight expertise distinct from that typically required for a publicly funded post-secondary institution.

¹ Provided by the department from its financial information reporting system.

Ineffective risk management could increase the likelihood of both financial loss requiring additional taxpayer money and reputational damage of perceived undesirable ventures.

The department is responsible for setting expectations and providing high level oversight to all institutions on proposed and existing ventures. The department must ensure institutions balance increased risk with the expected benefits of these ventures.

In 2015, we audited whether the department had developed and communicated:

- expectations and guidelines on these ventures
- well-designed systems to oversee the quality of board oversight for the accountability for venture results

Our audit found that the department did not have adequate systems to oversee the unique risks that institutions take on when they generate revenue from these ventures. As a result, ventures with the intended purpose of reducing an institution's reliance on public funding could, in fact, increase the risk exposure and ultimate cost to Albertans.

We completed our assessment of implementation and found that the department implemented one of our two recommendations.

Recommendation: **Document and communicate expectations and guidelines**

IMPLEMENTED

Context

In 2015,² we found that the department needed to improve its documentation and communication of its expectations and guidelines by:

- documenting its expectations in terms of desired results and risk management for institutions participating in for-profit and cost recovery ventures
- establishing approved guidelines for cost recovery ventures, to support best practices and align with the department's expectation
- updating and approving for-profit venture guidelines, to support best practices and align with the department's expectations
- developing a process to communicate the department's expectations and guidelines to all institutions

² *Report of the Auditor General—October 2015, For-profit and Cost Recovery Ventures at Post-secondary Institutions*, page 25.

Our current findings

The department has implemented our recommendation.

The department issued two new policies to provide clarity and transparency to institutions on risk management and oversight of ventures. The department emailed both policies to institutions and posted them on the department's website.

The self-generated revenue policy for post-secondary institutions categorized ventures based on expected risk exposure:

1. **Auxiliary/ancillary services:** Includes bookstores, parking, food, and other services provided to students, faculty, and staff. Fees charged should fully recover costs with no subsidization by other revenue sources such as government grants.
2. **Academic enterprises:** Includes the selling of by-products from culinary, agricultural, and brewery academic programs. The primary purpose of operations is for students to gain direct practical experience rather than to generate a profit.
3. **Commercial enterprises:** Includes land trusts for real estate development and program delivery in foreign countries. These for-profit ventures are outside an institution's primary mandate.

The policy sets out the expectations, risk analysis, and documentation required for proposed ventures in each category. The policy clarifies institution and department roles and responsibilities. It defines required ongoing results reporting in the institution's annual report and the department's responsibility to monitor institutions' ongoing venture results and risk management. The department has guidelines to help institutions apply the policy. As reported later when examining the department's oversight of institution compliance with the policy, further guideline changes may improve compliance results.

New lower-risk ancillary and academic ventures require approval by the board of the institution. Proposed higher-risk commercial enterprises require ministerial approval and cabinet approval if the venture needs the creation of a corporation.

The long-term borrowing policy and guideline sets out procedural requirements if the institution required borrowing to fund these ventures, including cabinet approval for government loan guarantees.

Recommendation:

Improve department's oversight of institutions' risk assessment of ventures

REPEATED

We again recommend that the Department of Advanced Education improves its oversight processes to ensure that boards of governors oversee management's assessment of the risks associated with for-profit and cost recovery ventures by:

- tailoring board training to examine these ventures
- requiring institutions to comply with the department expectations and guidelines
- requiring institutions to report on venture results on an ongoing basis
- providing effective feedback and ongoing guidance to the boards

Context

In 2015,³ we found that the department needed to improve its oversight processes to ensure that boards of governors oversee management's assessment of the risks associated with for-profit and cost recovery ventures.

We repeat this recommendation as the department has not significantly improved its oversight processes apart from retaining relevant documentation of institutions' risk assessment and policy compliance on new for-profit venture approval requests.

Our current findings

The department examines support for institutions' risk assessment of new for-profit ventures prior to government approval

The department made significant process improvements to gather and retain information on proposed new ventures by institutions.

Two institutions requested approval for new commercial enterprises since the inception of the new policies. The institutions contacted the department for a preliminary review of their support for their new venture before proceeding with an in-depth proposal and request for approval. Each institution submitted:

- a board of governor approved business case using a department template
- documentation of the board's understanding of venture risks and processes used to assess the business case
- identification of outside specialist resources used in the institution's process

The department reviewed the submissions for compliance with the policy. After receiving responses from the institutions to its followup questions, the department forwarded the institutions' requests to the minister and cabinet for approval. Cabinet approved both commercial enterprises with orders in council.

The department stored all relevant documentation electronically. We found the department retained all required documentation except for one instance.

Since 2015, the department updated its subsidiary approval guideline to help institutions apply the new policy. Final guideline approval is still pending.

The department does not monitor if institutions provide board members with venture risk assessment training

The department still does not have board training materials related to ventures. The department provides guidelines⁴ to new board members as an introduction to board governance at institutions. These guidelines make no mention of ventures or the department's policies regarding them. The department does not provide direct training to board members as it expects institutions to deliver on-boarding and training. The department does not monitor board member training nor if any training included guidance on ventures and related risk management.

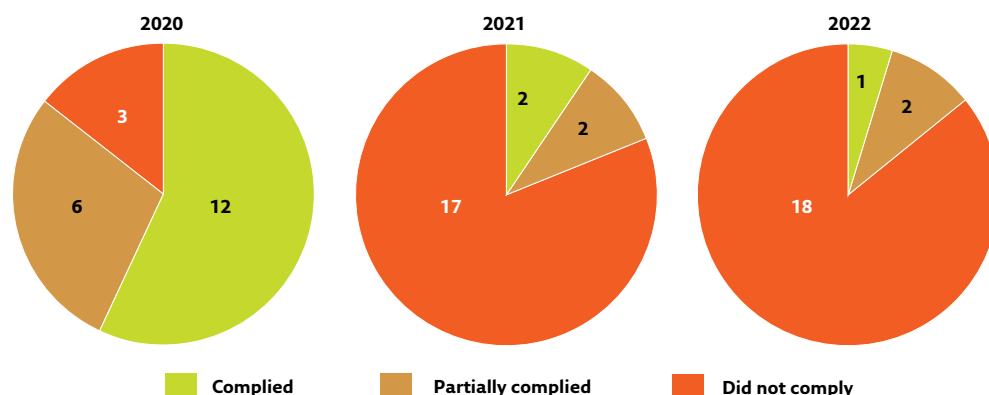
³ *Report of the Auditor General—October 2015, For-profit and Cost Recovery Ventures at Post-secondary Institutions*, page 27.

⁴ <https://open.alberta.ca/dataset/f29724c5-4591-4866-a7db-636a3bc3a229/resource/3b5d7df9-c640-402e-88ed-488d19981a8f/download/ae-guidelines-for-board-of-governors-members-public-post-secondary-institutions-2022.pdf>.

The department's oversight is not identifying institutions' non-compliance with annual reporting of venture operations

The department's self-generated revenue policy requires that an institution's annual report include a list of all its ventures categorized as auxiliary/ancillary services, academic enterprises, and commercial enterprises. It should also include a description of each venture and the venture's revenue and profit or loss for the year.

We examined all public post-secondary institutions' annual reports for the period 2020-2022 for reporting compliance. We observed the following compliance by the 21 institutions:



In 2020:

- twelve institutions provided venture information in their annual report. Ninety-nine ventures were reported in total by these institutions, 43 of those reporting a net operating loss for the year. Eleven of these institutions had at least one venture with a loss, but only three institutions reported an overall net loss for the year from their combined ventures.
- six institutions partially complied, most providing summarized information or only descriptions of ventures. Two of these institutions reported losses totalling \$3 million.
- three institutions, the University of Alberta, University of Calgary, and the Southern Alberta Institute of Technology, did not report any venture information.

In 2021 and 2022, the majority of institutions did not report any venture information in their annual reports.

Only Portage College reported information on its ventures all three years.⁵

The department said it uses institutions' annual reporting to monitor the results of existing ventures, and to get a complete list of all ventures. The department was unable to provide us with any documentation demonstrating it examined institutions' annual reports for compliance with department policy.

The department annually supplies institutions with annual report preparation guidelines. In 2020, the guidelines contained the venture reporting requirements, but these were removed in future years. Management could not explain why guidelines for 2021 and subsequent years did not include guidance on the policy requirements to report on ventures.

⁵ The Office of the Auditor General has not audited the accuracy and completeness of venture information disclosed in the institution's annual reports.

The department's operational financial data guideline specifies venture data that institutions should submit to the department to supplement the annual report. We observed differences in the amounts institutions reported to the department from those reported in the institutions' annual reports. The department could not provide us a reconciliation of these differences, or any documentation that they reviewed the information or followed up with institutions.

By not monitoring institutions' annual reporting on ventures, the department did not identify that institutions are not complying with the reporting requirements of the new policy.

The department has provided little feedback to boards and management on ventures

Other than the department's feedback from its review of one institution's new commercial enterprise business case, the department was unable to provide documentation evidencing that it provides formal feedback to institutions from its oversight of institutions' compliance with its policies.

Consequences of not taking action

Without effective department oversight of whether boards are overseeing that its institution's management has appropriate policies and controls to mitigate risks on these ventures, there is an increased likelihood of unjustifiable exposure and cost to Albertans.

About our Assessment of Implementation Report

Management is responsible for implementing our recommendations. We examine implementation plans and perform procedures to determine whether management has implemented our recommendations when management has asserted they have been implemented. We repeat our recommendations if we do not find evidence they have been implemented. We may also issue new recommendations for matters that come to our attention during our assessment.

Our assessments of implementation are conducted under the authority of the *Auditor General Act*. The Office of the Auditor General applies Canadian Standard on Quality Management 1. Accordingly, we have maintained a comprehensive system of quality control, including documented policies and procedures regarding compliance with applicable professional standards and applicable ethical, legal, and regulatory requirements.

Our office complies with the independence and other ethical requirements of the Chartered Professional Accountants of Alberta Rules of Professional Conduct, which are founded on fundamental principles of integrity and due care, objectivity, professional competence, confidentiality, and professional behaviour.



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