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**Report on the Simon Fraser University Budget  
Review**

**Ministry of Advanced Education**

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**Internal Audit & Advisory Services  
Ministry of Finance**



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## Abbreviations

FAC	Finance and Administration Committee
GAAP	Generally Accepted Accounting Principles
IAAS	Internal Audit and Advisory Services
IAC	Investment Advisory Committee
OAG	Office of the Auditor General
OCG	Office of the Comptroller General
PSAB	Public Sector Accounting Board
AVED	Ministry of Advanced Education
SFU	Simon Fraser University
the Board	Board of Governors
the ministry	Ministry of Advanced Education
YTD	Year-To-Date



# Executive Summary

We have completed our review of Simon Fraser University’s budget development processes. The review included an assessment of financial management and governance over budget assumptions, risk assessment, policies and procedures, budget reporting, and monitoring.

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## Board Governance

The Board’s level of oversight is appropriate and effective for sound fiscal management and governance. The Board is well equipped with established board rules, guidelines, terms of reference and procedures for board committees to facilitate effective oversight and to maintain clear distinctions between governance and management functions.

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## Budget Development

Simon Fraser University (SFU) is a professional organization with an established management control framework to support a thorough and complete budgeting process. The multi-faceted approach taken to develop a complex budget serves the institution well. Sufficient policies and procedures, risk assessment, communication and consultation among accountable stakeholders provides for a robust process in projecting revenues and expenditures. Earlier final budget confirmations by government, however, would better support budget assumptions and strengthen projections given an additional timeline.

SFU has traditionally used an incremental budget approach to fund university operations and initiatives; however, additional goals of financial sustainability, strategic alignment, transparency and localized decision making have necessitated the need for a more strategic revenue based model for implementation in 2011/12. The new model, based upon feedback from various stakeholder groups, is expected to achieve a number of benefits to help advance SFU’s institutional goals such as offering academic programs in areas of strength and strategic importance, increasing the research profile and building financial sustainability.

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## Budget Reporting

SFU has a number of reporting practices to support financial management and governance. The Year to Date Budget to Actual Variance Report is prepared monthly by Finance staff for the Executive and Finance and Administration Committee (subcommittee of the Board) for review and discussion to facilitate a clear and common understanding. In addition, a comprehensive Monthly Financial Review Report provides a wide range of financial information including performance of endowment and non-

endowment funds to apprise the Executive of any risk exposure or emerging issues.

Further, the Board is supplied with an Investment Portfolio Analysis Report and an Enterprise Risk Management Report to support effective oversight.

The Board, Executive and Finance staff regularly monitors the Year to Date Budget to Actual Variance Report. Significant variance explanations are sought and analyzed at the department level and then centrally by Finance staff for a clear understanding prior to presenting to the Board. The information exchange between the Board and management supports a clear and common understanding for taking corrective action that may be required, including short and long term solutions.

In closing, we would like to thank the staff and board members of SFU and ministry staff for their assistance, expertise and co-operation during this review. Their insights were invaluable.

A handwritten signature in black ink, appearing to read 'C. Brown', with a horizontal line underneath.

Chris D. Brown, CA  
Assistant Deputy Minister  
Internal Audit & Advisory Services  
Ministry of Finance

## Introduction

Simon Fraser University (SFU) is a public university serving students from British Columbia, Canada, and the world. SFU is a research intensive, comprehensive post-secondary institution with approximately 24,000 full-time equivalent credit students, over 20,000 enrolments in non-credit courses, and more than 930 instructional and research faculty members.

Every year, the Ministry of Advanced Education (AVED or the ministry) provides the public post-secondary institutions with budget letters that outline the student enrolment targets and operating budget allocations to support targeted programs and priority issues for the coming year. The provincial operating grant for SFU is \$217 million in 2010/11.

SFU manages revenues and expenditures in various funds to ensure proper stewardship and control of resources. The funds are operating, research, endowment, capital, ancillary and specific purpose funds. The Operating Fund includes the unrestricted revenues used for academic program delivery and administration of SFU. The principal revenue sources of the Operating Fund are the provincial operating grant and tuition fees.

The Operating Fund may function at a deficit at intervals throughout the year; however, the budget remains balanced each year due to other revenue sources. Internal Audit & Advisory Services (IAAS) has been requested to review SFU's budget development and monitoring processes to ensure that an operating fund deficit is managed with long-term solutions.

## Purpose

The purpose of this assignment was to review and evaluate financial management and governance including:

- budget policies and procedures; and
- budget forecasting and monitoring of expenditures

for effective financial control and accountability.

## Scope and Objectives

The scope of the engagement included a review of SFU's budget development and monitoring processes. Specifically, we reviewed:

- budget assumptions and risk assessment to determine whether the process was sufficient to reasonably project revenues and expenditures;
- budget development to determine whether policies and procedures were compiled with; and
- budgetary controls to determine whether they were sufficient for measuring variances including:
  - budget calendarization; and
  - budget to actual reporting.
- plans to manage any forecast fund deficits;
- expenditure to budget monitoring to determine whether the Board of Governors and management had sufficient information to effectively review in a timely manner;
- the level of oversight to determine whether it was appropriate and effective; and
- reporting to the ministry to determine whether reports were sufficient for their purposes.

## Comments and Recommendations

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### 1.0 Budget Assumptions and Risk Assessment

**Objective:** To determine whether the budget assumption and risk assessment processes were sufficient to reasonably project revenues and expenditures.

**Conclusion:** The budget assumption and risk assessment processes are sufficient to reasonably project revenues and expenditures. SFU has an effective management control framework to develop annual budgets and forecasts. The government funding letter, however, sets out preliminary funding in the spring with final confirmation in June for current year funding. Moving the final confirmation to late spring of current year would enhance SFU's ability to make firm projections for revenue and expenditures for the next fiscal year.

Further, additional goals of financial sustainability, strategic alignment, transparency and localized decision making have necessitated the development of a new budget model for 2011/12 from an incremental revenue approach to a revenue based strategic approach.

### 1.1 Management Control Framework

SFU's comprehensive management control framework effectively supports the complexities within the budget planning and development process for a university. The framework is sufficiently integrated with accountable parties to bring appropriate rigour to the process. The framework includes the following controls:

- University Planning Framework used as the basis for long-term financial model and annual budget with clear strategic goals and objectives to facilitate budget development.
- Budget Guidelines with clear budget objectives.
- Budget Guiding Principles to provide clarity and guidance in budget decision making.
- Budget Timeline for integrated planning and communication over budget deliverables.
- Integrated Financial Planning and Budget System (user friendly/practical information).

- Clear roles, responsibilities and accountabilities for accountable stakeholders.
- Annual Operating Budget and Financial Plan to detail highlights of the finalized budget.
- Finance subcommittees of the Board of Governors for appropriate focus and accountability.
- Risk Assessments with involvement from Executive and the Audit Committee to ensure objectives are achieved.
- Investment Governance Policy, Investment Management and Operating Procedures, Endowment Management Policy for successful fund management.

SFU's thorough and multi-faceted approach in developing a complex budget serves the institution well.

## 1.2 Revenue Based Budget Model for 2011/12

SFU has traditionally used an incremental budgeting approach to fund university operations and initiatives. However, a more strategic approach to budgeting is being taken to better serve the university going forward. The following changes have been introduced for the 2011/12 budget cycle:

- a systemic methodology to incent revenue growth in areas of strategic importance (i.e. look at enrolment and convert into revenue projects by faculty);
- a Budget Review Committee has been created to annually review and recommend budget adjustments to various portfolios; and
- a University Priority Fund has been created to align resources with strategic initiatives.

The new model, based upon feedback from various stakeholder groups, is expected to achieve the following benefits:

- Financial sustainability shifting emphasis to revenue growth and diversification;
- Localized decision making by people best positioned to make choices;
- Transparency through annual review of resources by independent committee;

- Strategic alignment to seed strategic initiatives such as research growth and course accessibility; and
- Stakeholders want to move away from historical biases perpetuated in old system.

Given limited resources, there is an ongoing focus on continuous improvement and stability required to advance SFU's institutional goals.

### 1.3 Ministry Funding Confirmation

The government funding letter sets out the preliminary amount of funding to institutions in the spring with final confirmation expected in June for the current year. If final confirmation of funding was provided earlier, in late spring (i.e. May 2011 for fiscal year 2012/13), we were informed that the university would be better able to establish budget projections through firm budget assumptions for the following fiscal year. Having a final budget amount early on in the budgeting cycle allows sufficient time for enhanced, comprehensive planning; however, established Government business timelines may impede the delivery of final budget confirmations in late spring as occurred in fiscal year 2009/10.

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## 2.0 Budget Policies and Procedures

**Objective:** To determine whether policies and procedures for budget development were complied with.

**Conclusion:** The budget development policies and procedures are current, comprehensive, clear and complied with. The budget deliverables are clearly communicated to staff and the Budget Timeline facilitates compliance and timeliness in meeting targets. Appropriate authorizations are established to support sufficient review and sign-off at the various levels of the organization.

### 2.1 Budget Policies and Procedures

Annual Budget Guidelines are prepared centrally to provide guidance to budget preparers within the SFU community. The document is complete with an overview, significant changes, guiding principles to assist in decision making, budget deliverables, and a timeline. Guidance is provided in both the forecasting and budgeting of revenues and expenditures. Given that salaries comprise approximately 70% of the budget, detailed instructions are

provided to support staff in the complexities in budgeting for salaries and benefits such as administrative leaves, positions split over departments, involuntary transfers, severances, etc.

The budget deliverables, timeline and required approvals fully support compliance with policies and procedures for budget development.

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### 3.0 Budgetary Controls

**Objective:** To determine whether budgetary controls were sufficient for measuring variances including budget calendarization and budget to actual reporting.

**Conclusion:** Budgetary controls are sufficient for measuring variances including appropriate budget calendarization and budget to actual reporting to the Board. Both favourable and unfavourable variances are discussed by the Board. We noted an area for potential improvement by including prior year comparatives on the report to enhance analysis and identify trends.

#### 3.1 Budget Calendarization

The budget calendarization for expenditures is currently based on the average spend rate to the same month in the previous fiscal year to support monthly monitoring of actual to budgeted expenditures. The approach taken helps to alleviate the skewing of variance results to better identify areas that require corrective action.

#### 3.2 Budget to Actual Reporting

The Year to Date (YTD) Budget to Actual Variance Report is prepared monthly by Finance staff for the Finance and Administration Committee (FAC), a subcommittee of the Board of Governors (the Board). The Vice-President of Finance and the Associate Vice-President of Finance present the YTD Budget to Actual Variance Report at the FAC meetings for review and discussion, prior to the FAC presenting to the Board.

Explanations for significant variances are sought and analyzed first at the department level and then by Finance staff for a clear understanding. We were informed that the information exchange between management and committee members facilitates a clear and common understanding of financial issues that arise.

We identified an area that may enhance the variance reporting for informed decision making. Prior year comparative revenue and expenditure amounts are currently not included on the reports. Having prior year comparatives further supports the current calendarization and will facilitate the analysis of revenue and expense patterns year over year and potentially identify trends.

### **Recommendation**

- (1) **We recommend that SFU consider including prior year comparatives in the YTD Budget to Actual Variance Report to enhance variance analysis.**

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## **4.0 Fund Management**

**Objective:** To determine whether plans were in place to manage any forecast fund deficits.

**Conclusion:** SFU has established plans and processes to manage forecast fund deficits that may arise. SFU has six funds, endowment and non-endowment, to account for specific sets of activities. The Monthly Financial Review Report highlights the year to date performance of each of the funds, as well as the endowment and non-endowment investments.

The Investment Governance Policy, Investment Management and Operating Procedures and the Endowment Management Policy support successful investment management. The Investment Advisory Committee (IAC), a subcommittee of the Board, is responsible for monitoring the investment performance of the funds.

## **4.1 Fund Governance**

The FAC, IAC, and the Board, legislated under subsection 29(1.1) of the *University Act*, are committed to avoiding deficits and balancing the budgets. The fiduciary responsibility is fully understood by accountable stakeholders as demonstrated by SFU's management control framework.

Policy is appropriately set for investment governance, investment management and endowment management to facilitate monitoring and management by both Finance staff and external investment managers secured under service agreements. A significant monetary control is the asset mixes specifically prescribed in policy.

We were also informed that SFU plans to research and compare asset mixes held by peer group universities for further analysis.

The IAC meets twice a year and prepares a comprehensive Investment Portfolio Analysis Report for the Board, fulfilling their responsibility for monitoring investment performance. The report summarizes and provides commentary on both the Endowment Portfolio and the Non-Endowment Portfolio.

Further, the Office of the Auditor General (OAG) reported no departures from GAAP (Generally Accepted Accounting Principles) over the management of funds in their audit report of the Annual Financial Statements and no exceptions were noted in OAG's management letter.

## 4.2 Fund Monitoring

Finance staff monitors the performance of investment funds and ensure that the external investment managers are competently managing investments in accordance with the service agreements. The reserves are monitored on a monthly basis for negative trending and risk exposure. Portfolios are regularly rebalanced to bring the asset mixes back into compliance with policy ranges.

In addition to the Investment Portfolio Analysis Report, the performance of the funds is communicated in the Monthly Financial Review Report to accountable stakeholders.

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## 5.0 Budget Monitoring

**Objective:** To determine whether the Board of Governors and management have sufficient information to effectively review and monitor expenditures to budget in a timely manner.

**Conclusion:** The Board of Governors and management has sufficient information to effectively review and monitor budget expenditures and revenue in a timely manner. The Finance and Administration Committee is accountable for providing appropriate information to the Board and for overseeing the University's financial operations and results.

## 5.1 Financial Information

The Terms of Reference and Procedures for Board Committees clearly identify information required by each subcommittee. Financial information is sufficiently identified by both management and the Board and prepared to effectively review and monitor

expenditures to budget. In addition to the YTD Budget to Actual Variance Report, the Monthly Financial Review Report is provided to the Executive for effective oversight over revenue, expenditures, and investments. The comprehensive Monthly Financial Review report provides the following information:

- consolidated statement of operations of all funds;
- YTD performance of all funds;
- tuition revenues by faculty;
- contingency funds;
- staff and faculty full-time equivalents;
- performance of endowment and non-endowment investments;
- capital projects in progress;
- performance details of each of the six funds;
- procurement activity; and
- payments > \$75,000.

The detail in this report further enlightens the Executive and staff on areas of financial concern and risk exposure.

The Board is also supported by the Investment Portfolio Analysis Report and the Annual Enterprise Risk Management Report. The Quarterly Forecast Report is also prepared and reviewed by the Board prior to forwarding to the ministry.

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## 6.0 Board Oversight

**Objective:** To determine whether the level of oversight is appropriate and effective.

**Conclusion:** The Board's level of oversight is appropriate and effective for sound fiscal management and governance. Board members are mindful of the distinction between governing and managing when providing financial oversight. The Board subcommittees focus and provide sufficient financial and investment oversight. Key decisions and discussion are appropriately documented in Board meeting minutes. We also

**noted that the Board acts prudently with respect to the stewardship of surplus funds.**

## **6.1 Board Governance**

Board roles and responsibilities are clearly documented and communicated for a common understanding and appropriately differ from that of management staff. For example, the Board approves new funds and endowments, approves the budget and sets policy. The Board is equipped with established rules, board guidelines and terms of reference and procedures for board committees to facilitate effective oversight and to maintain clear distinctions between governance and management functions.

The FAC and IAC meetings are also attended by key Finance staff for a useful exchange of information to support Board oversight for seeking both short-term and long-term solutions to financial issues. For example, currently SFU is exceeding the revenue budget due to student over-enrolment, particularly international students. Consideration is given as to whether instructional – teaching staff will be hired on a term or permanent basis to educate students with the expectation that the current level of enrolment will continue.

The Board begins budget discussions immediately after the last budget is approved to ensure that all complexities including emerging issues are appropriately addressed within timelines. The Board is currently working towards better linking the budgets and risk assessments to strategic planning under the new budget model for 2011/12.

## **6.2 Surplus Funds**

Departmental carry forwards represent a surplus arising from the accumulation over time of revenues in excess of expenses through the prudent management of budgets.

Carry forward surpluses are budgeted via a separate process (after year-end, when the actual surpluses are known). As part of this process, a Carry Forward Spending Plan developed by the departments goes forward to the Board for approval of the spending plan. Cumulative carry forward surplus amounts were not incorporated into the development of the 2010/11 budget due to a special freeze imposed on carry forward spending to preserve the University's cash reserves.

The Board approved the 2010/11 Carry Forward Plan recommendation to eliminate the freeze and a revised budget was

prepared. Accordingly, the Board acts with appropriate prudence over the stewardship of surplus funds.

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## 7.0 Ministry Reporting

**Objective:** To determine whether the reporting to the ministry is sufficient for their purpose.

**Conclusion:** The ministry has informed that the reporting received from SFU is sufficient for their purposes. The reports are timely, useful and meaningful to staff with relevant and strong assumptions. The ministry informed us that SFU provides credible numbers for FTEs (students), the primary performance measure necessary for funding.

The reports allow the ministry to consolidate the reports each quarter for the Office of the Comptroller General (OCG) to comply with PSAB (Public Sector Accounting Board). At year end, the ministry performs a comprehensive ratio and trend analysis comparing statements with other post secondary institutions.

### 7.1 Ministry Reporting

Post-secondary institutions must submit quarterly financial reports to the ministry to meet the reporting requirements of the *Budget Transparency and Accountability Act*. Accordingly, the ministry provides a multi-year forecast template with instructions to the institutions.

SFU prepares the quarterly financial reports in a timely and satisfactory manner to the ministry to enable the Ministry of Finance to consolidate and publish financial reports as required.