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**Report on International Education Review**

**Ministry of Advanced Education**

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**Internal Audit & Advisory Services  
Office of the Comptroller General  
Ministry of Finance**

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## Executive Summary

The Student and Strategic Services Division, Ministry of Advanced Education requested Internal Audit & Advisory Services to conduct a review of the international education programs at institutions to establish whether the cost of education is fully paid for by international students. The Ministry approved this project as part of the annual internal audit planning process.

The International Education Review was completed in two phases. The pilot comprising Phase I, was completed during February 2004. The fieldwork for Phase II (which covered a total of six institutions) was performed from June to September 2005.

The scope of this engagement excluded conducting detailed testing.

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### Overall Conclusion

On the basis of our review results, we established that there was likely no subsidization of international students by BC taxpayers at the institutions we examined during Phase II of the International Education Review. For the rural institution, we established that international tuition fees covered incremental costs attributable to international education programs.

For the institution examined during the Phase I pilot, our analysis showed that the direct costs of international education were covered. However, the methodology used at that time could not confirm indirect and capital costs were fully covered by international education program fees.

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### Methodology Overview

Three key approaches, were used in performing the Phase II analysis: Revenue per Full Time Equivalent, Overall Revenue, and Shared Cost methods. For the rural college we examined, we also used an Incremental Cost method. We believe that this is an acceptable methodology for institutions that have sufficient spare capacity, such as those in a rural location.

As the assessment methodologies used during Phase I were significantly refined for Phase II, the results of the two phases are not directly comparable.

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## Introduction

The Ministry of Advanced Education (Ministry) provides overall funding and policy direction for British Columbia's public post-secondary education system. In addition, the Ministry administers provincial statutes governing public and private post-secondary institutions and some professions. Post-secondary education institutions develop and deliver programs and courses, provide education and training to students, and undertake research.

The Ministry provides base funding to public post-secondary institutions through block operating grants. In 2005/2006 operational grants were \$1,421 million. The institutions allocate these funds internally as required. Additional post-secondary education funding is provided by the Ministry through amortization (\$107 million) and debt servicing (\$149 million), student financial assistance (\$135 million), and through the industry training authority (\$77 million).

In a letter to a newspaper editor in February 2004, Hon. Shirley Bond stated, "currently B.C.'s taxpayers pay 70 to 80 per cent of the cost of every seat for domestic students at our 27 public colleges, universities and institutes". The range is an average of all sectors comparing the proportion of revenues that come in from provincial taxpayers versus student tuitions, excluding other sources such as federal research grants or investment income. Generally taxpayers pay a smaller percentage of the cost of a seat for universities and a higher percentage of cost for seats at a college.

International education is perceived to enhance educational, cultural and economic links with the global community with a goal to developing an integrated and collaborative post-secondary education system in which an international perspective, referred to as internationalization, is infused into all BC institutions. Internationalization is a process that integrates an international element into teaching, learning, research, and service functions of an educational institution.

International students are defined as those students that hold citizenship in a foreign country and who may require a study permit or temporary resident permit issued by Canadian Immigration to enroll in courses at a Canadian institution. In contrast, domestic students are those students who hold either Canadian citizenship, permanent residence or refugee status.

The Student and Strategic Services Division requested Internal Audit & Advisory Services to conduct a review of the international education programs at institutions. The Ministry approved this project as part of the annual internal audit planning process.

## Purpose

The engagement purpose was to establish whether the cost of education for international students is fully paid for by those students, in order to enable the Ministry to respond to public inquiries in this regard.

## Scope

The project scope included a review of the international education programs in a sample of educational institutions, focusing on bachelors degrees where possible. Our review included interviews with senior management and financial and administrative staff at each of the selected institutions.

Specifically, we examined the following areas:

- Administrative and accounting practices for both domestic and international education programs to establish whether there is cross-subsidization. This included:
  - assessing how direct and indirect costs are tracked and allocated to international education; and
  - identifying and evaluating how ministry base funding is accounted for and reported.
- A comparison of international education student fees against domestic student fees, to establish whether the cost of education is fully paid for by international students.

The scope of this engagement excluded conducting detailed testing and performing an assessment of the benefits of international education.

The institutions visited for this review were randomly chosen by the Ministry to represent a broad sample of institution types (i.e., university versus college), varying size of institutes, and types of curriculum offered. Based on these broad selection criteria, the following public post-secondary institutions were included in the scope of this review:

- Malaspina University College (Phase I - pilot)
- College of the Rockies
- Kwantlen University College
- Douglas College
- Camosun College
- Thompson River University
- University of British Columbia

We visited Malaspina University College during our pilot comprising Phase I of the International Education review in February 2004. However, as the assessment methodologies used during Phase I were significantly refined for Phase II, the results of the two phases are not directly comparable.

## Overall Conclusion

On the basis of our review results, we established that there was likely no subsidization of international students by BC taxpayers at the institutions we examined. In most cases, a surplus still remained after all relevant direct, indirect and capital costs were allocated.

We analyzed the institutions by using "Revenue" and "Shared Cost" approaches, with the exception of one University that was analyzed only using a "Revenue per Full Time Equivalent" method. Some cross subsidization for the rural college is indicated when using the "Revenue" and "Shared Cost" methods of analysis. However, we believe it is more appropriate to assess this institution by using an incremental cost method. A summary of these methodologies is provided in the next section (see page 5) of this report.

In addition, the analysis results from Phase I show that international student fees covered the direct costs of international education and provided a contribution to covering indirect and capital costs. However, the preliminary methodology used at that time could not establish whether the contribution was sufficient to fully cover indirect and capital costs.

Each participating institution was provided a summary of their analysis results and a copy of the supporting calculations under separate cover.

## Methodology Overview

### Revenue Method

We used two revenue-based analysis methods in our approach:

- One approach compared per Full Time Equivalent (FTE) revenue for international students to domestic students. We interpreted that there is no cross-subsidization, if per FTE international student tuition is greater than per FTE domestic student tuition plus grant revenue. To incorporate capital funding received into the analysis, we added an allocation of Deferred Capital Contribution Revenue Amortization and Annual Capital Allowance grants to the per FTE domestic tuition and grant revenue amount.
- The other revenue-based method incorporated all the institution's revenue sources, including Deferred Capital Contribution Revenue Amortization. We interpreted that there is no cross subsidization if the proportion of college revenue earned from international programs is at least equal to the proportion of FTEs made up by international students.

### Shared Cost Method

Under the shared cost method, we assessed whether the direct, indirect and capital costs associated with international student education were fully covered by international program revenue. Direct costs included the cost of administering the International Education offices, and the cost of instruction. For indirect and capital costs, we allocated a share of administration, student support, facility costs and depreciation to international programs based on the proportion of international FTEs to total FTEs.

### Incremental Cost Method

While most urban colleges and universities have little difficulty reaching full capacity in their classes with domestic students, rural colleges face the ongoing challenge of having spare capacity. For this reason, we also used an incremental cost method to assess the rural college.

The incremental cost approach focused on determining whether additional costs the institution incurs by offering an international program are covered by international program revenues. Costs already expended, including instructor fees for classes that are not at full capacity, as well as college overhead and depreciation, are not considered relevant to this calculation.