

Innovation and Advanced Education— Medicine Hat College International Education Division Follow-up

SUMMARY

In July 2013¹ we reported the results of our audit of Medicine Hat College's systems to deliver, evaluate and report on its international education activities. We recommended the college improve:

- oversight by the board of governors of significant risks and compliance with governance policies
- strategic and operational objectives and planning
- program management and monitoring of program delivery and quality assurance processes
- controls for travel expenses, including enforcing its travel policy

The college has implemented our recommendations. Management has improved its systems to deliver international programming and manage related risks by:

- increasing the level of awareness and detail in reporting international education activities to the board, thus allowing the board to improve its oversight of the college's international activities
- redefining goals and targets of international education activities to align with those of the college, allowing for increased monitoring against expected results
- redefining roles and responsibilities of the division
- cancelling its joint venture partnerships in China and improving its contract management practices
- revising its travel and expense policy and improving monitoring

These changes have improved the college's transparency and accountability for the results of its international education activities. The college stopped admitting new students at its offshore campuses in China and pursued an exit strategy that supports students to complete programs in progress.

Why this is important to Albertans

The Department of Innovation and Advanced Education has identified international education as an important building block for Alberta's economic and social success. Post-secondary institutions participating in international education activities need to do so with due consideration of the risks involved. The relationships they develop, and the transactions they engage in, must uphold the integrity of the institution. It is important that Albertans are assured that resources in our publicly funded institutions are used effectively within the mandates of those institutions.

¹ Report of the Auditor General of Alberta—July 2013, pages 55-80.

AUDIT OBJECTIVES AND SCOPE

Our audit objective was to determine if the college had implemented our recommendations. To perform the audit, we:

- interviewed management, staff and the board's audit committee members to learn what actions they took in response to our recommendations
- examined the college's systems, processes and policies for overseeing and delivering international programming
- tested the college's international travel for compliance with policy

We conducted our field work from July 2014 to November 2014. We substantially completed our audit on December 15, 2014. Our audit was done in accordance with the *Auditor General Act* and the standards for assurance engagements set by the Chartered Professional Accountants of Canada.

BACKGROUND

Recognizing the benefits of a diverse and knowledge-based global economy, Medicine Hat College made a commitment to globalize its institution starting in 2001. Over the years, this globalization progressed from recruiting international students to the college, to forming offshore partnerships in China and providing opportunities for students to study abroad. The 2013–2014 budget for international education activities was \$1.5 million, approximately three per cent of the college's total budget.

FINDINGS AND RECOMMENDATIONS

Oversight and governance—implemented

Background

In 2013 we recommended that the college provide the board of governors with suitable and sufficient information about significant events and risks related to the college's international activities, and that the board of governors strengthen its processes to:

- ensure it is aware of significant risks the college faces
- monitor compliance of the college's international activities with the board's policies²

We found the board had not received enough information to properly assess the potential risks and costs of international education activities. The former president had not complied with the college's policy to limit international activity, and the board had no process in place to monitor the college's compliance with the policy.

Our audit findings

Board oversight over international activities has increased significantly, both qualitatively and quantitatively. Management's reporting to the board on significant events and risks in the college's international activities has improved through:

- quarterly reporting to the board on the college's international activities, including financial and non-financial information—The International Education Division presented its strategic plan for the board's approval. Management also reported key developments, such as the decision to stop admitting new students to offshore campuses and steps taken to resolve outstanding financial and contractual transactions with offshore partners, for the board's discussion and approval.

² Report of the Auditor General of Alberta—July 2013, no. 8, page 62.

- reporting to monitor compliance with each executive limitation policy, including the policy on international activities—Reporting consists of the president’s assertion of her compliance and supporting data to demonstrate her compliance.
- a new board bylaw and policy review committee which will assist in ensuring the board receives appropriate information before it approves policy changes
- an institution-wide enterprise risk management process to provide ongoing risk assessment and reporting of significant risks to the board
- a new safe disclosure policy—Under this whistleblower policy, complainants can raise concerns free of reprisals and report possible wrongdoing.

Strategic and operational planning—implemented

Background

In 2013 we recommended the college implement systems to clearly define strategic and operational objectives of international education activities by:

- providing business cases that assess risks, benefits, costs and legal requirements before providing training in foreign countries
- setting clear and measurable targets for planned results
- periodically measuring and reporting on progress towards achieving targets and meeting objectives and desired results³

We found the college had not involved appropriate stakeholders in its International Education Division’s strategic and operational planning processes. The college did not assess risks, benefits, costs and legal requirements associated with training in foreign countries, particularly with a contract to provide non-credit programs at one of its partnership campuses in China.

Our audit findings

Strategic and operational plans

In July 2014 the board approved a new strategic plan. The division used a comprehensive consultation process with internal stakeholders to develop its goals for internationalization and identified expected results. The plan reflects the college’s current focus on winding down its offshore campuses and improving internal control and transparency for its international education activities. An update to the plan is expected in 2015. This demonstrates improved rigor around the college’s strategic planning processes.

The college has set projections of zero growth for international student enrolment, based on historical enrolment results and its current retrenchment strategy. These targets align with the three-year institutional plan and are within the 15 per cent enrolment limit required by the executive limitation policy for international education activities. Measurement of actual enrolment is monitored by Student Services and reported annually to the board.

We were unable to assess if the international education strategic plan is aligned with the goals and objectives of the college’s institutional strategic plan because the 2015–2020 institutional plan is currently being developed. We will examine, as part of our attest audit of the college’s annual financial reporting, if the plans are aligned when the institutional strategic plan is completed.

To improve its operational planning processes, the college formed an International Education Action Team (IEAT) that included senior leadership from each area of the college. This team was responsible for

³ *Report of the Auditor General of Alberta—July 2013*, no. 9, page 67.

overseeing the implementation of changes within the International Education Division. IEAT assessed key operational decisions using a business case format to identify risks, assess options and recommend a course of action. As a result, decision making for international education operations is now more formalized and operations are incorporated into established college systems and processes.

Training in foreign countries

The IEAT assessed the college's risks, costs and benefits of continuing its offshore partnerships. This included visiting each offshore campus in China, meeting with its partner institutions, consulting external legal counsel to understand the legal requirements of operating in China and the legal implications of terminating those partnerships. Through these processes, the IEAT recommended an exit strategy for its offshore partnerships, while continuing to support currently enrolled students to completion as the most appropriate course of action.

We reviewed correspondence in which the college confirmed an outstanding payment of \$212,000 to one of its offshore partners had been processed and, therefore, was no longer an obligation of the college.

Program operations and monitoring—implemented

Background

In 2013 we recommended the college improve management of its international education operations by:

- assessing and clearly defining the roles and responsibilities of its International Education Division and re-aligning the structure and management of the division
- implementing effective program delivery and quality assurance processes at its offshore campuses
- implementing an appropriate system of internal controls, financial reporting and accountabilities for the results of its international education activities
- implementing contract management practices to ensure risks have been appropriately managed⁴

In 2013 we found the college had not appropriately segregated the recruiting and academic responsibilities for its International Education Division. We found several quality assurance problems at the college's offshore campuses in China and inadequate contract management practices. Financial reporting of international education operations did not include disclosure of all costs of operations.

Our audit findings

Academic oversight

Responsibilities to provide academic oversight have been re-aligned by:

- assigning responsibility for the International Education Division to the Division of Business and Enterprise
- assigning program leaders within appropriate faculties as the instructor of record over related offshore courses
- combining the college's International English as a Second Language with the college's ESL for New Canadians Program, under the responsibility of the college's Division of Arts and Education

⁴ Report of the Auditor General of Alberta—July 2013, no. 10, page 72.

Offshore operations

Beginning in November 2013 senior staff and executives from the college travelled to China to assess offshore operations. Based on these visits, a quality assurance work plan was developed and implemented. Improvements to offshore operations include:

- increased controls around proctoring offshore exams
- responsibility taken by relevant program areas for exam grading and assessment to determine a student's final grade
- greater diligence to better understand the offshore instructor-provided portion of student grades
- review of and improvements to the format and grading of final exams

Despite these changes, the pass rate of students overseas has remained low. The trend of higher marks on the grade portion (40 per cent) based on course work in China and lower results on exams prepared by the college (60 per cent) remains. These risks were identified in the college's decision to cancel three offshore partnerships in China. The college is actively monitoring the residual risk that remains as these programs are wound down.

Financial reporting

The college improved financial reporting of international education operations by providing the board with quarterly reporting of financial results and highlights of operations. This reporting includes actual results to date and projections to year end, for comparison to budget. Costs not previously included in financial reporting, such as international travel by executives, legal and audit costs attributable to the division, are now reported to the board.

Contract management

The college improved its contract management of student recruitment agents and notified certain agents it was terminating their relationship. The college developed a new agent contract template, with advice from external legal consultants. It has begun the process of updating its contracts with approved agents.

The college is automating its agent commission payment process. As of November 2014 the process to calculate agent commissions remains largely manual. The college mitigates risks through added review from relevant areas of the college before commissions are approved and paid to agents. Our testing did not identify any errors.

International travel and recruitment expenses—implemented

Background

In 2013 we recommended that the college improve controls over travel expenses by enforcing its travel policy.⁵ We found travel expense claim submissions were not complete and financial services was not able to assess the business purpose or reasonableness of expenditures. Travel itineraries were also incomplete and not submitted with expense claims. There was no reporting on the results achieved for the expenditures of the college's international travel.

⁵ *Report of the Auditor General of Alberta—July 2013*, no. 11, page 77.

Our audit findings

Travel claims

In 2013 the college implemented a new travel and expense policy that increased requirements for travel claim submissions. We found pre-approval, a clearly stated business purpose for all international travel and original detailed support for all travel expenses we examined. We also examined instances where expenses were disallowed due to lack of appropriate supporting documentation. The level of scrutiny and independent review of expenses by Financial Services has improved.

The college's policy does not require completed travel itineraries to be submitted with expense claims. Including travel itineraries with expense claim submissions for extensive international travel trips is a best practice that would increase Financial Services' ability to independently confirm the reasonableness and business purpose of expenses.

Reporting on travel

Extensive reporting was done on international travel to China to assess the college's offshore campuses and administer exams. Longer duration overseas recruitment trips, which were common previously, have been limited.