

# Education

## SUMMARY

### DEPARTMENT

#### Matters from the current audit

In accordance with Section 19(4) of the *Auditor General Act*, we report on our review of school jurisdiction audited financial statements and management letters. Notable trends over the past five years include the following:

- The consolidated accumulated operating surplus has decreased by \$90 million to \$313 million for the 75 school jurisdictions. The number of jurisdictions that have an accumulated operating deficit has not varied significantly (four in 2012).
- The number of school jurisdictions that incurred annual operating deficits has increased from eight to 30, peaking at 46 in 2010.
- Generally the type and number of recommendations made to school jurisdictions has been relatively consistent. However, three types of recommendations stand out. The number of jurisdictions with information technology management recommendations has declined over the period from 13 to five. School jurisdictions have focused on improving the quality of processes to change information systems and restrict access to the data therein. However, recommendations related to up-to-date formal policies and procedures and processes used to administer school-generated funds have not improved and exist in close to one-third of all jurisdictions in 2012. School boards need to hold management accountable for improving these recurring weaknesses.

#### Matters from prior audits

The Department of Education has implemented our November 2011 recommendation to improve its consolidation processes—see page 84.

### NORTHLAND SCHOOL DIVISION NO. 61

#### Matters from the current audit and prior audits

There are no new recommendations to Northland School Division No. 61 in this report.

## FINDINGS AND RECOMMENDATIONS

### DEPARTMENT

#### Matters from the current audit

##### Review of school jurisdiction audited financial statements and management letters

##### Background

In accordance with Section 19(4) of the *Auditor General Act*, we report on our review of school jurisdiction audited financial statements and management letters.

We audited one of the school jurisdictions (Northland). For all other school jurisdictions, we reviewed the management letters of their auditors and the auditors' reports on the financial statements. Those audits were not designed to assess all key systems of control and

accountability. However, the auditors do report to management about weaknesses that come to their attention when auditing the financial statements.

There are 75 school jurisdictions comprising 62 school boards and 13 charter schools.

### Our audit findings

Under Section 151 of the *School Act*, school jurisdiction auditors must send management letters, auditor's reports and audited financial statements to the Minister by November 30 of each year.

**Auditors' Reports**—Of the 75 school jurisdictions, three school jurisdictions (Almadina School Society, Calgary Arts Academy Society and Calgary Girls' School Society) received a qualified auditor's report for the year ended August 31, 2012. These reports were qualified because the auditors were unable to verify the completeness of gifts, donations and fundraising revenue.

All other school jurisdiction auditors reported that the 2012 financial statements were presented fairly in accordance with Canadian generally accepted accounting principles (GAAP).

**Financial statements**—Of the 75 school jurisdictions, 27 school boards and 3 charter schools incurred annual operating deficits for the year ended August 31, 2012 (2011 – 24 school boards and 3 charter schools). Annual operating deficits are acceptable to the department as long as jurisdictions have sufficient accumulated operating surpluses available to cover the shortfall. Four jurisdictions reported accumulated operating deficits: Canadian Rockies Regional Division No. 12, East Central Francophone Education Region No. 3, Northland School Division No. 61 and Rocky View School Division No. 41. Two of these four jurisdictions incurred annual operating deficits while the other two reported annual operating surpluses that were not sufficient to cover their accumulated operating deficit and their internal funding of capital asset additions.

School jurisdictions with accumulated operating deficits are expected to work with the department to eliminate the accumulated operating deficit in accordance with a ministry approved deficit elimination plan. The department has reviewed the nature of the accumulated operating deficits and is working with the jurisdictions to eliminate them.

The total annual operating surplus of these 75 school jurisdictions combined was \$49 million for the year ended August 31, 2012 compared to \$14 million for the year ended August 31, 2011. The total accumulated operating surplus decreased from \$320 million at August 31, 2011 to \$313 million at August 31, 2012. This decrease is attributable to jurisdictions incurring annual operating deficits, using operating reserves to acquire capital assets and making transfers to capital reserves.

**Management letters**—Following is a summary of the audit findings and recommendations reported to 75 school jurisdictions by their auditors for the year ended August 31, 2012. There were a total of 181 recommendations made to these school jurisdictions for the year ended August 31, 2012, as compared to 184 recommendations for the year ended August 31, 2011.

We have grouped our summary of audit findings into the following categories:

- financial reporting and governance
- internal control weaknesses
- information technology management

#### *Financial reporting and governance*

- Accounting issues—15 jurisdictions (including 7 of the 18 reported in 2011) need to resolve accounting issues relating to non-monetary transactions, proper recording and appropriate supporting documentation of journal entries, establishing and following proper accounting policies and guidelines to ensure sufficient and appropriate information is disclosed in the financial statements and increase familiarity with PSAB standards and drafting a plan to adopt the changes required for the August 31, 2013 year end.
- Board approval—3 jurisdictions (including 0 of 1 reported in 2011) need to ensure that board minutes are accurately recorded and approved and that superintendent expenses are approved.
- Board oversight—3 jurisdictions (including 1 of the 5 reported in 2011) need to ensure that the board takes on a more proactive financial oversight role including receiving accurate and timely financial information and monitoring compliance with investment policies.
- Budgetary process—2 jurisdictions (including 1 of the 3 reported in 2011) need to improve their budgetary processes.
- Review of financial information—11 jurisdictions (including 4 of the 15 reported in 2011) need to improve their review and approval of financial information such as bank reconciliations, journal entries, monthly financial statements and variances between budget and actual expenditures.
- Timeliness of recording financial information—2 jurisdictions (including 0 of the 3 reported in 2011) need to ensure accounting transactions for capital assets and capital grant expenditures, accruals, receivables are recorded or financial statements are prepared on a regular and timely basis.
- Personnel and staff shortages—2 jurisdictions (including 1 of the 5 reported in 2011) need to implement succession plans or cross-training for key financial positions or review the allocation of staff resources in the accounting function.

#### *Internal control weaknesses*

- Cash management—5 jurisdictions (including 2 of the 3 reported in 2011) need to improve cash management processes and controls.
- Capital assets—4 jurisdictions (including 0 of the 3 reported in 2011) need to improve the recording and tracking of capital assets.
- Goods and Services Tax—5 jurisdictions (including 1 of the 4 reported in 2011) need to improve their processes for charging the appropriate amount of GST and for recording the accurate amount of GST paid and recoverable.
- Payroll—11 jurisdictions (including 6 of the 13 reported in 2011) need to improve controls over the accuracy of and access to payroll information.
- Policies and procedures—20 jurisdictions (including 7 of the 19 reported in 2011) need to implement, update or follow formal procedures and policies.
- Purchases—13 jurisdictions (including 6 of the 13 reported in 2011) need to improve controls over the purchase cycle such as the review and authorization processes over purchases and payments, employee sign off for goods received and retention of supporting documentation.

- Segregation of duties—4 jurisdictions (including 1 of the 6 reported in 2011) need to segregate duties over authorization and recording of transactions or custody of and accounting for certain assets.
- School generated funds—24 school jurisdictions (including 10 of the 19 reported in 2011) need to improve the processes used to collect, record, spend and report school generated funds.

#### *Information technology management*

- Computer security—5 jurisdictions (including 4 of the 12 reported in 2011) need to improve computer security processes by having unique individual usernames and passwords, implementing a mandatory password change policy, having user access restricted for the appropriate information, backing up data at an offsite location and developing and implementing a Disaster Recovery Plan.
- Change management—1 jurisdiction (including 1 of the 3 reported in 2011) need to implement or enhance formal, documented policies and procedures for managing and testing changes to system and network software or hardware.

#### **No recommendations**

For the year ended August 31, 2012, auditors for 24 of 75 school jurisdictions did not report any findings and recommendations to management. This compares to 21 of 77 for the year ended August 31, 2011.

The department contacts jurisdictions, where necessary, to encourage them to deal with the issues raised in the management letters, particularly recommendations repeated from prior years.

#### **Matters from prior audits**

##### **Line-by-line consolidation process—implemented**

#### **Our audit findings**

The Department of Education implemented our 2011 recommendation<sup>1</sup> to improve its processes to consolidate the financial information of school jurisdictions into the Ministry of Education's financial statements.

The department consolidates the finances of school jurisdictions using information from the jurisdictions' audited August 31 financial statements. A consolidation model has been developed by the department to identify the significant transactions that occur in the seven-month period between the jurisdiction's August 31 year-end and the ministry's March 31 year-end. These transactions are referred to as stub period transactions.

We found that management documented key controls over the accuracy of stub period transactions and other consolidation adjustments required to align with government accounting policies and reporting standards. We also reviewed the dry-run process and analysis management performed in the fourth quarter of the fiscal year to validate the consolidation assumptions and methodology. Based on the results of the dry-run, management validated the consolidation methodology and adjusted two of the underlying assumptions.

<sup>1</sup> *Report of the Auditor General of Alberta—November 2011*, no. 12, page 81.

## OUTSTANDING RECOMMENDATIONS

### MINISTRY AND DEPARTMENT

Management has identified these recommendations as implemented—to be confirmed with follow-up audits:

#### **School board budget process—October 2006, no. 25, vol. 2, p. 65**

We recommend that the Department of Education improve the school board budget process by:

- providing school boards as early as possible with the information needed to prepare their budgets (e.g., estimates of operating grant increases and new grant funding, and comments on financial condition evident from their latest audited financial statements)
- requiring school boards to use realistic assumptions for planned activities and their costs and to disclose key budget assumptions to their trustees and the ministry
- establishing a date for each school board to give the ministry a trustee-approved revised budget based on actual enrolment and prior year actual results
- reassessing when and how the ministry should take action to prevent a school board from incurring an accumulated operating deficit

#### **School board interim reporting—October 2006, no. 26, vol. 2, p. 68**

We recommend that the Department of Education work with key stakeholder associations to set minimum standards for the financial monitoring information provided to school board trustees.

We also recommend that the Department of Education work with the key stakeholder associations to provide information to trustees about:

- the characteristics of a strong budgetary control system
- best practices for fulfilling financial monitoring responsibilities

### NORTHLAND SCHOOL DIVISION NO. 61

Management has identified these recommendations as implemented—to be confirmed with follow-up audits:

#### **Obtaining an interest in land—October 2010, no. 13, p. 133**

We recommend that Northland School Division No. 61 develop processes to ensure it obtains a valid legal interest in land before beginning construction of schools.

#### **Improving financial reporting—October 2010, no. 14, p. 134**

We recommend that the Northland School Division No. 61 improve its financial reporting by:

- preparing and presenting quarterly financial information to the Official Trustee
- regularly reviewing and reconciling general ledger accounts
- preparing year-end financial statements promptly

