Financial Transparency, Accountability and Collegial Governance

Introduction

At its meeting of May 2nd, 2017, the Board of Governors approved a balanced 2017-18 operating budget with revenues and expenditures of $216,450,000. The full plan, including capital, research, fundraising and the ancillary budgets can be found at: https://www.uregina.ca/orp/budget/budget-plan.html

How robust is that plan? Let us look to the previous year’s plan, the budget, and the results, the audited financial statement. The plan for fiscal 2016-17 called for revenues of $214,904,000, expenditures of $214,904,000 and a balanced operating budget. The actual operating income reported was $210,510,000 with operating expenses of $201,710,000 leading to an operating fund surplus $8,800,000. The surplus funds were used to pay for nonoperating expenses, largely capital expenditures (see page 56 2016-17 University of Regina Annual Report). A natural follow up question to this observation is this a one-time event? No. Operational fund surpluses occur in each of the past ten years. UofR supports capital projects with operation fund dollars.

How does UofR plan for a balanced budget? The 2017-18 Budget Letter describes the balancing process. This eight-page summary describing budget reductions of $5,609,818, reinvestments of $1,808,208 and cost increases of $2,537,437 as based upon the previous year's budget plan. However, was last year’s operating budget realistic or accurate? No. That operating budget yielded an $8,800,000 surplus. It appears UofR's foundation, the 2016-17 budget, is flawed.

Budgets may not be a true roadmap of intentions. At the UofR, past years demonstrate that, forecasting calls for the overestimation of expenses and the understating of anticipated revenues. In other words, the budget is padded. This surplus is held by administration who chooses which unpopular initiatives to finance and transfers funds to capital or internally restricted reserves. For example, in 2016-17 $400,000 in surplus funds were use to support External Relations, a most unpopular expense, while the bulk of the operational surplus supported capital projects. Why is Board approving financial plans they know are flawed? Again, a financial plan may not be a true roadmap of intentions.

Difference Between Budgets and Financial Statements

This information comes from two sources. Dr. Bill Salatka, the Chief Negotiator for Wilfred Laurier University wrote A Primer on the Financial Documents Produced by Universities for the Ontario Confederation of Faculty Associations. In 2015 he reviewed University of Regina’s Audited Financial Statement. My presentation to the Council Committee on the Budget in 2016 was based upon his analysis. The second source was Drs. Cameron and Janet Morrill wrote the Guide to Analyzing University and College Financial Statements. This CAUT paper was circulated to all URFA members. It is available on their website. https://www.caut.ca/docs/default-source/reports/caut-guide-analyzing-university---college-financial-statements.pdf?sfvrsn=4
Financial statements are different than budgets. They are used to speak to an external audience – government, donors and lenders. There are rules. Audited statements reflect financial outcomes – the financial health of the organization.

There are no external rules governing the production of the budget. In an ideal world budgets are realistic. Expected revenue and expenses determined so the budget reflects a realistic forecast of the resources available and the resources administrators would like employees to expend on given activities. Budgets could be transparent and there could be some measure of accountability.

This is not an ideal world. Each university has its own system. UofR’s budget is produced by administration for an internal audience, and by all appearances, to control the use of financial resources within the university according to administration’s wishes. There is no independent review of the budget or the Board’s budget decisions.

Here is an ever so cynical view of the planning process. Administration sets the stage by sounding the alarm. Last year’s bottom line was zero. There will be budget shortfalls next year unless we act. The Administration’s plan results in far less money distributed to units allowing for the accumulation of surpluses. These funds are then moved to chosen strategic priorities and capital projects. Operational surpluses and the use of these surpluses do not figure in planning or do they? Evidence drawn from audited financial statements suggests surpluses are planned and that the budget is not a true roadmap of the institutions intentions.

**Accountability and Transparency**

Comparing budgets to financial statements is difficult\(^1\). They are in two different languages. Budgets are generally based on expected cash inflows and outflows. Those receipts and expenditures are not the same as “revenues” and “expenses” on the financial statements, which are based on accrual accounting rules. Then there are two other areas with their own set of accounting rules. So comparing budget to financial statements is difficult but not impossible.

Cameron and Janet Morrill’s *Guide to Analyzing University & College Financial Statements* outlines a general approach to comparing budgets to audited financial statements. They included a set of step-by-step instruction on the process. The one remaining question is who should oversee this analysis? Given that the Council Committee on the Budget has been charged with advising the President on matters relating to the University budget and its allocation with respect to practice, policies, planning and priorities URFA believes this task falls within their mandate.

Dennis Fitzpatrick
President URFA

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\(^1\) See *Guide to Analyzing University & College Financial Statements* for full details.